



Socioeconomic Roots and Impact of the Syrian Crisis

January 2013





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Acronyms and Abbreviations

| | |
|-------|--|
| AC | Arab Countries |
| ADCR | Arab Development Challenges Report |
| API | Arab Planning Institute |
| CBoS | Central Bank of Syria |
| CBS | Central Bureau of Statistics in Syria |
| CPI | Consumer Price Index |
| DSE | Damascus Stock Exchange |
| EU | European Union |
| GAFTA | Great Arab Free Trade Agreement |
| GDP | Gross Domestic Product |
| GNI | Gross National Income |
| GoS | Government of Syria |
| HDI | Human Development Index |
| HPI | Human Poverty Index |
| ICT | Information and Communication Technology |
| IDP | Internally Displaced People |
| ILO | International Labour Organisation |
| IMF | International Monetary Fund |
| LFS | Labour Force Survey |
| MDGAI | Millennium Development Goal Achievement Index |
| MDGs | Millennium Development Goals |
| MoET | Ministry of Economy and Trade |
| MoH | Ministry of Health |
| NFA | Net Foreign Assets |
| NPL | National Poverty Line |
| OCHA | United Nations Office for the Coordination of Humanitarian Affairs |
| OHCHR | Office of the High Commissioner for Human Rights |
| PHCs | Primary Health Centers |
| PL | Poverty Line |
| SMEs | Small and Medium Enterprises |
| SOE | State-Owned Enterprise |
| SYP | Syrian pound |
| PICC | Planning and International Cooperation Commission |
| TFP | Total Factor Productivity |
| UN | United Nations |
| UNCT | United Nations Country Team |

| | |
|--------|---|
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Programme |
| UNECA | United Nations Economic Commission for Africa |
| UNEP | United Nations Environment Programme |
| UNHCR | United Nations High Commissioner for Refugees |
| UNICEF | United Nations Children's Fund |
| UNIDO | United Nations Industrial Development Organization |
| UNRWA | United Nations Relief and Works Agency for Palestine Refugees |
| UNSD | United Nations Statistics Division |
| USD | United States Dollar |
| WDI | World Development Indicators |
| WEO | World Economic Outlook |
| WFP | World Food Programme |
| WHO | World Health Organization |
| WHS | World Health Survey |
| WTO | World Trade Organization |

Executive Summary

This report aims to estimate the socioeconomic impact of the current crisis in Syria. In this regard, diagnosis of developmental roots of the crisis was conducted to develop an understanding of deficiencies that led to the current situation. Then, socioeconomic impact of the crisis has been analysed and estimated during 2011 and 2012, taking into consideration internal escalation of the crisis, socioeconomic responses of the Syrian government, and effectiveness of sanctions.

Roots of the crisis: "Low equilibrium" development rooted in "institutional bottlenecks"

The factors that led to the current crisis in Syria are mainly rooted in "institutional bottlenecks" which reflects deficiencies in the nature of formal institutions and diversions in de facto institutions. This has led to the marginalization of large segments of society, and relatively deprived them from being effectively contributing to political, economic and social development. The state of "institutional bottlenecks" in Syria is reflected in the loss of political and economic institutional ability to change over time and to respond to the aspirations, interests and expectations of society.

Syria's economic performance showed mixed results, during the last decade. On the one hand, average annual GDP growth rate was relatively high at 4.45%, and the macroeconomic fundamentals were sound: low fiscal deficit and low public debt, surplus in the current account balance, and relatively low inflation rate. These indicators were also associated with a structural change in the economy, specifically a reduction in the share of oil in the GDP, government revenue and exports as well as a significant increase in the manufacturing share of exports.

On the other hand, economic growth did not reach the majority of the population as evidenced by a decline in real expenditures captured by household surveys and a rise in poverty rates. Using the upper poverty line; has revealed an increasingly vulnerable population and growing economic and social exclusion. The economy failed to generate enough jobs, let alone create decent ones. Fiscal policy was plagued with tax avoidance and evasion, increased indirect taxes at the expense of direct taxes, and inefficient public investment.

The business environment was crippled with corruption and monopolies were championed by new interest groups which emerged in the early 1990s after the introduction of neo-liberal economic reforms. In 2005, deeper reforms were envisaged in the 10th five-year plan with institutional reforms being a core theme of the plan. However, the implementation of envisaged governance and public sector reforms were either halted or delayed. However, selected economic reforms such as the liberalization of energy prices were applied, negatively affecting lower income households, and increase cost of production.

Syria's record on health, education, and other MDG indicators, despite the slower pace of progress over the past decade, was relatively good, particularly given its level of income per capita. The state in Syria has, no doubt, played a major role in this positive social outcome as a main sponsor of health and education, and in the provision of consumer subsidies, public services and housing and infrastructure. Yet, quantitative expansion came at the expense of the quality of public services. This was evident even in sectors like health and education which witnessed quantitative expansion without quality improvement. Thus, despite its better position on social indicators, performance was still lagging.

Poor Institutional performance in Syria was manifested in a lack of political participation and accountability, government effectiveness, regulatory quality, role of law, and control of corruption. These were partially reflected in mismanaged public funds, complicated judiciary procedures, and lack of transparent public policies. Consequently, political institutions in Syria have failed to address the need of a broad-based and empowered process of development with strong monitoring and evaluation system of development results, and have failed also to create a strict system of accountability to effectively address poverty and social injustice.

Syria's development model has led to a "low equilibrium" development represented in crony capitalism, poor productivity, and a large informal sector; paralleled with subsidised but inefficient social services, including health, education, and subsidised basic commodities.

The rising human capital coupled with increasing aspirations, especially among the youth clashed against decaying institutions which blocked the possibility of using such human capital to achieve prosperity and justice. The wave of revolutions in Tunisia and Egypt substantially raised the level of expectations for rapid transformation and the building of a more just society.

Economic impact of the crisis: Collapse in economic growth and capital stock, instability in macro-economy, and dramatic increase in unemployment

The current crisis which escalated to an internal armed conflict has resulted in a tragic impact on development performance in Syria through destroying economic, social, and human capitals, with unbearable losses for the current and future generations. From economic point of view, the total loss to the Syrian economy due to the crisis by the end of 2012, is estimated at 48.4 billion USD in current prices. This loss equals 81.7% of Syria's 2010 GDP in 2000 constant prices, a substantial loss even when compared to conflict losses in other countries. The GDP loss is only 50% of the total loss, whereas the damage in capital stock and the increase in military expenditure represent 43% and 7% of the total loss, respectively.

GDP contraction was uneven among sectors, and thus the crisis has had an impact on the structure of the Syrian economy. Available data suggests that most of the GDP losses (83 %) were incurred by four sectors: internal trade, transportation and communications, manufacturing, and mining.

The economic impact was also reflected disproportionately on the expenditure side of GDP. Local private consumption bore the main brunt of the shock with a staggering 42% total GDP loss. However, public consumption increased mainly due to increased public sector wages and public employment. It is doubtful, yet, that the government will be able to continue to use public consumption as a counter-crisis policy tool beyond 2012. Additionally, public and private investments were strongly contracted by the crisis, due to lack in public revenue, and the dramatic increase in risk and uncertainty. Total investment formed 7% of GDP which is substantially below the annual pre-crisis depreciation of the capital stock.

The net effect on GDP is a contraction of 3.7% in 2011 and 18.8% in 2012, compared to pre-crisis expectations of an increase of 7.1% in 2011 and 5.6% in 2012.

By the end of 2012, the report projects a high current account deficit of 18.5% and a capital and financial account deficit of about 9.1%. The cumulative effect on the balance of payment is estimated to reach 16 billion USD. Assuming the deficit was financed from the net foreign reserve assets, this will reduce the net foreign assets (NFA) from 18 billion USD in 2010 to 2 billion USD in 2012.

Public budget has faced a surge in the budget deficit as current expenditures grow while revenues reduced dramatically. As a result the total public debt is estimated to have increased with internal debt being the main financing vehicle.

The crisis has had a notable impact on the prices, the CPI increased by 51% between March 2011 and September 2012. This rapid rise in inflation is expected to have particularly affected the poor and vulnerable households, whose expenditure is mainly devoted to basic food and beverages. Additionally, the crisis has forced the Central Bank to depreciate the official SYP by 67% until December 2012, while shadow price depreciate by around 100%, which affected the local prices substantially.

The report estimates a loss of 1468 thousand job opportunities and a substantial increase in unemployment rate by 24.3 percentage points (from 10.6% to 34.9%), this is expected to affect 6.06 million Syrians welfare and living conditions.

Human development impact: a catastrophic human and social loss

The crisis has seen both the development and expansion of civil society as well as major disruptions to social relations and the spread of extremism and intolerance. Social norms and values have been negatively affected, and the country has seen divisions whereby different groups have hardened positions of hate and revenge towards the 'other'. This represents a substantial loss to Syrian social and cultural capitals, and increases risks on the state unity, and emerges pre-state ties, which will be eventually difficult to compensate.

The loss of human lives is by far the worst societal impact of the conflict. The estimated deaths are around 59,648, mostly from civilian male adults, and more than 238,592 injured with many resulting disabilities and chronic conditions. The lack of medical care and supply in terms of equipment tools and medicines has also increased mortality and morbidity and decreased capacity to treat chronic diseases.

Syria's Human Development Index in 2012 is estimated to lose 15.1% of its pre-crisis value to reach its 1993 level, a loss of two decades of human development caused by a sharp deterioration in health, education, and income indices.

The crisis is expected to have affected the population growth rate and structure given the projected dramatic increase in mortality, external refugees, internally displaced people, and voluntary migration. The report estimates a decrease in the population growth rate from 2.45% in 2010 to minus 2.5% in 2012.

Syria lost an important part of the existing infrastructure and human capital in education (teachers and supervisors). Moreover, the report estimates that the decline in attendance rates 10.9%, and 22.8% in 2011, 2012 respectively, have decreased the mean years of schooling in Syria by about 1.74%. This will have a negative and a long term impact on human capital and hence on economic growth, employment and productivity.

In terms of poverty, the number of poor people has increased by 3.1 million persons, of which around 1.5 million are expected to have fallen below the lower poverty line, thus becoming extremely poor. Moreover, the poverty map has changed substantially with conflict areas bearing the highest impact. It is worth mentioning that the increasing number of displaced people and refugees has deepened multidimensional poverty and deteriorated people choices for decent life.

Responses to the Crisis: weak government socioeconomic response and sanctions harmed people welfare

The government lacked a coordinated crisis response strategy, and has not responded effectively to urgent demands in critical sectors and particularly in conflict zones. This was particularly evident in the poor handling of internally displaced populations. Moreover, the government did not restore people's confidence in institutions due to the contradictions and weak commitment to declared policies, lack of transparency, and absence of accountability.

Contradictory policies in dealing with the negative impact of the conflict on the business environment have increased uncertainty among businessmen, and weakened tendency for investment. Therefore, the ability of the private sector to create jobs dropped substantially leading to an increase in the unemployment rate.

In general, the government reduced public investment, which has resulted negative impact on the growth and job creation in the economy. Decline in government revenue has constrained its ability to expand spending as a counter-cyclical approach to face the contraction. The government preferred the "popular" choice of increasing wages and public recruitment instead of boosting public investment expenditure.

The government did not succeed in alleviating the educational and health difficulties that faced citizens especially in "hot" areas. Moreover, there has been a lack of coordination between different local administrative entities to overcome the inefficiency in performance that has increased due to the crisis. The displaced and refugees did not receive sufficient

support from the government to counter their situations. The poverty and inequality alleviation strategy was neither clear nor effective to reduce the severity of the crisis.

The sanctions already exerted a high economic cost on the population of Syria and lowered their quality of life. The analysis shows that 28.3% (about 6.8 billion USD) of the total GDP loss in 2011 and 2012 was due to the impact of the sanctions. The main component of this loss (about 3.9 billion USD) was the result of the international sanctions on the oil sector in Syria. The transportation, manufacturing, and financial sectors were also negatively affected by the sanctions. Additionally, using a micro-simulation approach, the report estimated that sanctions contributed to an increase of the poor in Syria by 877 thousand persons out of a total increase in poverty due to the crisis of 3.1 million persons.

In terms of sanctions on trade, gravity model estimates that Syria's potential merchandise exports to Arab countries declined by 52% (mainly manufactured goods), and to the EU countries and Turkey by 93%, 82% respectively (mainly oil exports). The reduction in exports led to an increase in the trade balance deficit which has contributed to the depreciation in the SYP. Moreover, the difficulties of importing substantial goods and services due to the financial sanctions, embargo imposed by several countries, and the currency depreciation had a negative impact on the livelihoods of people, especially children and women, including the lack of imported essentials, such as medicine (like vaccines), energy sources, and maintenance of civil aircrafts.

The sanctions led to a shortage in diesel and fuel gas for households use, and to a surge in the prices of oil derivatives by about 200%. Using an input/output model to simulate the impact of oil derivatives price increase due to sanctions shows a reduction in the real GDP by 6%, a reduction in private consumption by 10.7%, and an increase the CPI by the same percentage. This price increase harmed the real expenditure of the households unequally; the negative impact on the poorest was higher than the richest. The results show that the lowest expenditure decile of households lost 14.8% of its expenditure, while the highest expenditure decile lost 8.3%. This increase in prices was mainly in basic goods prices which form a major part of the vulnerable and poor households' consumptions, weakening their food security and standard of living.

Main remarks

The crisis, in essence, is a rights-based struggle to which no mix of socioeconomic policies can be one core solution. It follows that any solution to this crisis cannot be envisaged outside an institutional/human rights framework with wide and collective participation and consensus. Moreover, the crisis is an opportunity for substantial change in the existing institutions to achieve sustainable development that will ensure a decent human life for Syrians.

The evidence presented in this report shows that the socioeconomic impact of the crisis in Syria is quite devastating. The country is rapidly losing its economic, human, and cultural assets and potential. The state itself is under threat of failure. In this regard, a comprehensive and mutually agreed upon vision is extremely needed.

Continued armed conflict has led to a reversal in development as it enhances the violence and antagonism, distorts social solidarity, and diverts resources from productive to destructive activities. Moreover, conflict-related activities have been created, and new interests expanded such as pillage, arms trade, kidnapping, smuggling, and monopoly of the basic commodities. The new economics of the conflict could be a factor in continuing the conflict.

Historically, international military interventions have not resulted in democratic, representative, and positive change. The human, political, and economic cost of such interventions were enormous in many cases like Iraq. In terms of sanctions, the report proves, in line with international evidence, that sanctions on Syria have exacerbated the impact of the crisis and bear relatively high share of the economic and social burden.

Introduction

Since March 2011, Syria has witnessed one of the most critical challenges in its modern history represented in a deep socio-political crisis escalated to internal armed conflict. This ongoing crisis revealed the complexity of involved factors; politically, economically and socially, at both internal and external levels. But, the social movement in Syria has undoubtedly been political par excellence. It has right from the beginning upheld and consistently adhered to the value of freedom, demanded by most parties in different forms and manifestations. It has come as an expression of the essence of the crisis that is manifested by denial of political freedoms and lack of efficient and transparent representative institutions.

This report aims to identify the socioeconomic roots of the crisis, quantify the crisis impact on development situation, analyse the government socioeconomic policy responses, and estimate the impact of sanctions. The motive of this report is to provide an evidenced based, policy oriented, socioeconomic analyses of the current crisis. It is using a comprehensive developmental framework based on the concept of development as “an expansion of people choices”, and to overcome the lack of rigorous’ and objective studies on the crisis. The report targets people of Syria and policymakers to increase awareness of the catastrophic consequences of crisis continuation on Syria as country and to provide a basis to build participatory policy options towards a better development future of Syria.

The argument, in essence, is that despite relative progress in human development indicators, there has been a failure to achieve inclusive or pro-poor growth, but more importantly, to reach even a minimum acceptable level of political participation. As argued in Chapter One, this outcome is attributed to deep institutional failures, particularly the increased political, economic and social exclusion. Societal progress in Syria outpaced the capacity of state institutions, which were unable to keep up with rapid social changes and growing societal expectations. An economic growth model that delivers high growth rates but with less inclusivity - low job opportunities, constrained freedoms, and poor accountability mechanisms- all alongside rapidly increasing societal aspirations is a perfect recipe for social movement.

To estimate the impact of the crisis in the short term during 2011 and 2012, Chapter Two uses the economic notion of ‘opportunity cost’. The methodology is based on two simple questions: what do Syria’s main social and economic indicators look like today at the end of 2012 (post-crisis scenario)?; and what is the expected loss from these indicators from the business as usual scenario (pre-crisis scenario)?. To answer the first question, a wide range of macroeconomic and social performance indicators were compiled and estimated based on official sources and in consultation with a large group of experts, and by using several models, such as financial programming, within comprehensive developmental framework. These indicators allow us to draw a relatively clear picture for 2011 and 2012. To answer the second question, we employed a counter-factual methodology to establish a most-likely pre-crisis scenario for the values of crucial economic and social indicators such as GDP per capita, unemployment and headcount poverty in 2012. The difference between this pre-crisis

scenario and the post-crisis scenario yield an assessment of the socioeconomic losses as a result of the crisis.

This report mainly assesses the socioeconomic impact of the crisis, of which internal conflict and the international interventions, including sanctions, are the two most significant contributors. In some sectors, most notably the oil sector, the brunt of the economic impact can be attributed almost entirely to the sanctions. In other areas, such as foreign trade, there is a myriad of intervening forces; consequently, a gravity model is used to assess the impact of sanctions.

Unfortunately, armed conflict is an evident dimension of this crisis. Regions affected by armed conflict suffer each day from the loss of human lives, livelihoods, infrastructure and dwellings. The report reveals that regions affected by conflict have significant demands for economic, social, and institutional reconstruction. Yet, these economic and social interventions require the cessation of violence and a functioning government to be fruitful. The report highlights the nexus between economic, social and political circles of exclusion that lie at the heart of people's demands and which must be addressed to guarantee any future solution.

The data sources in this report are mainly from the Central Bureau of Statistics, Planning and International Cooperation Commission, Ministry of Health, Ministry of Education, OCHA, Central bank of Syria, UNCT, The World Bank, UNCTAD, and IMF, in addition to formal interviews with experts and key national informants.

Chapter one covers socioeconomic roots of the crisis including growth and sector structure of GDP, investment and consumption, balance of payment, labor market, poverty, inequality, human development indicators, and institutional performance. Chapter two focuses on the socioeconomic impact of the crisis by analysing economic growth and structure, fiscal and monetary policies, balance of payments, labor market, poverty, demography, education, health, and social solidarity. Chapter three assesses the Syrian government and international socioeconomic responses with a focus on sanction effectiveness. Lastly, the report concludes.

Chapter One: Developmental Factors Underlying the Crisis

Preface

The factors that contributed to the current crisis in Syria are rooted in "institutional bottlenecks", which marginalized large segments of society and deprived them of effectively contributing to the political, economic and social development.³ The state of institutional bottlenecks in Syria is reflected in the loss of political and economic institutional ability to change over time and to reflect the aspirations, interests and expectations of the new society. Tremendous cross-border transfer of knowledge and expertise into the Syrian society, through information and communication technology has contributed to increasing Syrian society's expectations.

The Syrian crisis has its own specificities and complexities; yet the underlying political, social, and economic currents that initially triggered waves of protests in Syria are essentially similar to the recent tides in Tunisia, Egypt, and Yemen. Hence it would be useful, and in addition to dwelling on the policies and factors that led to the present Syrian crisis, to highlight the regional story with an interpretation of its most broadly shared commonalities.

The recent movements in some Arab countries, including Syria, are demanding civil liberties and effective and accountable participatory institutions, responsive policies of inclusion and equity, civil society monitoring of public policies; in addition to securing independent and inclusive national policies. A central demand has been the liberation of Arab lands (Palestinian, Syrian, and Lebanese) from Israeli occupation.

Developmental factors play an important role in determining the nature and causes of social and political movements. The shape and function of existing institutions, and the social relationships associated with the economic interests of individuals and groups, as well as production and distribution of wealth are essential requirements in the design of ruling regimes. In this context, the profound relationship between the economic, social and political aspects must be taken into consideration, based on the expanded concept of development.

This chapter divides the discussion on the political economy factors of the crisis into three sections: (1) Economic factors and exclusion from growth benefits (GDP growth, macroeconomic stability, household consumption, job creation, and unemployment rate); (2) Human development factors and social exclusion (Human Development Index, Human Poverty Index, regional disparities, poverty and inequality); and (3) Institutional capacities and political exclusion (Governance Indicators and institutional reform assessment).

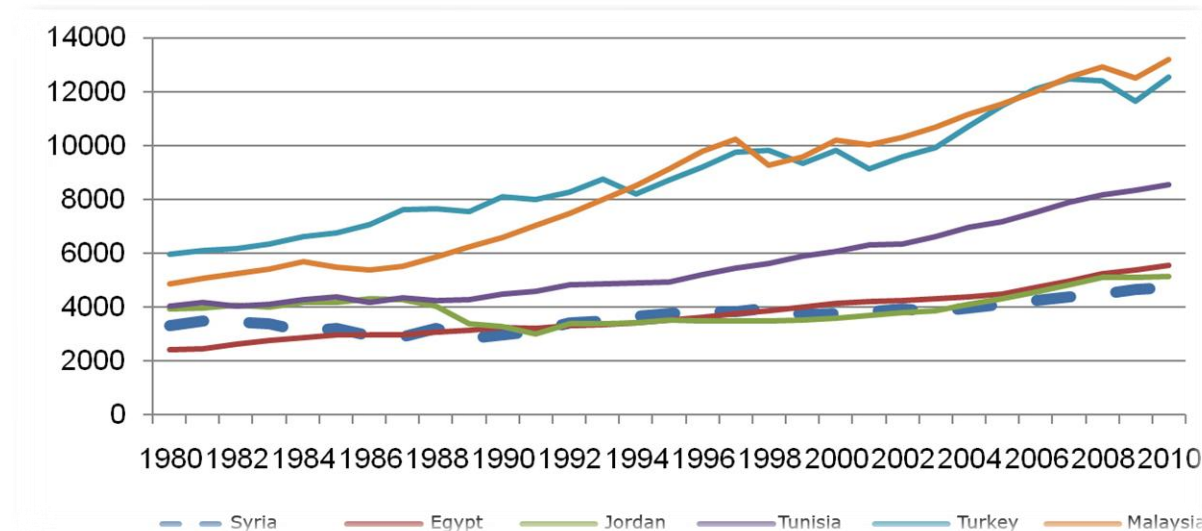
³ Nasser and Mehchy (2012): " Role of economic factors in political movement: The Syrian case", Arab Planning Institute. Kuwait.

1.1. Economic factors underlying the crisis

1.1.1. Relatively high GDP growth 2001-2010, not reflected on private consumption

Syrian economy achieved relatively high economic growth rates during the past decade, with an average growth rate for the period 2001-2010 of about 4.45%. However, per capita GDP growth, given Syria's high population growth, was much lower (2.0%). In comparison to the Arab region, Syria's growth performance was slightly above the average; however, Syria's GDP per capita was still relatively low and did not converge to the level of successful developing countries (Figure 1.1).

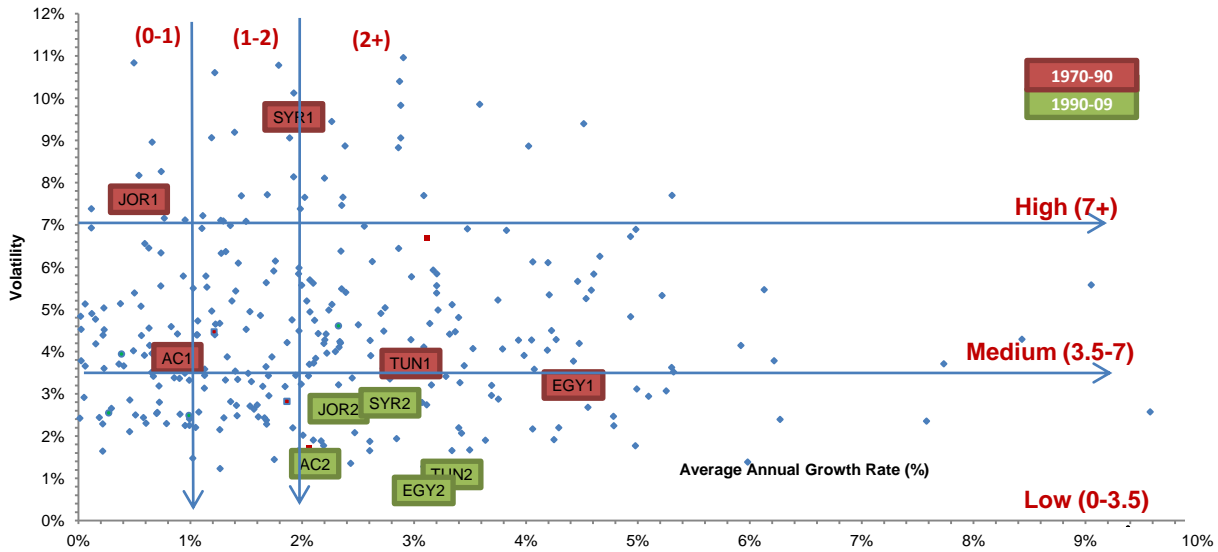
Figure 1.1: GDP per capita in purchasing power parity and constant prices of 2005 (USD)



Source: UNDP Database, 2012

Relatively high volatility has been one of the major features of the Arab countries' economic growth process. Figure 1.2 summarizes the growth-volatility performance of Syria and compares it to the performance of Arab countries and the developing regions. Syria's long term GDP per capita growth (1970-2009), which hovered around the range of 2.3%, is approximately one percentage point higher than the average for Arab countries. Yet, the volatility of this growth was exceptionally high due to the fluctuated growth rate of agriculture sector and the effects of internal and external political crisis. It is worth noticing however that the volatility declined significantly during the last decade.

Figure 1.2: Distribution of Arab countries according to volatility and Average annual real per capita GDP rates of growth, 1970-2009



Source: ADCR, 2011.

Considering the long-term sources of growth, the physical capital contribution is the main long-term source of growth, amounting to about 49% for the period 1965 to 2010, while total factor productivity (TFP) contribution was 18% of the total growth (Nasser, 2008). During this past decade, the TFP increased to account for 29% of growth, but the low job creation kept the contribution of labour to growth at a low level, partly due to the loss of jobs in agriculture sector.

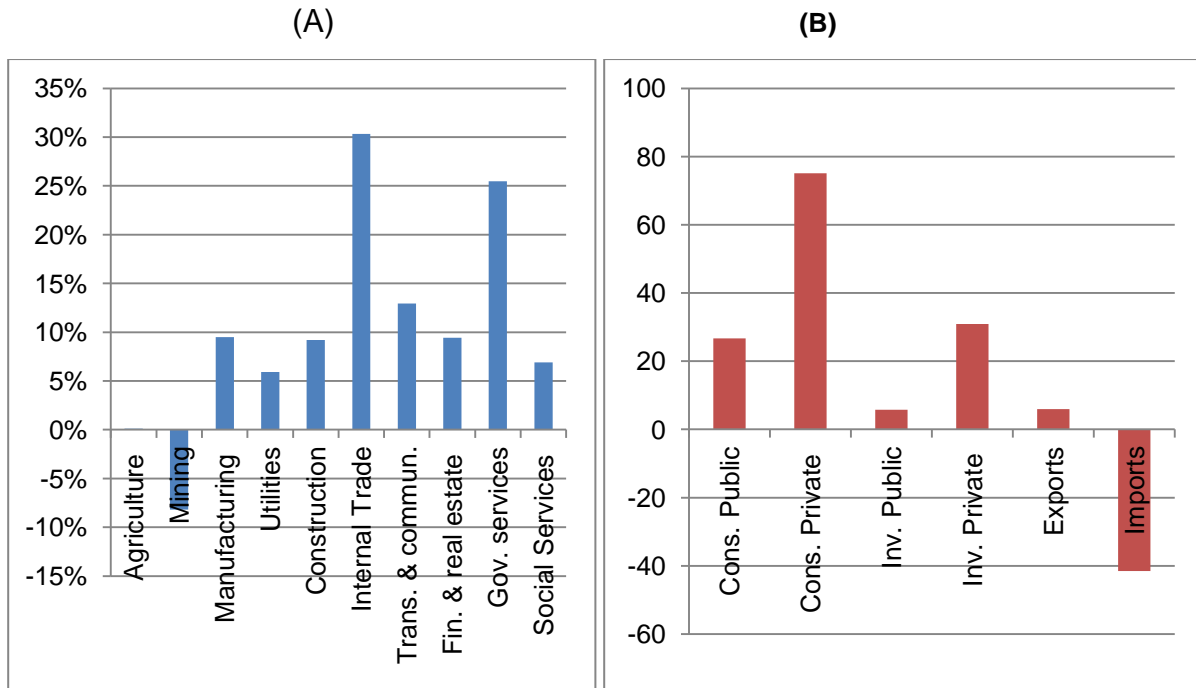
In general, the TFP growth in Syria was negatively affected by both internal and external crises. The growth depended on factor accumulation more than productivity, and has been affected by the unstable regional environment. On the other hand, (El Badawi et al., 2007) concludes that the instability in Arab world, including wars, has negatively affected democracy in the region.

On sector structure of GDP in Syria during the period 2001-2010, Figure 1.3 shows that wholesale and retail trade and government services were the main drivers of growth; followed by transport and communications, manufacturing, finance and real-estate, and construction sectors. While mining sector contribution was negative and the agriculture contribution was close to zero. It could be noticed that services sectors dominated the contribution to economic growth (84.4%) during the past decade, at the expense of production sectors' contributions (15.6%).

The structural transformation of the Syrian economy has been driven mainly by the expansion of the services sectors especially in informal activities. The wholesale and retail trade expanded with the growing local consumption and less restrictions on the final goods imports. The communication services expanded as a result of the rapid growth of the cell phone markets, in addition to a large expansion of financial sector and increase in real-estate and financial speculations. Moreover, government services expanded due to the increase of public social services and the raise of public sector wages.

The production sectors experienced different trends of growth. The manufacturing growth rate was 7.1% during the last decade; this is partly due to the establishment of industrial zones, which provided a relative better environment for available enterprises. It is worth mentioning here that the state-owned manufacturing enterprises continued to have a negative impact on the growth of this sector. Extractive industries, mainly oil, had negative growth results due to declining production. Syria became a net oil importer in 2006, after a decade in which oil was a major source of both exports and government budget revenue. This shift constituted a fundamental challenge for the economic management and increased the need for pursuing major adjusting policy responses. The agriculture sector has experienced a severe crisis due to drought, mismanagement of water resources, delayed implementation of vital projects, including modern irrigation, and the adoption of neo-liberalization policies in energy and fertilizers prices. This downturn impacted job creation, food security, and commodity prices, and, of course, economic growth.

Figure 1.3: Contribution to growth, by sector (A) and demand type (B) (2001-2010)



Source: Central Bureau of Statistics; Authors' calculations

On the demand side, Figure 1.3 shows a relative decline in exports (driven by lower oil exports). Private consumption was the main booster of economic growth. It is important to note that immigrants from Iraq, after 2003, substantially increased the country's private consumption. Public investment growth was modest, since it was directly affected by declining oil revenues, and public sector wage increases. Private investment, concentrated primarily in real estate and financial sectors, grew at an even lower pace and thus was not sufficient to alter the overall investment/output ratio which remained around an average of 22% of GDP.

The structure of Syrian exports improved due to two reasons: (1) shifting to manufactured exports; and (2) declining oil exports, from 75% of the total exports in 2000 to 46% in 2010. Export destinations also became more diversified with increased demand for Syrian products in neighbouring countries, especially Iraq and the Gulf States.

Based on micro-level data drawn from Syrian household income and expenditure surveys, rather than on the National Account consumption, the growth story of the last decade becomes strikingly different. The household budget surveys revealed that the vast majority of Syrian households incurred a decline in their real expenditure between 2004 and 2009 due to the rise in commodity prices worldwide, local liberalizing of fuel and fertilizers prices, and poor market efficiency, all of which caused a considerable rise in prices and an erosion of purchasing power, as shown in Table 1.1. In addition, the surveys show a considerable discrepancy between the various governorates with respect to average household spending. This discrepancy reflected imbalanced development between these provinces, including the distorted government budget allocation between governorates. The benefits of growth did not appear to have trickled down to the majority of Syria's population. Growth was not pro-poor in Syria, as demonstrated by the index of pro-poor growth, using the household surveys 2004 and 2009 and the upper poverty line.

Table 1.1: Household expenditure in current and real prices, 2004 and 2009

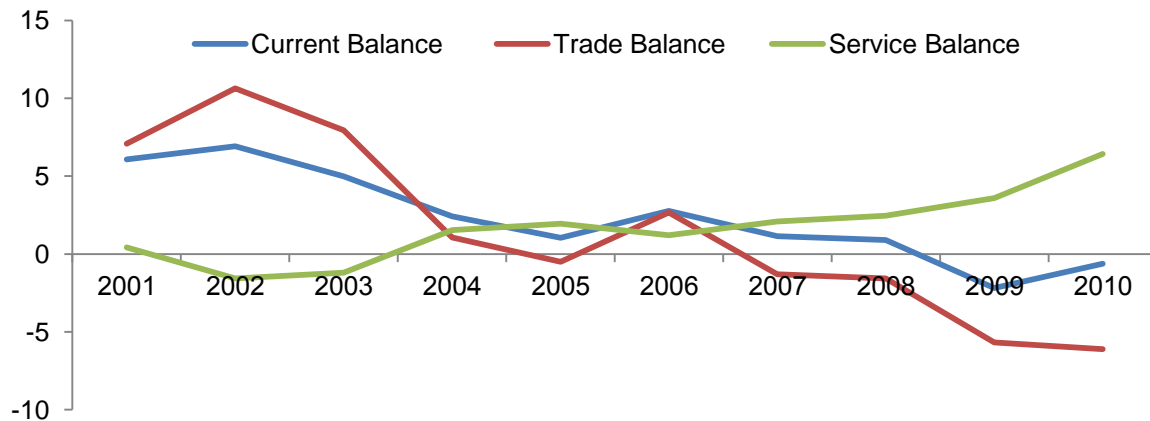
| Governorate | 2004 (current prices) | 2009 (current prices) | 2009 (in 2004 prices) | Real growth in expenditure (2004-2009) |
|-------------|--------------------------|--------------------------|--------------------------|--|
| Damascus | 28377 | 42942 | 24001 | -3.30% |
| R. Damascus | 20114 | 34222 | 20646 | 0.50% |
| Homs | 20770 | 31702 | 18961 | -1.80% |
| Hama | 21832 | 30549 | 19149 | -2.60% |
| Tartous | 23831 | 37161 | 24980 | 0.90% |
| Latakia | 20789 | 36419 | 23422 | 2.40% |
| Idleb | 22014 | 26747 | 16986 | -5.10% |
| Aleppo | 18232 | 32170 | 18304 | 0.10% |
| Al-Raqqa | 21351 | 28527 | 17440 | -4.00% |
| Deir Ezzor | 23248 | 25696 | 13550 | -10.20% |
| Al-Hasakeh | 23931 | 30576 | 20386 | -3.20% |
| Al-Sweida | 17858 | 30661 | 21243 | 3.50% |
| Dara'a | 25633 | 36748 | 18939 | -5.90% |
| Al-Qunaitra | 20791 | 34158 | 19818 | -1.00% |
| Syria | 21694 | 32755 | 19556 | -2.10% |

Source: Authors' calculations based on data from the Central Bureau of Statistics

1.1.2. Macroeconomic stability with structural deficiencies

Macroeconomic indicators during the last decade point to a relatively stable economic situation. Those indicators include relatively low levels of inflation, public debts, deficit in government budget, trade balance, and current account balance; comparatively high growth rates over the last two decades; and a stable unemployment rate at around 8%. Certain international institutions, such as IMF and the World Bank, have also praised the achieved economic reforms, particularly in the last decade.

Figure 1.4: Current, trade and services balances (% of GDP, 2001-2010)



Source: Central Bank of Syria; Authors' calculations

However, many challenges appear after conducting an in-depth structure analysis. Examples of the challenges underneath this stability can be reported as follows. First, the current account balance (Figure 1.4) faces a rapid growth of imports, a reduction in oil exports, and a weakly competitive business environment. Second, the low fiscal deficit hides the reduction of the public expenditure share of GDP, associated to a less extent with low direct tax revenue. Third, low inflation has been held until 2008 due to large fuel subsidies; thus when the government liberalized fuel prices substantially, the inflation surged.

Syria's unemployment rate, which is below the average in the Arab region, was stable at approximately 8% during 2003 to 2010 while the female unemployment rate in 2010, at 22%, was the second highest among Arab countries (ADCR, 2011). Stable unemployment, however, was accompanied by a significant drop in labour force participation rates, and in a relatively low number of jobs created (Table 1.2).

The decline in labour force participation rates in Syria during the last decade is considered as a negative indicator. If these rates had continued during the last decade as the rate of 2001, the unemployment rates would have reached 24% (Nasser et al., 2012). It indicates that the Syrian economy failed to absorb all the newcomers (estimated to be 1.6 million during the last decade). In this case, weak job creation was impacted by the effect of successive droughts on employment in the agriculture sector and the sluggish employment response from other sectors. Thus, the Syrian economy only created about 400,000 jobs during the past decade, at an annual growth rate of 0.9%, decreasing the employment ratio from 47% in

2001 to 39% in 2010. This low job creation reflects the fact that the growth in Syria was not inclusive, thereby increasing vulnerability in the society; it could be also a reason to the increasing numbers of migrants from Syria.

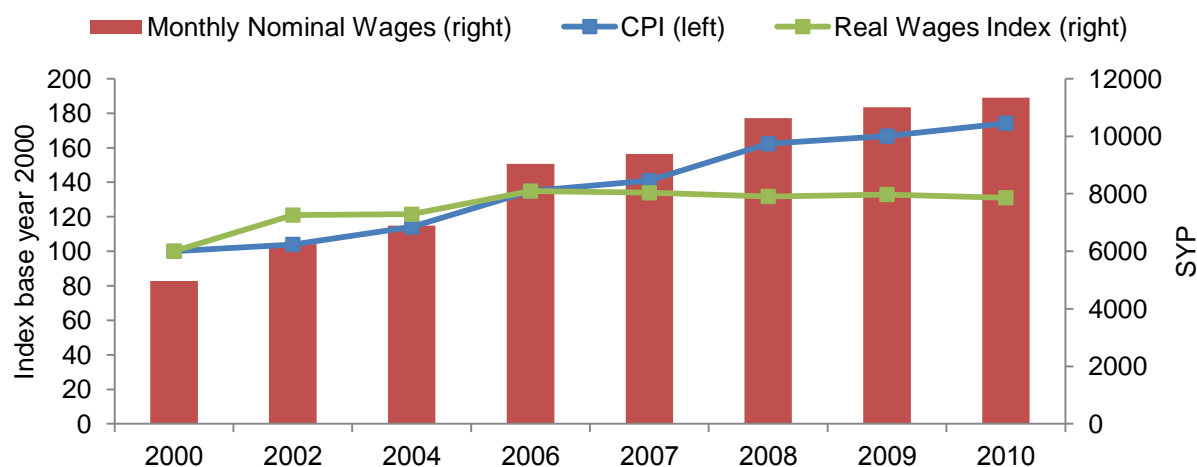
Table 1.2: Labour force participation rates in Syria, (2001-2010)

| | 2001 | 2002 | 2003 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|--------|------|------|------|------|------|------|------|------|------|
| Male | 81.3 | 80.1 | 76.3 | 72.8 | 74.1 | 74.0 | 72.5 | 71.7 | 72.2 |
| Female | 21.3 | 23.2 | 19.0 | 14.5 | 14.9 | 14.4 | 14.6 | 13.0 | 12.9 |
| Urban | 48.5 | 47.5 | 45.7 | 43.7 | 45.2 | 43.9 | 43.8 | 43.3 | 43.0 |
| Rural | 56.4 | 58.0 | 50.7 | 46.5 | 46.4 | 46.0 | 44.2 | 42.7 | 42.4 |
| Total | 52.3 | 52.5 | 48.0 | 44.9 | 45.8 | 44.9 | 44.0 | 43.0 | 42.7 |

Source: Authors' estimates based on data from the Central Bureau of Statistics

The government has, over the past decade, refrained from expanding public employment. From 2001-2010, public sector employment thus remained at about 27%, while private sector workers in the formal sector increased from 34% to 43%. The increase in formal private sector employment did not lead to a major improvement in working conditions since the majority of these workers are not covered by any form of social security.

Figure 1.5: Nominal and real wage, 2001-2010 (average per worker)



Source: Authors' estimates based on data from the Central Bureau of Statistics

Nominal wages increased considerably during the period from 2001 to 2010 for men and women, as shown in Figure 1.5. However, real wage increased only from 2001 to 2006, after which they have declined until 2010. This finding is consistent with the trend of declining real household expenditure discussed earlier.

Therefore, the employment record of the economic policies of the previous decade yield misleading stable unemployment indicators which masked the deepening structural imbalances and regulatory deficiencies, such as low job creation and reduction of labour force participation.

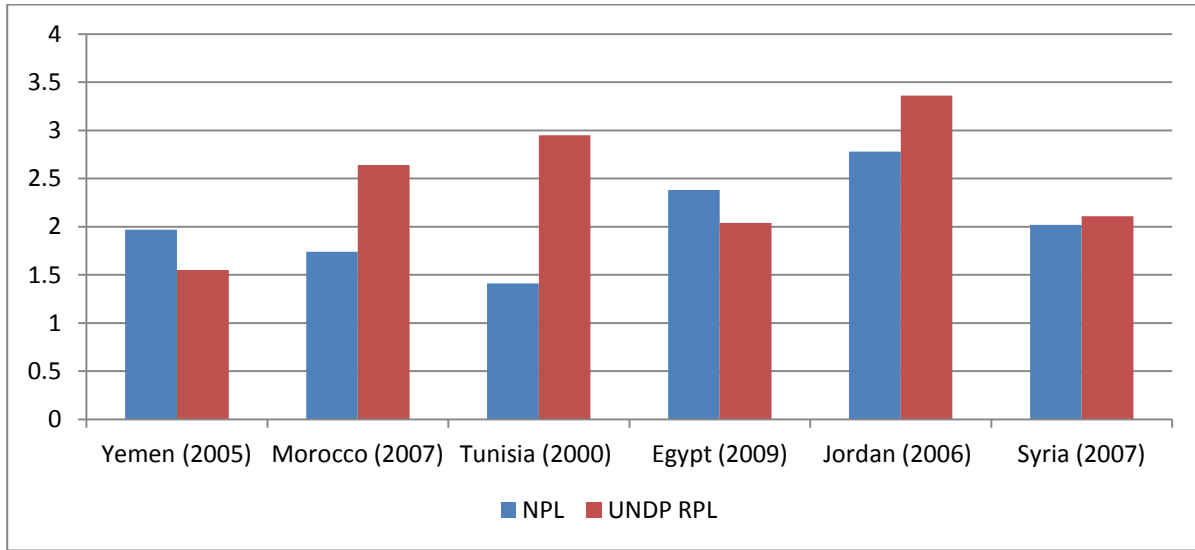
1.2. Human and social factors underlying the crisis

1.2.1. Comparatively low but increasing poverty, and medium inequality in expenditure

Extreme poverty⁴ in Syria is generally lower than what would be expected in comparison with other countries at the same level of income per-capita. This is clear in Figure 1.7, which plots the most recent poverty rates for Arab countries (based on national poverty lines) against poverty rates based on ADCR's calculations of country-specific poverty lines that are more appropriate for international comparisons. Syria's poverty rate, based on the national lower poverty line, was approximately 12% in 2007, higher than in Tunisia, Morocco and Jordan. However, Syria's poverty rate was the lowest among Arab countries, once the poverty line is adjusted for international comparisons (Figure 1.6), based on each country's level of expenditure per capita (Abu-Ismaïl et. al. 2011). These results show that poverty rates in Syria are below what would be expected based on its level of economic development. To give a concrete example, Egypt has a similar level of income/expenditure per capita to Syria, yet it has almost double the incidence of poverty.

⁴ Using the lower poverty line, where the *lower* money metric poverty line is the per capita food expenditure which covers the basic food needs (food poverty line), and per capita non-food expenditure of households whose per capita total expenditure is close to the food poverty line. The *upper* money metric poverty line is the per capita food expenditure which covers the basic food needs (food poverty line) and per-capita non-food expenditure of households whose per-capita food expenditure is close to the food poverty line.

Figure 1.6: Values of the NPLs and UNDP estimated PLs (2005 PPP per capita per day) for selected Arab countries, 2000-2009



Source: ADCR, 2011

Most of the poverty literature concentrates on the lower poverty line, which gives biased results. In the case of Syria, using the upper poverty line gives a more robust picture about poverty, presenting poverty rate at more than 30% of population (Table 1.3). Government policies during the last decade did not decrease poverty nor reduce the disparities between regions, as shown in Figure 1.7. Within Syria, poverty was more concentrated in the Eastern and Northern regions, and especially in the rural areas. The persistence of poverty and the regional disparity increased the economic exclusion across a significant share of society.

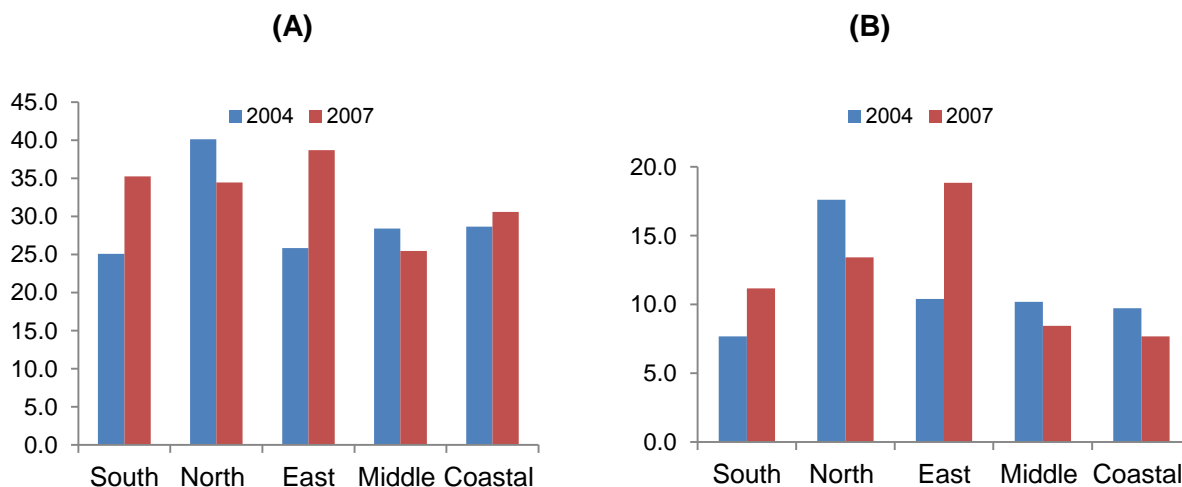
Table 1.3: Poverty measures in Syria using lower and upper poverty line 2004 and 2007

| | Poverty Headcount Rate | | | Poverty Gap | | | Squared Poverty Gap | | |
|-----------------|------------------------|------|--------|-------------|------|--------|---------------------|------|--------|
| | 2004 | 2007 | change | 2004 | 2007 | change | 2004 | 2007 | change |
| Upper PL | | | | | | | | | |
| Urban | 28.6 | 30.7 | 2.2 | 7.0 | 6.7 | -0.3 | 2.5 | 2.1 | -0.4 |
| Rural | 31.9 | 36.9 | 5.0 | 7.8 | 8.3 | 0.4 | 2.8 | 2.7 | -0.1 |
| Total | 30.2 | 33.6 | 3.4 | 7.4 | 7.4 | -0.0 | 2.6 | 2.3 | -0.3 |
| Lower PL | | | | | | | | | |
| Urban | 8.8 | 9.9 | 1.1 | 1.6 | 1.5 | -0.0 | 0.5 | 0.4 | -0.1 |
| Rural | 14.3 | 15.1 | 0.9 | 2.7 | 2.5 | -0.3 | 0.8 | 0.6 | -0.2 |
| Total | 11.5 | 12.3 | 0.8 | 2.1 | 2.0 | -0.2 | 0.6 | 0.5 | -0.1 |

Source: UNDP 2005, 2010

As noted by Syria's MDGs report (2010), reduced arable land has contributed to increase the percentage of rural poverty in the Eastern Region in particular (which includes three governorates: Al-Hasakeh, Al-Raqqa, Deir Ezzor). Droughts also reduced local food production, and generated sizable internal migration. The movement of migrants from the Eastern rural region towards Southern urban areas⁵ played an important role in the latter's deteriorating poverty rank of the country. Additionally, external factors, represented by increasing international prices for basic food goods and energy products since 2007, added the economic burden on the poor. The reduction of fuel subsidy in 2008 also added a multiple pressure on the welfare of the Syrian poor households.

Figure 1.7: Poverty headcount ratios across regions in Syria using upper poverty line (A) using lower poverty line (B)



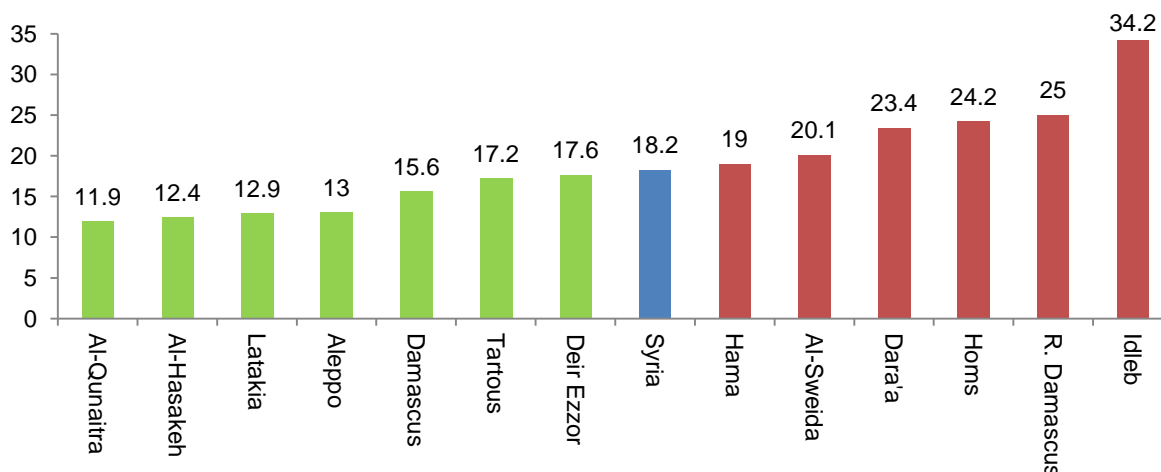
Source: UNDP 2005, 2010

Poverty in terms of caloric intake also represents a powerful indicator of material deprivation. Individuals, whose expenditure on food is below what is required for their minimum caloric requirement, can be identified from household budget surveys. Based on data from the household survey (2009), 18.2% of the Syrian population fall under this poverty line. Figure 1.8 shows the geographic spread of poverty by governorate levels, reflecting the regional imbalance development across the country.

Turning to inequality in expenditure, Gini index ranged from 0.30 to 0.347 from 1997 to 2009, values which are fairly low but increasing, compared to other Arab countries. However, a useful indicator to reflect inequality in Syria is the low and declining wage share. Workers' compensations in Syria reached about 32% of GNI in 2010, declining from 35% in 2005. This decrease reflects the distributional bias of national income in favour of capital at the expense of workers.

⁵ Understanding Poverty and Inequality Dynamics in Syria, UNDP, July 2009.

Figure 1.8: Households whose expenditure on food lies below cost of minimum caloric requirement (%), by governorate, 2009



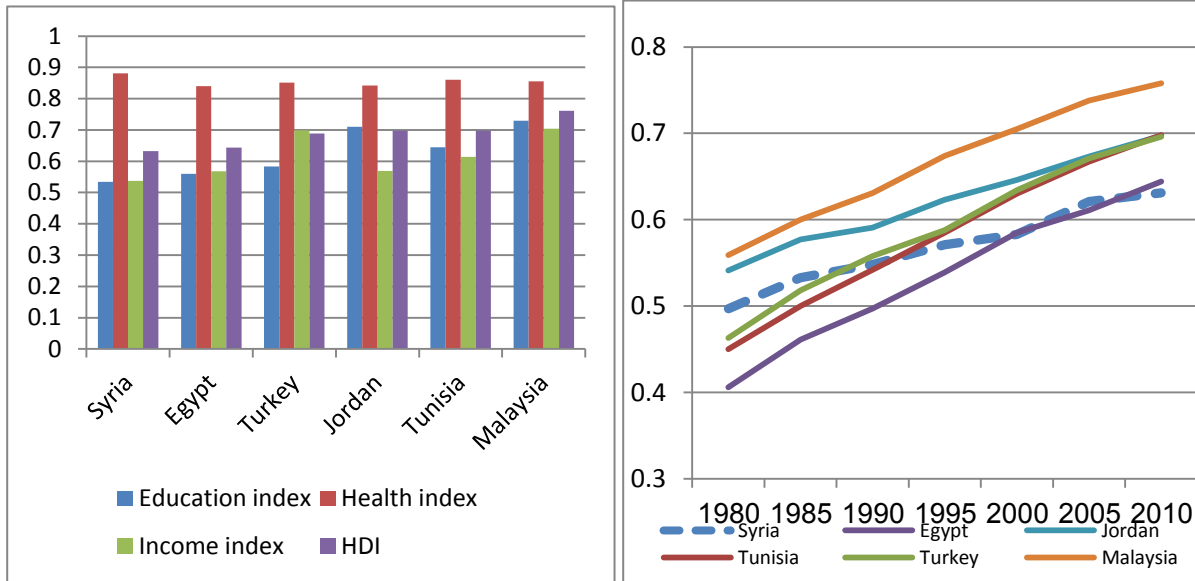
Source: Authors' estimates based on household income and expenditure survey (2009)

1.2.2. Slow improvement on human development indicators

The Human Development Index (HDI) is a measure of human development (UNDP, 2010). It measures the average relative achievements in a country in three basic dimensions of human development: long life, an access to knowledge, and decent standard of living. The HDI is the geometric mean of normalized indices measuring achievements in each dimension. Figure 1.9.a compares performance of HDI and its components in 2011(2010 data) for selected developing country and Syria. It shows that Syria has achieved the highest health index while it has the lowest HDI value while the performance of income and education indices are modest comparing to the selected countries. Thus, Syria is achieving in HDI a higher rank than expected given its relative low income and education levels. Moreover, Syria's HDI relative performance has diverted from selected countries like Tunisia, Turkey, and Jordan during the period 1980-2010 as could be seen in Figure 1.9.b.

The relatively positive human development performance faced crucial challenges. Basic education is still considered a main challenge for development in Syria; dropout rates, especially for the second basic stage, are still high. Another challenge is the high illiteracy: 15.6% for individuals above 15 years of age in 2010; the female illiteracy rate is 2.4 times that of male illiteracy rates. Lastly, scientific research in general and development related research activities in particular are scarce. The Global Competitiveness Report (2010 -2011) indicates that Syria lags significantly behind (127 out of 137 countries) in terms of quality of scientific research centres.

Figure 1.9: HDI and its components values in 2011 (a) HDI for Syria and comparison countries (1980 – 2010) (b): for selected developing countries



Source: UNDP Database, 2012

The situation is more difficult in the health sector. Public spending on health case does not exceed 2% of GDP. The quality of health care services has deteriorated during the past decade. Consequently, health indicators have not significantly improved between 2001 and 2009, based on demographic health surveys. For example, infant mortality rates for infants and children under-five years of age, in addition to underweight and malnutrition. Rate of patients with chronic diseases are high (10% of population), a serious indicator that points on the spread of costly and difficult cases to detect and treat.

Finally, living conditions of households are relatively good: 85% households using public water network for drinking water and 91% of Syrian families own their houses, with an average of two people per room. However, the increase in prices caused by real estate boom in the past decade, have reduced the opportunity to own a house, especially for young groups; There are also problems in the real estates and rental laws that is making the housing problem even worse. Internal migration to the suburbs has also affected the housing conditions in slums and peri-urban areas, where there are increased poverty rates.

1.3. Institutional factors underlying the crisis

1.3.1. Historical overview

Syria has a rich history in developing formal institutions, including a modern constitution, juridical authority, and free elections at parliament and municipalities levels. Women in Syria have owned the right to vote since 1949. Formal institutions had created the appropriate environment for political activities, including the establishment of modern parties that have attracted a significant number of Syrians.

Regional conflicts and tensions, including western colonialism and the Israeli occupation of Syrian, Palestinian, and Lebanese lands and the on-going Israeli incursions and wars in the region, have contributed to increase the role of military in political institutions. Extensive resources have been allocated from productive activities towards armies and security forces, thus affecting the nature of regime and the mode of governance in Syria. Since 1963, Al Baath party has dominated the State, including the unions and syndicates. This domination changed in a "de jure" mode only in 2011, with the new constitution brought on by the start of the social movement.

Al Baath party activated the Emergency Law in 1963. Since then, the gap has increased between the "de jure" institutions that respect and protect human rights, elections, and accountability; and the "de facto" institutions that distort the formal institutions to be pro elite, which consists of high ranked security and army officers in addition to the top private businessmen.

Al Baath party popularity was based on:

- i. Adoption of Arabic nationalism that aims to unify Arab countries and to liberate occupied Arab lands, particularly in Palestine and Golan heights.
- ii. Application of socialist policies, which have supported the middle class, and to a less extent the low-income class, through providing free public services (health and education), giving subsidies to food and energy, and building up infrastructure (water, and electricity).

During the 1980s, the rolling regime was involved in many internal and external conflicts, including the Lebanon civil war (1975-1991) and an internal armed conflict with the Muslim Brotherhood. The role of the security in the political system was thus increased, bringing with it repression of civil rights and political movements.

Since then, and particularly since the 1990s, the regime has pushed for neo-liberalization policies which have affected poor and middle classes and created crony capitalism. In 2000, serious reform was planned to be applied in developmental and political dimensions. The political aspect of this reform was suspended, whereas, a gradual and non-comprehensive reform was implemented in certain economic and public administration aspects. In 2005, a second attempt to conduct a serious reform was made; the political reform was also postponed and the economic reform was diverted to become another application of neo-liberalization policies.

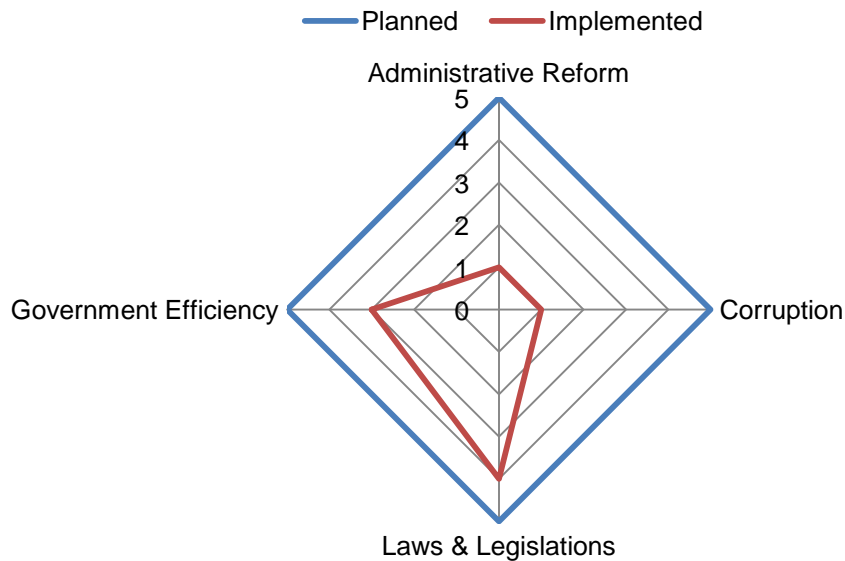
1.3.2. Poor institutional performance

In general, institutions are built to achieve society goals interactively, through developing social order which could be achieved in democratic or authoritarian ways. Institutions also, in their broader definition, set the rules of the games (North 1990). They could be classified in two main categories: political institutions, including rules and regulations that frame political decision making, check and balances, political accountability systems, laws, and rules of representation of individuals and groups; and economic institutions, including property rights and contractual institutions (Acemoglu, et.al 2005).

Achieving sustainable development, and thus having inclusive growth, social equality, less poverty, rich culture, and healthy environment requires efficient, transparent, and accountable institutions. These institutions guarantee the building of human capabilities, the creation of equal opportunities, and securing the rights and dignity for all (Sen, 1999).

Poor institutional performance in Syria is corroborated by the mid-term evaluation of the 10th five-year plan, as shown in Figure 1.10. The evaluation revealed the poor implementation of planned institutional reforms and almost the complete absence of implementation of administrative and anti-corruption reforms and initiatives. Likewise, the National Competitiveness Report (2010) showed that Syria had many areas of weaknesses in public administration and good governance including waste of public funds, complicated judiciary procedures, poor government accountability and management of public resources, cumbersome regulations and lack of transparent public policies.

Figure 1.10: Mid-term evaluation of the governance component of the 10th five-year plan for Syria

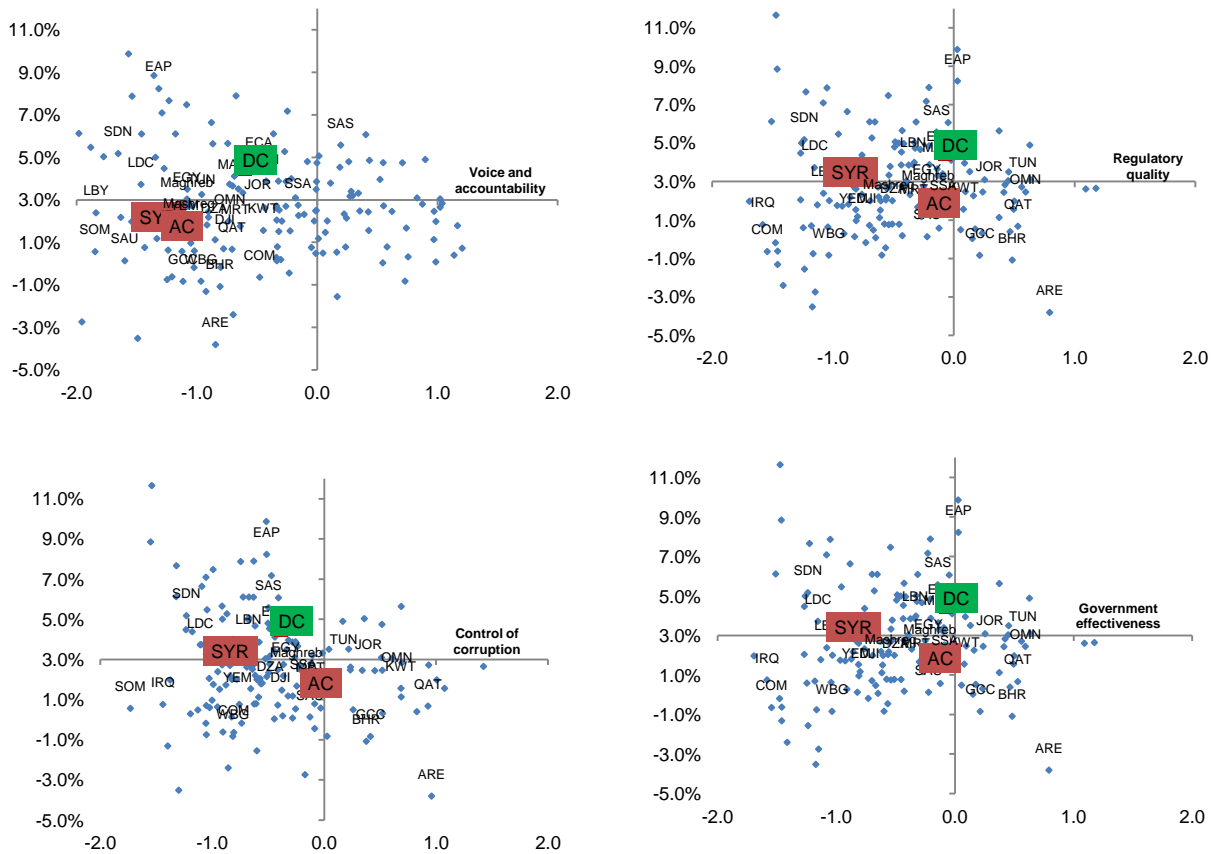


Source: The 10th FYP Mid-term Evaluation Report, 2009

Moreover, World Bank governance indicators were used for the comparative assessment of Syria’s relevant governance performance. Though they are imperfect, World Bank indicators are useful to provide an order of magnitude of governance advancements and governance deficits and failures.

Figure 1.11 presents the average for four of the World Bank governance indicators and the average GDP growth per capita, from 1996-2010, for Syria, other Arab countries, and certain developing countries. The four indicators are voice and accountability, government effectiveness, regulatory quality, and control of corruption. The figure clearly demonstrates Syria’s poor performance on all four governance indicators, placing it in the medium-high growth and low governance quadrant of the graphs.

Figure 1.11: Average GDP per capita growth rate versus average governance indicators, 1996-2010



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues.

1.3.3. Story line: institutional failures are key drivers of crisis

Economic policies in Syria produced mixed results. On the one hand, GDP growth was relatively high (4.45%) and the macroeconomic fundamentals were sound, according to the indicators of low fiscal deficit and low public debt, surplus in current account balance, and relatively low inflation rate. These indicators were associated with a structural change in the economy, specifically a reduction in the share of oil in the GDP, government revenue and exports and a significant increase in the manufacturing exports.

On the other hand, economic growth did not reach the majority of the population as evidenced by the decline in real expenditure captured by household surveys. In addition, the economy failed to generate jobs at a pace commensurate to the population growth, let alone create decent jobs. Fiscal policy has been plagued with tax avoidance/evasion, increased indirect taxes at the expense of direct taxes, and inefficient public investment.

Furthermore, the business environment was crippled with corruption and monopolies and championed by new interest groups who emerged in the late 1990s after the economic neo-liberalization. Together with their partners (mainly Gulf investors), this politically well-connected business elite engaged in real estate speculation, which further strengthened its monopoly on various economic activities. Consequently, Syria's low rank on the Global Competitiveness Index declined from 78 (out of 134 countries) in 2008 to 97 (out of 139) countries in 2010. Thus, economic policy had weak positive impact on the business environment, and monopolies continued to be a major aspect of national economic life, reflecting the influence of these interest groups which did not support any real economic or political reforms. Meanwhile, monetary policy, being dominated by an orthodox goal of price stability, had no discernible developmental impact.

In 2005, deep reforms were envisaged in the government 10th five-year plan with institutional reform being set as a core theme of the plan. However, rather than the human development agenda which was the heart of the plan, implementation was channelled to routine neo-liberalization policies. Thus, public expenditures were reduced; indirect taxes increased; public sector reforms delayed; energy prices liberalized. In addition, implementations of planned social protection programs, including monitoring and evaluation systems, were halted. All these actions were in direct contradiction with the content of the plan. Furthermore, the preparation of the 11th five year plan for the period 2011-2015 proved the lack of political will in implementing required reforms.

Political institutions in Syria failed to address the need to establish inclusive and participatory process of development and to create a strict system of accountability to effectively address poverty and social injustice.

Furthermore, despite the enormity of its food security and water scarcity challenges and a strong nexus between poverty and poor management of natural resources, the Syrian government could not sufficiently address the major environmental challenges and the deterioration of natural resources. The repercussions of this neglect were clearly demonstrated in the aftermath of the droughts and its ensuing impact on poverty and the internal migration of approximately 300,000 Syrians. The government's decision to liberalize

energy and fertilizers' prices aggravated the already high economic burden on farmers. It is worth noting that most of Syria's water resources often come from outside its borders, thus aggravating the water challenge and weakening the country's ability to control its scarce water resource.

Thus, while macroeconomic indicators point to a relatively stable economic situation in terms of the impact on inflation, public debt, government budget deficit, trade balances, growth; Syrian economy suffers from poor institutional performance, low productivity, low job creation, rising poverty, and regional disparities revealing deep structural challenges facing the Syrian economy.

Social policies, however, was more effective in Syria as compared to other middle income Arab countries, such as Morocco and Egypt. Syria's record on health, and to a less extent education and MDGs, despite the slower pace of progress over the past decade, is good. However, the overall poverty rates using upper poverty line reveal an increasing vulnerable people during the last decade, due to economic and social exclusion.

State in Syria has, no doubt, played a major role in the "low equilibrium" situation (Nasser et al. 2012) as a main sponsor of health and education, and as a provider of consumer subsidies, public services, housing and infrastructure. Yet, quantitative expansion came at the expense of the quality of public services. This was evident even in sectors like health and education which witnessed quantitative expansion without quality improvement. Indeed, health indicators witnessed no major improvement throughout the period of 2001 to 2010, while expansion in secondary and higher education was offset by greater dropout levels from basic education. Thus, despite its better position on social indicators, overall performance was below the needs and expectations of the Syrian people.

Syria receives a mixed verdict on social and economic policies. The development record maintained a "low equilibrium" development, which includes a low income per capita, low productivity, public employment, subsidies, almost free social services, and inefficient institutions. However, this low equilibrium development has been negatively affected by two main factors: neo-liberalization policies, during the last two decades which reduce the role of state without creating suitable environment for alternatives; and development of people awareness and expectations of their rights and future. This is especially the case for the young educated generations, and the relative regression of the development situation in Syria in comparison to successive developing countries.

Syria's development record was hindered mainly by institutional bottlenecks which marginalized large segments of society and deprived them of effectively contributing to the political, economic and social development. Syrian institutions were unable to evolve in such a way so as to reflect the aspirations, interests and expectations of a younger and more educated society.

The next chapter will assess the socioeconomic impact of the crisis, which started in March 2011 with civil demonstrations and that escalated to a complicated internal armed conflict with significant external interventions.

Chapter Two: Economic and Social Impacts of the Crisis

Preface

As noted earlier, macroeconomic policies over the past decade had an overall positive impact on economic performance, despite the global and regional shocks, with GDP growth hovering around 4.45%. Tourism receipts were buoyant and both foreign direct investments (FDI) and remittances were at record levels. Net foreign reserves remained satisfactory, at about 18 billion USD in 2010⁶. The fiscal deficit contained the overall deficit below 5% of GDP. The external current account balance was in surplus or with small deficit. The level of public debt was reduced to reach 23% of GDP in 2010.

However, these indicators hide structural imbalances. These imbalances include economic growth dependency on quantitative factors including physical capital, increasing real estate and financial speculations, an expanding informal sector, low productivity and wages, weak job creation, inefficient public investment, and an investment environment plagued with rampant corruption and monopoly.

Likewise, social indicators revealed that Syria was well positioned, relative to other Arab countries, with respect to key health and education targets. Thus, even with a continuation of the recent trends of slow progress, the MDG progress report for Syria confirmed that it was on the path towards achieving many, if not most, of the targets. Yet, these developments have been affected by the inefficient management of public services and delays in up-grade programs, which led to poor quality of services. Moreover, the crisis has exacerbated the already challenging poverty and living conditions.

Against this pre-crisis trajectory, we review based on most recent evidences and our own projections, estimates of performance of the crisis in 2011 and 2012 and the impact of the crisis on main socioeconomic indicators. Section 2.1 presents the impact on macroeconomic indicators: growth, public finance, balance of payment, monetary sector and employment. Section 2.2 focuses on social indicators: poverty, education, demography, health, human development index, as well as the social solidarity.

⁶ Non official sources refer to higher NFA reaches 23 billion USD in 2010.

2.1. Impact on main Macroeconomic Indicators 2011-2012

2.1.1 Growth collapse and capital stock destruction

As noted in the introduction, the methodology applied to estimate the impact of the crisis is intuitive and clear. We first forecasted Syria's GDP in 2012 based on the assumption that its average performance in 2005-2010 would have continued in 2011 and 2012 (except for agriculture). This is in line with GoS forecasts, except for the agriculture sector which exceeded growth projections given that the last five years witnessed successive seasons of droughts. This pre-crisis scenario assumes Syria would have achieved a GDP annual growth rate of approximately 7.1% in 2011 and 5.6% in 2012. The second step was to project the actual GDP in 2011 and 2012 based on available information, data, and in consultation with experts. The difference between both GDP estimates produces a rough order of magnitude of the economic impact of the crisis in terms of GDP.

By end of 2012, the Syrian economy is expected to have a GDP economic loss of 664 billion SYP in constant 2000 prices (Table 2.1) which equals to 45.7% of Syria's GDP in 2010. In current prices, the loss equals 24.1 billion USD. The contraction, however, was uneven among sectors. Available data and information suggests that the losses in three sectors (agriculture, construction and government services) were relatively lower than those in other sectors.

Table 2.1: GDP by sector 2010-2012 and estimated impact of the crisis, billions of SYP (in constant 2000 prices)

| | Actual | Post-crisis | | Pre-crisis | | Impact | | Total Impact |
|-----------------------|-------------|-------------|-------------|-------------|-------------|------------|------------|--------------|
| | 2010 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011+2012 |
| Agriculture | 240 | 263 | 262 | 263 | 262 | 0 | 0 | 0 |
| Mining | 186 | 163 | 99 | 185 | 185 | 23 | 86 | 109 |
| Manufacturing | 100 | 78 | 23 | 105 | 110 | 26 | 86 | 113 |
| Utilities | 37 | 39 | 32 | 42 | 48 | 3 | 16 | 19 |
| Construction | 52 | 59 | 48 | 54 | 55 | -5 | 7 | 2 |
| Internal trade | 297 | 263 | 200 | 311 | 326 | 49 | 126 | 175 |
| Transport & com. | 191 | 158 | 120 | 208 | 227 | 51 | 107 | 157 |
| Fin. & real estate | 80 | 87 | 66 | 88 | 96 | 1 | 30 | 31 |
| Gov. Services | 207 | 228 | 210 | 230 | 257 | 3 | 46 | 49 |
| Social Services | 59 | 60 | 73 | 67 | 76 | 7 | 4 | 11 |
| NGO Services | 1 | 1 | 2 | 1 | 1 | 0 | -1 | -1 |
| GDP | 1452 | 1398 | 1136 | 1555 | 1642 | 157 | 507 | 664 |
| Non mining GDP | 1265 | 1236 | 1037 | 1370 | 1458 | 134 | 421 | 555 |

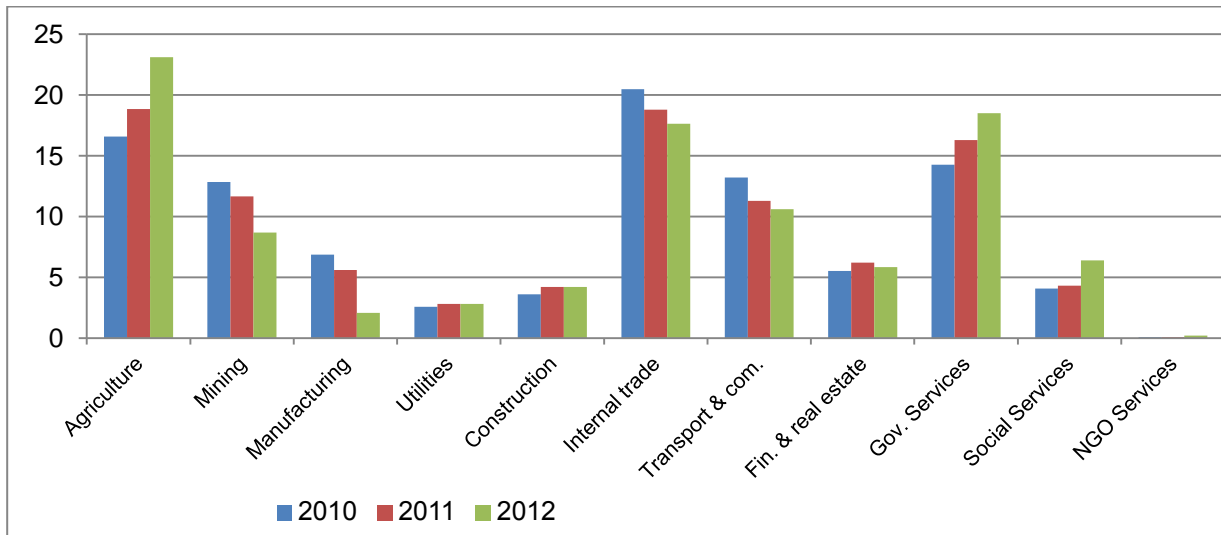
Source: Authors' estimates based on preliminary data from the PICC and CBS.

Agriculture became the fastest growing sector (10% in 2011 and an estimated 0% in 2012) due to the improvement in yields after several successive seasons of drought. Climate conditions played an important role in reducing the severity of the crisis, especially on vulnerable groups in the rural areas. In this regard, food security from a *supply side* angle does not seem to be a crucial challenge, at least in 2012. However, many farmers have had difficulties in accessing their lands and transporting and selling their products due to lack of security in their regions.

The construction sector has boomed from the proliferation of informal housing, particularly during the first months of the crisis in 2011. However, in 2012 construction sector contracted by 19% as the building activities stopped due to the escalation of the armed conflict. Likewise, the significant increase in government services in 2011 was one of the main public policy options adopted by the GoS in response to the crisis. In 2012, the government could not continue expanding its services which contracted by 7.7%.

Turning to the highly affected sectors, most of the total losses (83%) were incurred by four sectors: internal trade, transportation and communications, manufacturing, and mining. These losses, however, were not proportional to the economic contribution of those four sectors. They contributed 53% of Syria’s GDP in 2010, and, in 2012, their combined GDP share is estimated to have declined to 39%. This implies that the economic crisis had a profound impact on the structure of the Syrian economy (Figure 2.1, and Figure 2.2).

Figure 2.1: Sectors’ share of GDP between 2010 and 2012



Source: *ibid.*

The wholesale and retail trade sector, including restaurants and hotels, is one of the main employers of low-skilled workers. This sector incurred the largest share of the economic impact, with an estimated loss of 175 billion SYP or nearly a 26% of the total GDP losses (in 2000 constant prices). This was due to mixture of factors, including reduction in demand, high inflation, bottlenecks in production chains, and higher energy and import cost due to depreciation of the Syrian currency.

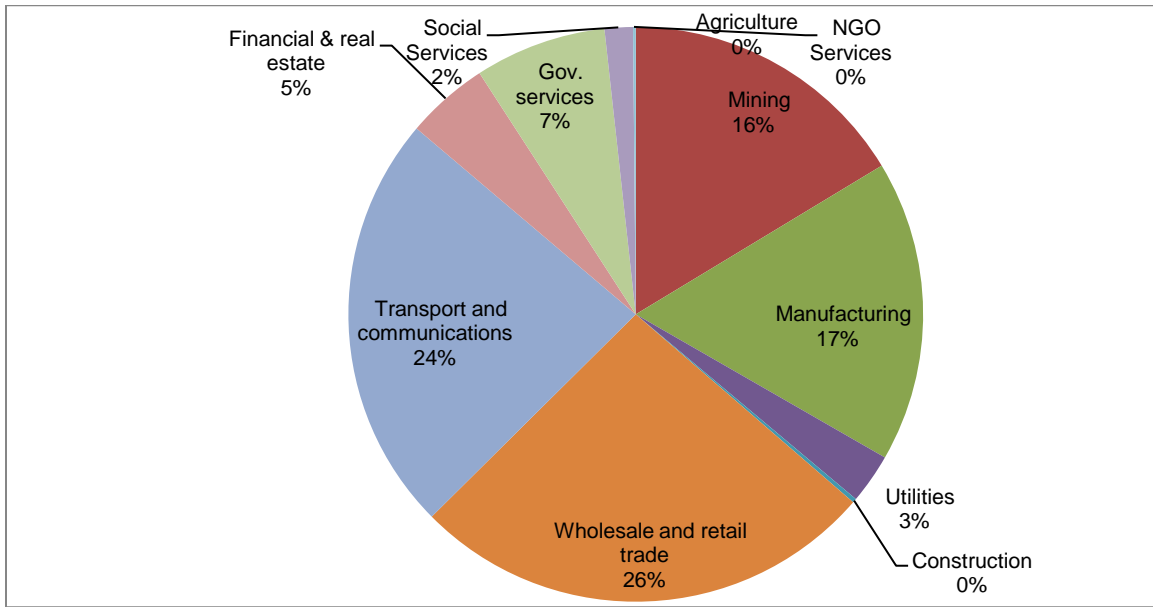
The effects on tourism sector were devastating; the sector completely collapsed, its value added was reduced 50% and revenue from foreign tourism decreased by 60% in 2011, as compared to 2010. Internal tourism was also affected, especially in the last quarter of 2011. As the security situation worsens in 2012, the reduction in tourism value added may reach 90%, as compared to 2010. Moreover, many regions which rely on the tourism were also directly affected.

The oil sector also experienced large losses. Mainly due to sanctions and the withdrawal of foreign companies since October 2011, oil production was reduced by 47%. Consequently, exports were sharply reduced since the locally produced supply was barely enough to meet the needs of local refineries. As the economy lost its main source of foreign currency, the oil shock produced many ripple effects which reverberated across all economic sectors. Furthermore, since the sanctions included restrictions on financial transfers, insurance and transportation, they severely affected the imports of fuel derivatives, such as diesel and home-use gas, which created shortages in the local market and fed into shadow markets with the consequential impact on prices and cost of living for households.

The transport sector was also negatively affected by the conflict due to the interruptions caused by attacks on convoys and trucks which severely restricted human travel and commodity transportations. The total estimated loss of the transport and communications sector was estimated at approximately 157 billion SYP (in 2000 constant prices). Sanctions also significantly reduced port activity due to the reduction in international trade.

The manufacturing sector value added also contracted sharply by 76% in public and private sectors the destruction of firms and infrastructure has been enormous due to the military operations and the widespread of pillage, looting, kidnapping of workers and managers. At the first stage of the crisis in 2011 manufacturing activities and exports expanded due to the depreciation of the SYP. Our assessment is that the reverse outcome was due to a combination of mitigating factors such as the debilitating sanctions on financial transactions, rise in cost of imported inputs, energy shortages, bottlenecks caused by a disrupted transportation, damages to infrastructure, and physical damages to the industrial firms themselves. It is worth noting that military operations in Aleppo and Rural Damascus, the main places of manufacturing activities, destructed most of the industry infrastructure of the country, additionally, many firms have transferred its equipments within the country or cross borders.

Figure 2.2: Sector structure of estimated total GDP loss (gain) 2011 and 2012



Source: ibid.

The economic impact was also reflected disproportionately on the expenditure side of GDP. This report estimates for 2011 and 2012, as shown in Table 2.2, indicate that local private consumption bore the main brunt of the shock with a staggering 42% total loss for 2011 and 2012, as compared to 2012 expected pre-crisis consumption. Investment was strongly contracted by the crisis. The losses of public investment during 2011 and 2012 were substantial due to the adjustment in fiscal policy; these losses have formed 22% of the total GDP loss. The losses of private investment during 2011 and 2012 were also substantial due to the dramatic increase in risk and uncertainty; they form 30% of the total GDP loss. In 2012 both public and private investment formed 7% of GDP which substantially below the annual pre-crisis depreciation of the capital stock. The drop of investment had a negative impact on the perspective of economic growth in the medium- and long-term.

The exports dropped as expected sharply reaching in 2012 about 38.4% of the expected pre-crisis exports, drop of oil exports in 2011 and manufacturing exports in 2012 explains the huge reduction. The imports increased in 2011 to increase the stock as a precautionary response of the crisis however in 2012 imports dropped due to international sanctions, low local demand, and destruction of the production capacities. The imports reached in 2012 (44.5%) of the expected pre-crisis imports.

Table 2.2: GDP by expenditure 2010-2012, billions of SYP in constant 2000 prices

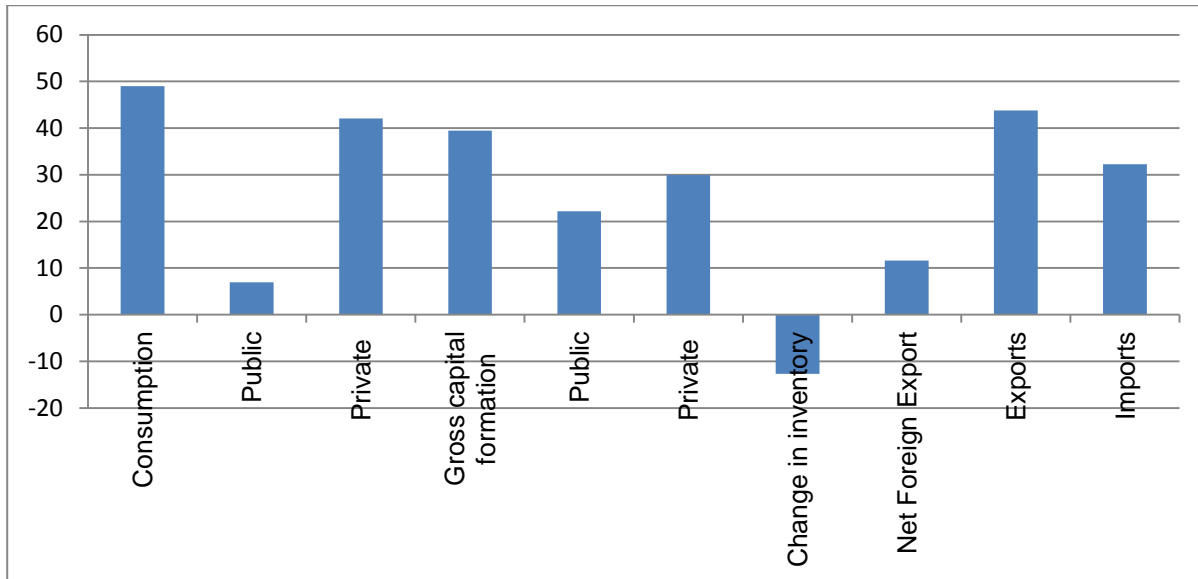
| | Actual | Post-crisis | | Pre-crisis | | Impact | | Total Impact |
|--------------------------------|--------|-------------|------|------------|------|--------|------|--------------|
| | 2010 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011+12 |
| Consumption | 1209 | 1193 | 1078 | 1267 | 1329 | 74 | 251 | 325 |
| Public | 255 | 283 | 261 | 281 | 309 | -2 | 48 | 46 |
| Private | 955 | 910 | 817 | 986 | 1019 | 76 | 203 | 279 |
| Gross capital formation | 326 | 363 | 110 | 360 | 375 | -3 | 265 | 262 |
| Public | 142 | 112 | 27 | 143 | 143 | 31 | 116 | 147 |
| Private | 191 | 172 | 52 | 204 | 218 | 32 | 166 | 199 |
| Change in inventory | -8 | 80 | 32 | 13 | 14 | -66 | -18 | -84 |
| Net Foreign Export | -84 | -158 | -52 | -72 | -61 | 86 | -9 | 77 |
| Exports | 399 | 372 | 160 | 407 | 415 | 35 | 256 | 291 |
| Imports | 483 | 530 | 212 | 480 | 477 | -51 | 264 | 214 |
| GDP (market prices) | 1452 | 1398 | 1136 | 1555 | 1642 | 157 | 507 | 664 |

Source: ibid

Finally, public consumption increased in 2011 and dropped slightly in 2012, mainly due to increased public sector wages and public employment (Figure 2.3.). It is doubtful, however, that the government will be able to continue to use public consumption as a counter-crisis policy tool beyond 2012.

The effect on GDP has been a contraction of 3.7% in 2011 and 18.8% in 2012, compared to pre-crisis expectations of an increase of 7.1% in 2011 and 5.6% in 2012.

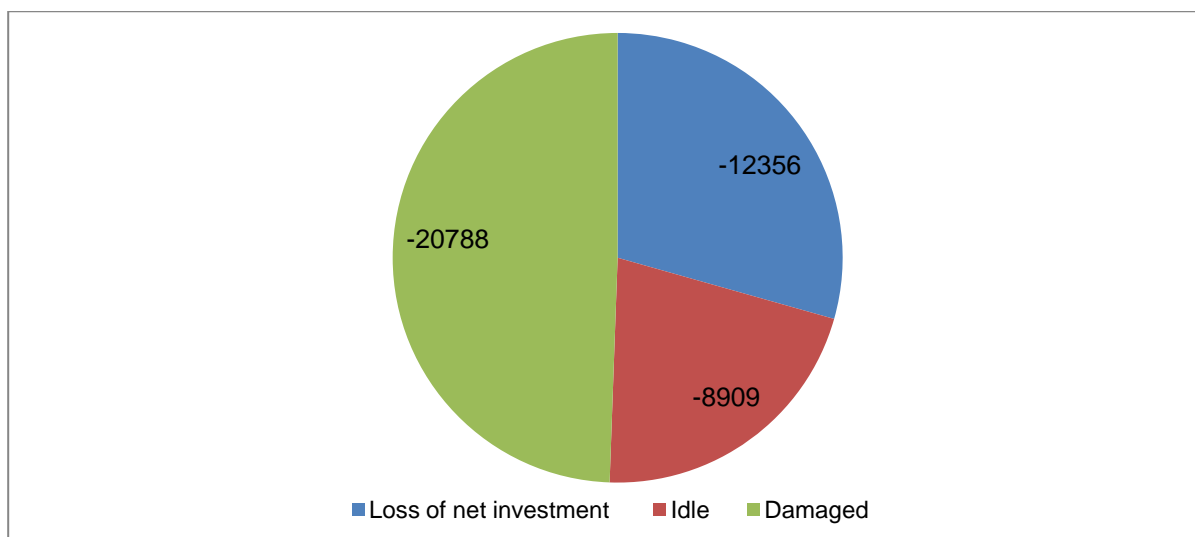
Figure 2.3: Demand components structure of total estimated GDP loss 2010-2012



Source: ibid

The GDP losses are only part of the total economic loss. Another important element is the impact on the capital stock, an important source of economic growth. Using the counterfactual methodology, we estimated the difference between capital stock in the pre-crisis scenario and our estimate in 2012 to be around 42.1 billion USD (in current prices). As Figure 2.4 shows, this decrease consists of three components. First, there is the reduction in the net investment, equal to 12.4 billion USD; this loss is already accounted for in our estimate of GDP losses. Second, there is the loss due to poor capacity utilization and idle capital stock since much of the physical capital stopped contributing to the production process. The mining and tourism sectors are obvious examples that have suffered from sanctions, lack of security, drop of demand, and insufficient energy sources. The estimated impact due to this component is approximately 8.9 billion USD; this component is already included in the GDP loss. In theory, this component should re-contribute to the production process when the crisis is over. The third and last component is the partial or full damage to capital stock incurred as a result of the conflict (destroyed firms, equipment, and buildings). This component is not accounted for in our estimate of the GDP loss and should therefore be added to the total economic loss. We estimate this component to be on the order of 20.8 billion USD.

Figure 2.4: Estimated loss 2010-2012 of Capital Stock, millions of USD in current prices



Source: Authors' calculations based on (Nasser, Mehchy 2012b: capital stock estimation of Syria 1965-2010)

Another aspect of the economic loss is the increase of the military expenditure. Military expenditure is a reallocation of the resources from productive processes to non-productive or even destructive processes. This was not reflected in the GDP loss calculation due to the off budget military expenditure and manufacturing. To estimate the increase in the military expenditure bill is no easy matter, particularly given data limitations. Still, using cross-country empirical evidence, we estimated the off budget military expenditure in Syria to have increased annually on average by 2.2% of GDP⁷ in 2011 and 6.6% in 2012⁸ (3.6 billion USD in current prices). It is worth mentioning that the domestically financed military expenditure of the armed groups has not been estimated.

Table 2.3: Total economic losses in millions of USD current prices

| | 2011 | 2012 | Total |
|---|--------------|--------------|--------------|
| GDP loss | 6460 | 17637 | 24098 |
| Capital stock damaged | 5721 | 15067 | 20788 |
| Increase in military expenditure | 951 | 2608 | 3559 |
| Total economic losses | 13132 | 35313 | 48444 |

Source: Authors' calculations

⁷ Calculations made by using data from Collier and Hoeffler, 2002b.

⁸ In 2012 intensive battle frontiers in Aleppo, Rural Damascus, Idleb, Der Ezzor and Homs continued in 2012.

To sum, as Table 2.3 shows the total estimated economic losses due to the crisis in Syria by 2012 is more than 48.4 billion USD which consists in constant prices of 2000 about 81.7% of the GDP of 2010 constant prices. The loss of GDP is 50% of the total loss while the damaged capital stock share is 43%, and the increase of military expenditure share is 7% of the total loss.

2.1.2 Double-digit fiscal deficit and eroding fiscal space for development expenditure

Prior to the crisis, Syria faced a daunting fiscal challenge. This was due to the decline in oil revenue and production, the increased demand for oil derivatives and imports, and the surging subsidy bill. The crisis has accentuated, but did not cause, these structural deficiencies in Syria's public finance system. Those deficiencies are common in most middle income countries of the region where attempts to improve legislation and laws governing public finance and to improve fiscal efficiency and revenue collection are often insufficient and ineffective. Thus, even before the crisis, Syrian fiscal policy was burdened by a regressive taxation system with a declining share of non-oil direct taxes. In addition to a large and growing informal sector which further constrained the potential for revenue collection, and to state owned enterprises that continued to drain the public budget. It is worth mentioning that the overall size of the government budget decreased from 26.9% to 22.1% of GDP between 2010 and 2012. In this context, the crisis presented a serious challenge to Syrian policy makers since the fiscal space available to conduct a counter-crisis fiscal expansion was limited.

Table 2.4: Revenue, expenditure and government budget deficit (in percent of GDP), 2010-2012

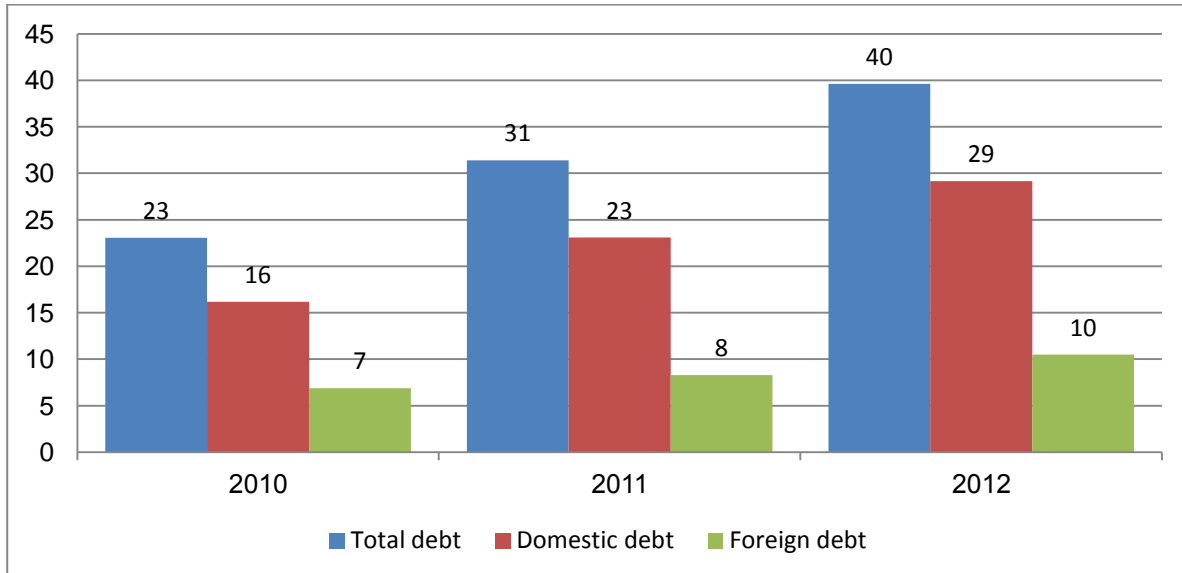
| | Preliminary | Projected | Projected |
|-------------------------|-------------|-----------|-----------|
| | 2010 | 2011 | 2012 |
| Revenue | 23.1 | 18.9 | 12.0 |
| Oil-related proceeds | 4.4 | 3.8 | 1.9 |
| Non-oil tax revenue | 11.5 | 9.9 | 6.7 |
| Non-oil non-tax revenue | 7.1 | 5.2 | 3.4 |
| Expenditure | 26.9 | 27.6 | 22.1 |
| Current expenditure | 18.1 | 20.9 | 18.5 |
| Wages and salaries | 11.5 | 14.4 | 14.7 |
| Goods and services | 1.2 | 1.2 | 0.7 |
| Interest payments | 1.1 | 1.2 | 0.7 |
| Subsidies and transfers | 4.3 | 4.1 | 2.4 |
| Development expenditure | 8.8 | 6.6 | 3.5 |
| Budget balance | -3.8 | -8.6 | -10.1 |

Source: Authors' estimates based on preliminary data from the PICC

The fiscal shock and fiscal policy response are summarized in Table 2.4, which shows a revenue shock of approximately 11 percentage points of GDP (revenue declined from 23.1% of GDP in 2010 to 12% in 2012). This was driven by the sharp reduction in oil revenue and, to a lesser extent, non-oil tax revenue. In response to this combined effect of sanctions and economic contraction, the GoS opted to reduce public investment expenditure in favour of current expenditure as the main counter-crisis macroeconomic policy tool. Public investment dropped from 8.8% in 2010 to 3.5% of GDP in 2012. Hence, the wages share increased from 11.5% to 14.7% and the share of current expenditure rose from 18.1% to 18.5%.

The end result was a surge in both the government budget deficit (from 3.8% in 2010 to 10.1%⁹ in 2012) and the total public debt from 23% of GDP in 2010 to 40% in 2012 (see Figure 2.5). Thus, it would be safe to conclude that the fiscal window created by debt reduction over the period from 2004 to 2010 has been virtually eroded.

Figure 2.5: Total debt by domestic and foreign component (% of GDP), 2010-2012



Source: *ibid.*

2.1.3 Turbulent balance of payment adjustments

Syria's pre-crisis non-oil export performance has improved as the share of oil exports had declined from around 70% of merchandise exports in the early 1990s to approximately 40% in 2010. In parallel, private sector exports comprised of relatively higher value-added products such as furniture and pharmaceutical products, increased remarkably during that period. The import side of the merchandise trade grew at faster rate than non-oil exports, particularly after trade liberalization. Thus, given the sharp decline in oil exports, the trade

⁹ Adding the expected increase of the off budget military expenditure which has been estimated in the previous section will increase the deficit to 10.3% in 2011 and 16.7% in 2012, consequently the total debt will increase to 33% in 2011, and 46.2% of current GDP.

account balance deteriorated to reach a deficit of 6.2% of the GDP in 2010. A larger surplus in capital and financial account, however, kept the overall balance of payments in surplus.

The foreign trade sector was the most significantly and directly affected sector by the sanctions imposed on Syria by its main trading partners, including EU and GAFTA members. Using a gravity model to identify the determinants of trade of Syria with its partners during 1995-2010 and estimate the impact of the crisis on the potential trade of Syria (Mehchy et al 2013). The model estimated that Syrian exports decreased by 45% between 2010 and 2011 and 75% in 2012, and oil exports declined to less than 20% of total exports in 2012. These projections take into account the rise in exports in 2011 to Iraq, Jordan, and Iran after the currency devaluation. However, those partial advantages for exports vanished in 2012 due to the destruction of manufacturing infrastructure and equipments. On the import side, after an initial increase in 2011 due to large stock-piling by the private sector in anticipation of the length of the crisis, imports decreased in 2012 due to demand constraints and growing difficulties in the import process. The sudden export shock, combined with a lagged and more sluggish import response, pushed the trade deficit to approximately 8.1% and 16.1% of GDP in 2011 and 2012 respectively.

Turning to the service trade, a flourishing tourism sector in Syria played a major role in increasing the surplus in the service trade during the last decade. However, preliminary data shows that revenue from tourism declined by 69% in 2011 compared to 2010, and our estimates show a further decline by 68% in 2012. As a result, the service trade balance plunged from a surplus of 3.86 billion USD in 2010 to 0.1 billion USD in 2011. We estimate a deficit of 2.1 billion USD in 2012 (about 5.4% of GDP).

Table 2.5: Balance of Payments 2010-2012, millions of current USD

| | 2010 | 2011 | 2012 |
|--------------------------------------|--------|--------|--------|
| Current account balance | -367 | -5255 | -7329 |
| Trade balance | -3663 | -4688 | -6375 |
| Exports, f.o.b. | 12274 | 12000 | 2804 |
| Oil | 5478 | 4608 | 548 |
| Non-oil | 6796 | 7392 | 2256 |
| Imports, f.o.b. | -15937 | -16688 | -9178 |
| Services (net) | 3860 | 100 | -2123 |
| Income (net) | -1514 | -1917 | -142 |
| Transfers | 949 | 1250 | 1311 |
| Capital and financial account | 1539 | 202 | -3589 |
| Capital transfers | 287 | 190 | 24 |
| Financial account | 1252 | 13 | -3613 |
| Direct investment | 1469 | 735 | -735 |
| Portfolio investment | -193 | -385 | -771 |
| Other Investment | -24 | -336 | -2107 |
| Errors and omissions | 897 | 0 | 0 |
| Overall balance | 1172 | -5053 | -10918 |

Source: CBS, PICC and authors' estimates based on preliminary data provided by the Central Bank

On the income side of the balance of payments, Table 2.5 shows a negative net income up to 2010 caused by the earnings of foreign oil and gas companies operating in Syria. In 2011, and after the crisis, the report estimates a one-shot increase in the earnings of these companies due to the closure-related settlements. In 2012, with the sharp decline in investment earnings, we project a small negative net income.

During the last decade, workers' remittances always had a positive contribution to the current account balance although they fluctuated with the political relation between the Gulf States and Syria. In 2010, workers' remittances amounted to nearly one billion USD. Remittances are to increase mainly due to the increase in transfers by emigrants to support families and relatives in Syria.

Finally, capital transfers increased considerably in the few years prior to the crisis and peaked in 2010, with FDI reaching more than double its 2006 value by 2010. This increase was mainly due to investments in the oil sector and in the newly emerging private sectors, such as private banking and insurance, and in the booming tourism sector, which attracted large investment from the Gulf countries particularly, led to a handsome surplus in the capital and financial account between 2007 and 2010, and played a crucial role in financing the merchandise trade deficit. Preliminary data show that the FDI inflow was halved in 2011. In 2012, it is expected to have net outflow of FDI.

Based on these estimates, the crisis is expected to produce a strong negative impact on the balance of payments, with an estimated deficit of 5.1 billion USD (8.8% of GDP) in 2011 and 10.9 billion (27.6% of the GDP) in 2012. By the end of 2012, the cumulative effect on the balance of payment is estimated to reach 16.0 billion USD mainly due to the current account balance deficit which is expected to reach 18.5 % of GDP in 2012, and to the local and foreign capital outflow of the economy. Assuming this deficit has been financed, most probably, from foreign reserve, the Net Foreign Assets (NFA) is expected to decline from 18 billion USD in 2010 to 2 billion USD by the end of 2012. Taking the optimistic NFA estimation 23 billion USD in 2010, which means that the remaining balance is 7 billion USD by the end 2012.

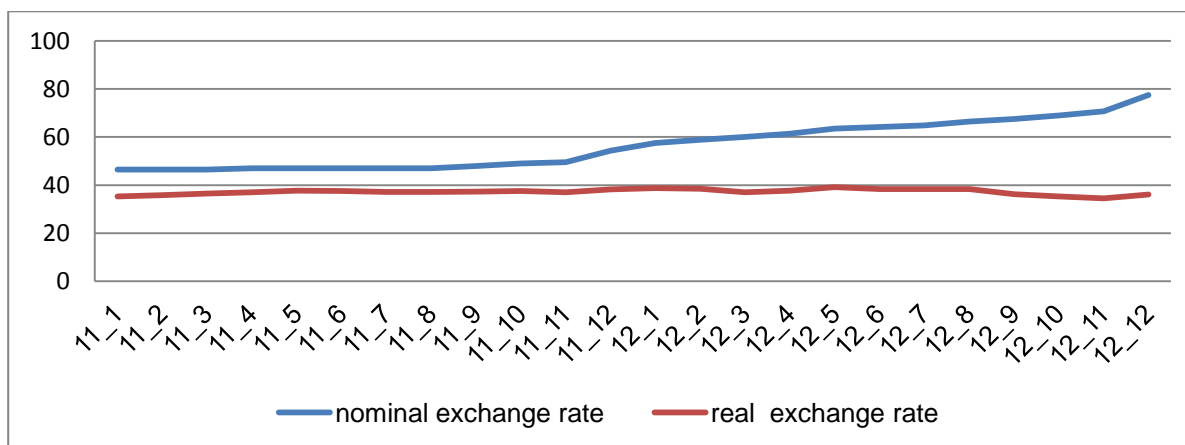
2.1.4 Muddled monetary policy reactions drive to poor economic performance

The Central Bank of Syria was modernized considerably during the last decade in its regulatory/supervisory functions, particularly after the private sector advent to the banking and insurance sector. However, the main focus of monetary policy since the 1990s has been on price stability. The exchange rate policy in Syria was used as a main anchor for price stability by maintaining a close peg between the SYP and main foreign currencies mainly USD. Although an effective tool for controlling import prices, the least desirable effect of this policy was that it resulted in a significantly overvalued SYP just before the crisis. Combined with a bias against real sector, such as manufacturing in credit allocation, the end result deepened export and real sector woes and perpetuated the structural deficiencies discussed in Chapter One.

As in other aspects of macroeconomic policy, monetary policy in Syria was not well geared to conduct counter-crisis interventions required to respond to the current crisis. In this regard, the crisis has forced the Central Bank to depreciate the official SYP by 67% until December 2012. This move presumably aimed to limit speculation against the Pound while simultaneously promoting non-oil exports. The devaluation, however, did little to prevent the emergence of a parallel market and the unofficial rate of exchange at one point exceeded 100 SYP per USD. Since April 2012, the Pound has stabilized to around 68 SYP per USD due to the direct interference of the Central Bank in the exchange market; yet, another devaluation of exchange rate started in October.

The Central Bank opted to increase interest rates (by 2 percentage points) to support the new exchange rate. However, under the crisis circumstances, the increase in interest rate would not generate an increase in the demand for the SYP, and, consequently, it would not stop the run of its value. It is difficult to reconcile the previous step with a simultaneous move by the Central Bank to reduce the mandatory cash reserve ratio (from 10% to 5%). These contradictory responses aggravated fears within the market and did little to help export performance, which in any case was severely curtailed by a number of factors including sanctions, internal supply-side conflict-related bottlenecks and, as shown in Figure 2.6, a relatively stagnant real exchange rate even after the devaluation.

Figure 2.6: Nominal and Real Exchange Rate (January 2011 to December 2012)

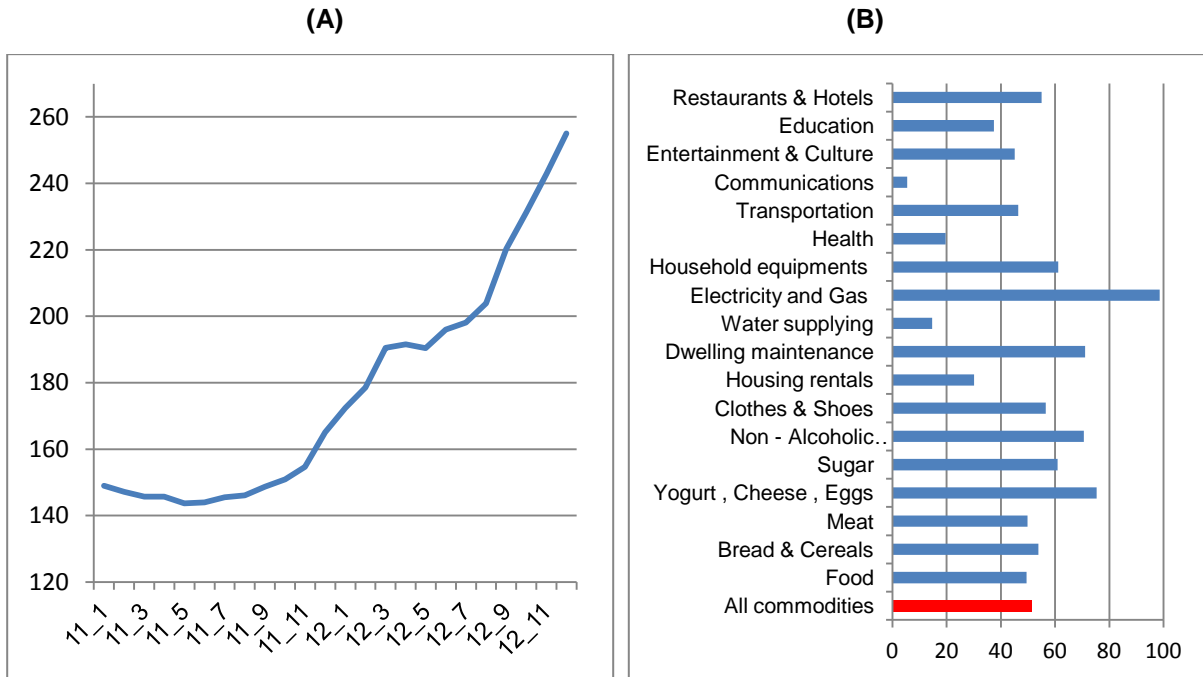


Source: Central Bank of Syria and authors' calculations

The crisis had a notable impact on domestic consumer prices. The main price shock occurred in December 2011 and September 2012, in parallel with exchange rate devaluation and increase in energy prices. Thus, as Figure 2.7 shows, the CPI increased by 51% between March 2011 and September 2012. Prices of electricity and gas experienced the highest rate of inflation (99%), beside food items like yogurt (75%) and non-alcoholic beverages (71%) and sugar (61%) bread and cereals (54%), clothes and shoes (57%). This is directly impacting poor and vulnerable households whose expenditure is mainly devoted to food and basic needs items. Moreover, dwelling maintenance and equipments prices,

increased substantially. Not all governorates were equally affected; Aleppo recorded the highest rate of inflation.

Figure 2.7: Consumer Price Index 2011 2012 on monthly basis (A)*, Inflation of main categories (Sep. 2012 compare to March 2011)(B)

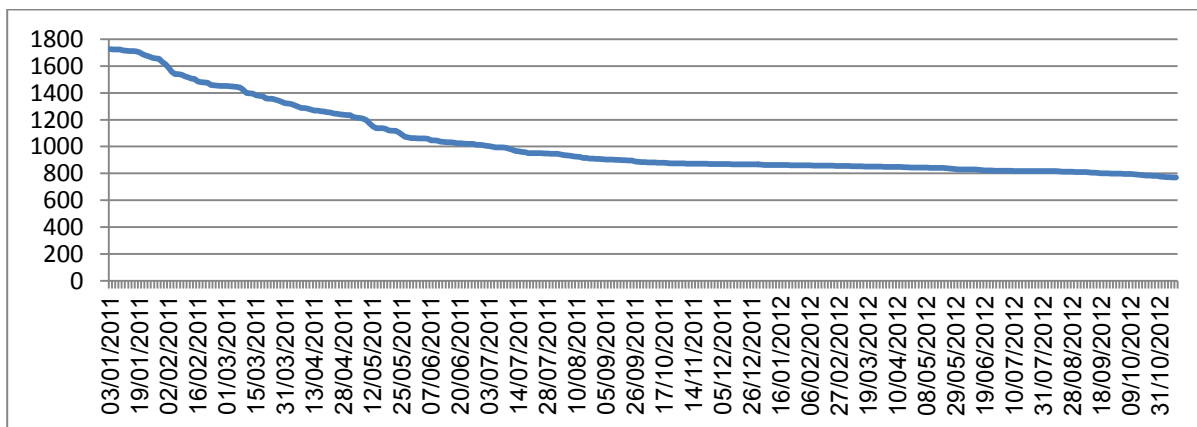


Source: Central Bureau of Statistics and authors' calculations

*Official CPI used till September 2012, from Oct to Dec 2012 CPI is based on authors' estimations.

Finally, although recently established with a relatively small number of listed companies and low market capitalization, the Damascus Stock Exchange (DSE) provides a good reflection of the shift in investor sentiments due to the crisis. Figure 2.8 clearly illustrates this shift since, compared to its value in January 2010, the DSE Index lost approximately 55% of its value.

Figure 2.8: Damascus Stock Exchange Index, January 2010 to December 2012



Source: Damascus Securities Exchange, 2012

2.1.5 Labour market lost 1.5 million job opportunities

Syria is one of the few countries where the labour force participation rate decreased by around 10 percentage points over the span of a single decade (from 52% in 2001 to 42.7% in 2010). The female participation rate in labour force also declined to become one of the lowest world-wide at 12.9% in 2010. This decline in participation rate affected both rural and urban areas, but it was substantially sharper in rural areas. Thus, and perhaps more than any other economic sector, Syria's labour market performance during the past decade reflected major structural deficiencies in the economy.

Table 2.6: Change in LF indicators, 2010-2011

| Labour Force Indicators | | 2010 | 2011 | Change |
|-------------------------|--------|-------|-------|--------|
| LFPR | Male | 72.2% | 71.2% | -1.4% |
| | Female | 12.9% | 14.8% | 14.2% |
| | Total | 42.7% | 43.4% | 1.6% |
| Employment Ratio | Male | 67.7% | 63.8% | -5.8% |
| | Female | 10.1% | 9.3% | -7.8% |
| | Total | 39.0% | 36.9% | -5.4% |
| Unemployment Rate | Male | 6.2% | 10.4% | 67.0% |
| | Female | 22.0% | 37.0% | 68.3% |
| | Total | 8.6% | 14.9% | 72.8% |

Source: Authors' estimates based on the 2010 and 2011 LFS, CBS

The labour force survey conducted after the crisis shows the employment ratio decreased from 39% in 2010 to 36.1% in 2011 (Table 2.6). This decrease resulted from the decrease in the number of the private sector workers (6% or about 233,000 workers). Those were mainly in the agriculture and transportation sectors, and, to a lesser extent, in the construction, and manufacturing sectors. Public sector workers have increased by 10% or about 130,000 workers. This increase took place predominately in the public administrative, defence, and educational sectors.

The survey also showed that unemployment rate increased from 8.6% in 2010 to 14.9% in 2011. The number of the unemployed has increased by 80%, from about 475,000 in 2010 to around 865,000 in 2011. Other main findings of the survey included:

- 42% of the unemployed were females (an increase from 39% in 2010), and 52% of the unemployed lived in rural areas (increase from 47% in 2010);
- The main increase in unemployment occurred in the rural areas of Al-Hasakeh, Al-Raqqa and Idlib governorates, and the urban areas of Homs governorate;
- 24% of the unemployed had previously worked (compared to about 30% in 2010). However, the total number of the unemployed who had previously worked increased about 50% between 2010 and 2011;
- Two thirds of the unemployed in 2011 were between 15 and 29 years of age (almost the same percentage in 2010); yet the percentage of the unemployed with an educational

level below elementary increased sharply (from 20% in 2010 to 30% in 2011). Moreover, unemployed females, with an educational level below the elementary level, increased by seven-folds.

In sum, this data shows that the crisis disproportionately affected the employment of low-skilled youth in the rural areas of the eastern region and in urban Homs. The crisis also severely reduced the capacity of the Syrian economy to create new job opportunities for new entrants to the labour market.

Finally, to assess the impact of the crisis on the labour market, we conducted a counterfactual analysis similar to the one applied to estimate the growth impact. The number of employed persons and the unemployment rate were estimated for the pre- scenarios using the average employment elasticity to GDP growth between 2006 and 2010, and for the post-crisis scenarios report has used elasticity of 2011 labor market survey. The results, showed in Table 2.7, are quite alarming: the loss of about 1.5 million jobs opportunities and an increase in the unemployment rate by 24.3 percentage points (from 10.6% to 34.9%). The increase of unemployed people by 1.5 million is expected to affect almost 6 million Syrian persons' welfare conditions, taking depending ratio (population over employed people) of 2010 equal to 4.14.

Table 2.7: Impact of the crisis on the labour market (in 000)

| Employment Status | Pre-crisis scenario | | Post-crisis scenario | |
|-------------------------|---------------------|--------|----------------------|--------|
| | 2011 | 2012 | 2011 | 2012 |
| Employed | 5,226 | 5,389 | 4,949 | 3,920 |
| Unemployed | 589 | 636 | 865 | 2,099 |
| Out of LF | 7,594 | 7,857 | 7,594 | 7,862 |
| Total Active Population | 13,409 | 13,881 | 13,409 | 13,881 |
| Unemployment Rate | 10.12% | 10.55% | 14.88% | 34.87% |

Source: ibid

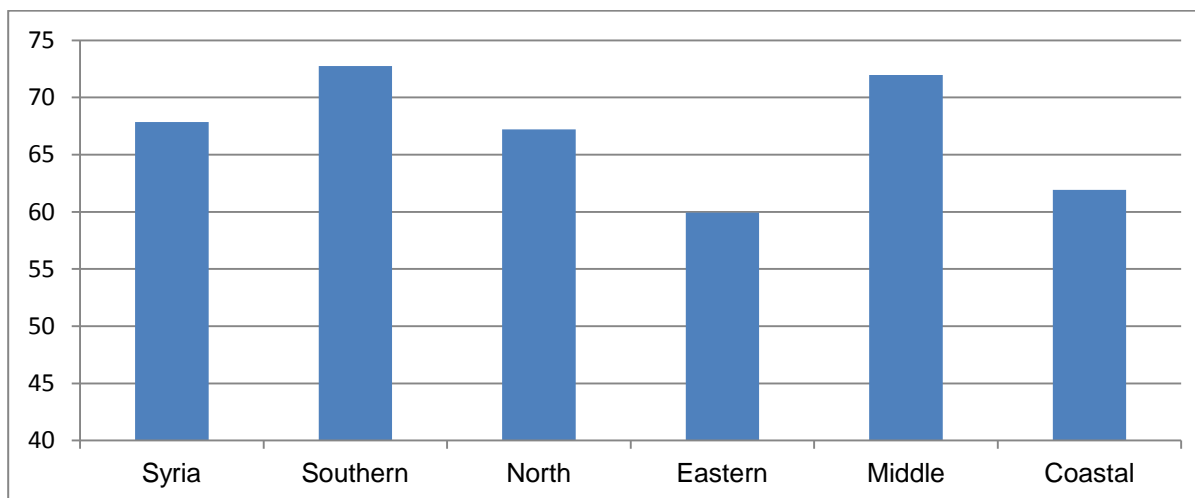
2.2. Impact on Social Indicators 2011-2012

2.2.1 More than Three million new entrants to poverty

According to the most recent UNDP poverty assessment report in 2007, nearly 12% of Syrians were below the lower poverty line and almost one third (33.6%) were below the upper poverty line, with poverty more prevalent in rural areas particularly in the Northern and Eastern regions. In light of our previous unemployment and growth assessments, it would be expected thus a significant poverty impact to have ensued as result of the crisis.

Indeed, taking into account our forecasted decrease in real household expenditure and assuming distribution of expenditure has remained unchanged, we estimated that (using counterfactual scenario and micro-simulation technique) 3.1 million individuals have become poor in 2012, 1.5 million of whom have become extremely poor, the increase is not relatively balanced across regions Figure 2.9. This increase in money-metric poverty is mainly due to the increase in the prices of goods and services, a reduction in income sources, including lack of job opportunities and loss of existing jobs, and damage of physical assets.

Figure 2.9: Percentage increase in overall poverty 2012 compare to 2010 across regions



Source: Authors' estimates based on the 2009 Hies, CBS

Poverty is expected to be negatively affected by the significant number of refugees and IDPs. At the end of 2012, cross-border refugees reached more than 542,250. The internally displaced population, especially from Homs, Idleb, Deir Ezzor, Damascus, Rural Damascus, and Aleppo, has been estimated to be more than 2.0 million people¹⁰. They suffer from various forms of deprivation, including a lack of appropriate housing and basic services such as fuel shortages, which are seriously affecting the lives of people across the country. Fuel

¹⁰ Office of the High Commissioner for Human Rights (OHCHR): "Humanitarian Bulletin Syria", Issue 15 | 11 – 24 December 2012.

prices have more than doubled which is affecting access to heating and cooking gas. Moreover, Access to food in many areas is increasingly difficult due to sharp prices increases and limited availability which reflect aspects of poverty beyond the money-metric measure. OCHA (Dec, 2012) expected that four million people will need food and livelihoods assistance over the next twelve months. The non-money metric aspects of the poverty impact of the crisis are discussed more thoroughly in the following sections.

2.2.2 Setbacks in education

The crisis had a direct impact on education and particularly on children and youth. Other than the loss of many lives among students and teachers, about 2362 schools were totally or partially destroyed by the armed conflict with an estimated cost of about 5.7 billion SYP. As shown in Table 2.8, the vast majority of affected schools are located in the conflict zones of Dara'a, Idleb, Homs, Aleppo, and Rural Damascus. The damage also extended to book stores and school buses. Moreover, the Ministry of Education mentioned that 1956 schools are used as shelters to help and support displaced families and people. It is worth noting that about 22.8% of students have not attended their schools in 2012. This will affect negatively the human capital which, by its turn, will have remarkable impact on the development process in Syria on short, medium, and long terms.

Table 2.8: Number of Damaged Schools and Estimated Cost (2011 – 2012)

| Governorate | Number of damaged schools | Estimated cost* (million SYP) |
|------------------|---------------------------|----------------------------------|
| Dara'a | 393 | 466 |
| Idleb | 610 | 829 |
| Damascus | 196 | 143 |
| Homs | 227 | 1257 |
| Rural Damascus** | 200 | 849 |
| Al-Hasakeh | 59 | 26 |
| Deir Ezzor | 49 | 374 |
| Aleppo** | 103 | 821 |
| Tartous | 30 | 117 |
| Lattakia | 20 | 67 |
| Hama | 157 | 727 |
| Al-Raqqa | 4 | 12 |
| Quounaitra | 24 | 12 |
| Total | 2362 | 5700 |

Source: Ministry of Education, Damascus – Syria

*Costs distribution across governorates based on authors estimations.

**The increase of the damaged schools after June 2012 distributed between Aleppo and Rural Damascus relative total school distribution in the two governorates.

Security concerns also led to high fluctuations in students' attendance rate between governorates. It is important to note that the average attendance rate at the governorate level hides major disparities at sub-governorate levels. Although there is no official data on the dropout rate in the school year 2011-2012, the report estimated the dropout rate to reach 22.8%¹¹ on average after the new stage of armed conflict particularly in Aleppo starting June 2012. This rate is expected to be higher taking into account a number of factors, including first and foremost, the increasing number of damaged schools. Security concerns also led many parents to keep their children, particularly girls, at home. The large and increasing number of refugees and displaced families also face obstacles in registering their children in schools in their new location, whether due to school capacity or financial difficulties.

The report attempts to quantify the negative impacts of the decreased attendance rates. The value of each school-year was calculated as an average between 2006 and 2010 by dividing the GDP at current prices over the total number of years of schooling. The results show that the value is about 680 USD per year of schooling. This number was multiplied by the loss in student-years due to the crisis using the nonattendance rates 10.9% and 22.8% in 2011 and 2012 respectively. The calculated total loss was 374 million USD in 2011 and 784 Million USD in 2012. This loss is not only for years 2011 and 2012, but the long term human capital loss for the country. This is a money metric indicator; on the other hand it is very difficult to estimate the impact on the aggregated human capital and the added value of an educated person to his/her society.

The crisis has forced the government to decrease the public investment on the educational sector, adding a further complication since it greatly reduces the government's ability to intervene with mitigating solutions, such as reforming damaged schools and introducing special curriculum for students in hot areas to overcome the psychological impact of the crisis. Public spending on education has decreased from 35.4 billion SYP in 2010 to 26 billion SYP in 2011, and it is expected to decline further to about 19.5 billion SYP in 2012.

In general, and due to the crisis, Syria has not only lost its potential to improve the educational level of its citizens, but also lost an important part of the existing infrastructure and human capital (teachers and supervisors) which needs many years to be compensated. Moreover, we estimate that the decline in attendance rate in 2011-2012 has decreased the mean years of schooling in Syria by about 1.74%, which will have a negative impact on human capital, and, thus, on economic growth, employment and productivity.

2.2.3 Large demographic shifts and dramatic reversals in health

Population growth rate in Syria was averaged at 2.45% during the past decade, a rate higher than most middle income developing countries. The crisis is expected to have reduced population growth from 2.45% in 2010 to 1.5% in 2011 and to minus 2.5% in 2012. This occurred via two main channels. First, the report estimates an expected increase in mortality rate by around 51% in 2012. The rise in mortality is due both to the conflict-related deaths and to the deterioration in health care availability and accessibility, for both wounded and non

¹¹ The percentage of out of services schools

conflict-related. Second, by the end of 2012, the number of Syrian refugees exceeded 542,250 according to OCHA and voluntary migrants are estimated to reach 847618 due to the crisis¹².

The crisis has also led to major shifts in population distribution within Syria because of the growing numbers of internally displaced people. Two million people were internally displaced according to OCHA, particularly in conflict areas such as Homs, Idleb, Deir Ezzor, Aleppo, Damascus and Rural Damascus. It is worth noting, however, that a significant share of those who were internally displaced population has re-located within their same governorate.

The most tragic impact of the crisis has been the loss of human life. According to the United Nations, more than 59,648¹³ individuals have been killed since March 2011, most of them are male adults, and to a lesser extent women and children. Trends of mortality are rising, directly and indirectly, due to escalation of violence, use of heavier ammunition, denial of access to life saving medical care, continuous violation of human rights, lack of security and restriction of movement, and disrespect of health workers and facilities.

A rough estimation of the wounded due to the conflict is 238592¹⁴ people, with many resulting disabilities and chronic injuries. As violence escalates, level of complexity of injuries is becoming more difficult to respond to by medical staff. Not neutralizing health facilities to maintain access to all wounded is a main concern in Syria. As a result many wounded are deprived of receiving appropriate medical care or treated in poorly equipped informal clandestine clinics.

The Syrian health sector was hardly hit, as infrastructure damages reached 7 billion SYP. According to MoH, numbers of affected hospitals are 43, 21 of them are out of service, in some governorates there are no public hospitals working. For health centers, routinely providing primary health care, 197 were affected by the conflict and 115 are out of services (MoH). The collapse of public health services, in number of governorates, which are the main provider of health care in Syria, will present a great pressure on the private and civil society health facilities which have serious limitations.

Health sector is losing its valuable medical staff, facilities, and logistics as ambulances, warehouses and cold chains. According to the MoH, 45 of medical staff have lost their lives on duty since the beginning of the crisis, while 64 were wounded and 9 were kidnapped. Furthermore, as violence hit the tow centers of pharmaceutical industry in the country: Homs and Aleppo, reportedly almost 75% of the industry was disrupted (MoH, 2012). It worth mentioning, that local pharmaceutical industry covered 97% of local market needs. Additionally, sanctions affected the import of live saving medicines like those for hepatitis, cancer, and vaccinations; and the imports of medical equipments and their spare parts (MoH).

¹² Authors estimated the migration based on the following assumptions: First, the loss of jobs in 2011 and 2012 have had the same structure of the employment status in 2010. Second, the highest decile in terms of expenditure of workers who lost their jobs (13.98%) had migrated. Third, dependency ratio is 4.1.

¹³ OHCHR (2013).

¹⁴ An estimation of 4 wounded to 1 killed.

The large influx of internal displacement and refugees across borders is another health burden; especially that 46% of them are children. They need urgent health interventions, especially those for child, maternal and the chronically ill. Child health concerns are mainly vaccination coverage and nutrition. Initial data from the MoH indicate that earlier in 2012 that the 2009 coverage of 95% dropped to 80%, it is only expected that the drop proceeded in 2012 as the conflict spread further and level of hostility has increased. Malnutrition is another concern, unfortunately areas of highest child mortality, morbidity and malnutrition were the worst affected by violence and witnessed large demographic movement. It is expected that the current conflict will intensify these inequalities in children health. Additionally, pregnant women were directly affected by a sharp reduction in national coverage of prenatal health care leading to a greater number premature births as well as alarmingly high cases of low weight births and delivery complications.

The real burden of both sexual and mental health is under reported. Sexual assaults and rape cases, gender health issues being often overlooked in refugee and IDPs camps, deterioration and lack of maternal health care are all common features in population affected by internal conflicts (Spiegel et al, 2010). Mental health is expected to be deteriorating due to violence, violations of human rights, displacement, and disruption of livelihood.

Concurrently, as in the case of education, public health expenditure has declined from 7.5 billion SYP in 2010 to 5.2 billion SYP in 2011. The allocated budget for 2012 is 4.4 billion SYP. In real terms (2000 constant prices), it means a decline from 3.9 billion SYP in 2010 to 2 billion SYP in 2012. Thus, the real public expenditure on health was decreased by 50% as a result of the crisis.

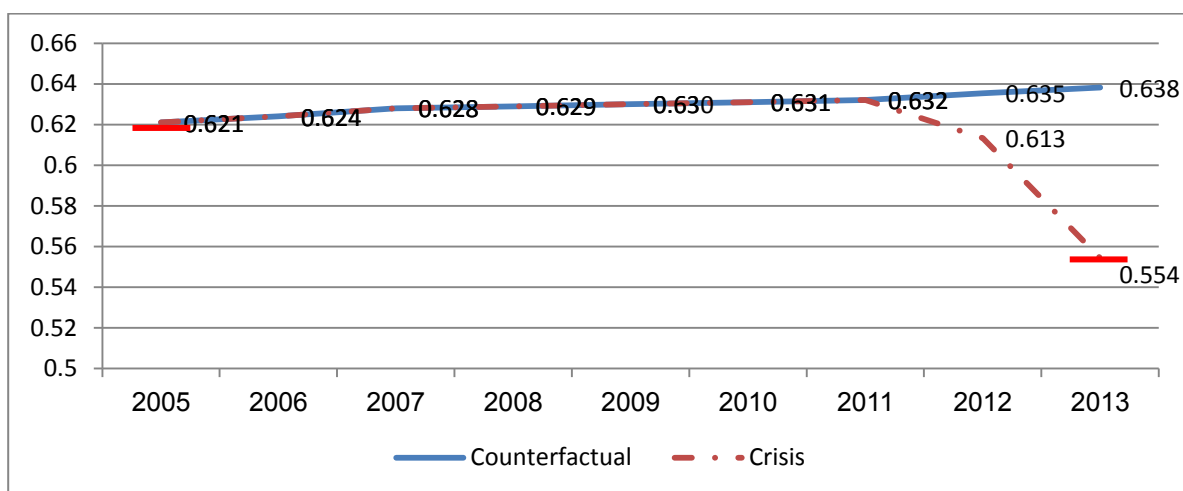
2.2.4 Losing twenty years of human development achievements

Human Development Index as a proxy of the human development, which consists of three main components income, education, and health. The report estimated based on the counterfactual methodology Human Development Index for Syria. In pre-crisis scenarios, HDI was estimated based on the projected pre-crisis GDP per capita, average growth rates of actual and expected years of schooling between 2005 and 2011, and average growth rates of life expectancy between 2005 and 2011.

In post crisis scenarios, HDI was estimated using: firstly, the projected GDP per capita during the crisis, secondly, loss of the actual and expected loss in years of schooling based on attendance rates of students during the crisis, thirdly, loss of life expectancy during the crisis. The report depended on a study by (Ferguson et al, 2010) which explains the gains of life expectancy by reducing violence deaths; the study refers to the gains of life expectancy in different regions, including Eastern Mediterranean which has been used in this report as a model for the Syrian case. Life expectancy in Syria estimated as the homicide increased by the crisis related deaths in 2011 and 2012 to reach 33.5 and 252.3 per 100000 persons in 2011 and 2012 respectively. The results show that the estimated life expectancy in Syria lost 0.69 years in 2011 and 5.38 years 2012.

These setbacks in income, education, and health deteriorated Syria's human development record. As Figure 2.10 shows, this pre-crisis scenario yields HDI increase from 0.632 in 2011 to 0.638 in 2013¹⁵. The post-crisis scenario shows a dramatic drop in Syria's HDI from 0.632 2011 to 0.554 in 2013. The HDI of Syria is thus estimated to lose 15.1% of its value as a result of the crisis. This is a significant loss given the sluggish nature of the indicator. Another way to interpret this result is that, with a projected HDI in 2013 close to 1993 HDI level, Syria have lost nearly two decades of human development achievements.

Figure 2.10: HDI for Syria, 2005-2013



Sources: HDR 2011 and authors estimations.

2.2.5 Back to traditional institutions and breakdown in social solidarity

After its independence, a modern state was established to achieve the Syrians' goals in development and justice at political, social, and economic levels. The newly established institutions have attempted to shift people's sense of belonging from family and clan to country and nation. However, the non-dynamic formal institutions, which suffered from a lack of transparency and accountability, were among the main reasons that led to the current social movement. The lack of trust, which has notably increased during the crisis, between these institutions and the majority of Syrians, has led a part of the society to return to the informal traditional institutions, such as family and small communities.

The crisis began with demonstrations asking for more civil rights, thus raising the awareness of citizenship, freedom, and social participation. The movement clashed with rigid response from authorities which depended, to a large extent, on security to repress the growing demonstrating movement. Hence, the movement escalated to violence and armed-conflict in many Syrian regions with interventions of the regional and international powers to support

¹⁵ HDI 2013 measures human development indicators in 2012.

the regime or opposition. The "voice of weapon" had the upper hand, and the increasing number of deaths and injuries damaged the social solidarity and deepened the gap between different social groups. Some groups aim to achieve a radical change in moving to modern, efficient, transparent, and accountable institutions, and others aim to build traditional institutions based on beliefs. On one side, some of these groups have used religion to justify violence and hate, benefiting from the existing of media, including social media, which becomes a space for extremists from all parties to increase the divergence between people. On the other side, a modern civil society has emerged to support Syrian people to mitigate the negative impact of crisis, support social harmony, and enhance citizenship values.

The escalation to tragic armed conflict deteriorates the social capital and creates a new "rules of the game" which has increased polarization within the Syrian society. The armed parties imposed their rules on people in terms of social relations and economic activities. This created economics of violence in Syria that can be witnessed in different phenomena. For instance, dramatic increase of the unemployed people forced part of them to practice illegal/violent activities, such as joining the official army or securities forces or opposition military groups, practicing killing or injuring or insulting Syrian citizens. Additionally, human, weapons, and drugs "trade" expanded to provide huge economic incentives for segments of the society who kidnapped and/or abused men, women and children during the crisis. Finally, destroying and/or looting private and public entities including houses, schools, hospitals, firms, infrastructure, and culture heritages harmed tangible and intangible national wealth.

The economics of violence during the crisis create incentives for specific segment of the society which benefits from the continuation of crisis. Thus this segment has the motive to escalate the violence in future. Consequently, rebuilding social solidarity need to eliminate the incentives of these segment.

The absence of consensus on a vision to overcome the crisis will increase the feeling of fear and uncertainty; this will contribute to an increase in the Syrian migrants, on one hand, and in the number of different groups that are driven to fight each other, on the other hand. Consequently, society will become more fragmented and will need many years to unify again. Moreover, social norm and values will be negatively affected, since each group has provoked feelings of hate and revenge to the "other", and developed sense of disobey state laws and regulations. However, the crisis could be a golden opportunity to destroy the traditional non-dynamic institutions and build up modern institutions and new social norms that do not exclude any Syrian from political, social, and economical participation.

Chapter Three: Assessment of Syrian Government and International Responses

Preface

The previous chapter was mainly concerned with quantifying the impact of the crisis providing brief information on policies and strategies of the Government of Syria. This chapter closely reviews, in first section, main decisions adopted by the GoS in response to the crisis, particularly in the social and economic arenas. The report argues that GoS policies reflect a confused state of decision-making and a lack of a vision on how to tackle the root causes of the crisis.

Many factors have affected negatively the socioeconomic situation. These factors include damaged public assets and infrastructure, destroyed private properties, social unrest, increasing levels of insecurity and violence, international sanctions, bottlenecks in production chains due to irregularity in transportation and energy supplies, and sharp decline in the public revenues. But, an important factor is the lack of institutions that can effectively manage disputes, and that can resolve the reasons for the conflicts. Among those required institutions are an independent juridical committee, representative political parties, free and transparent elections, independent unions, social partnerships, and social protection. These institutions should be committed, through their policies and procedures, to inform all parties that there will be no "winners" to be rewarded, and no "losers" to be excluded.

In the second section, the report claims that imposed sanctions on Syria by certain countries reveal inefficiency. In many previous experiences (most notably the case of Iraq), sanctions did not achieve their stated official objectives. Rather, sanctions exert a high economic and human development cost on the population, particularly on the poor, while not relatively weakening the regimes they are supposed to target.

The sanctions on Syria have directly affected all aspects of economic performance, especially mining, financial, trade and transportation sectors. The restrictions placed on international financial transactions would affect remittances, currently a critically important source of income for many poor and vulnerable Syrian households. Moreover, sanctions have led to major difficulties in importing vital goods (such as medicines, energy sources, equipment and parts of civil aircrafts) and services (such as insurance). The report, therefore, argue that sanctions contributed, to one extent or another, to the high social and economic cost of the crisis presented in Chapter Two.

3.1. Government Responses

In this section, the focus is on the socioeconomic responses of the government to the crisis as part of analyzing the socioeconomic roots and impact of the crisis. Security and political responses, even though they are at the heart of the crisis, are beyond the scope of this report.

The successive Syrian governments, which took office from April 2011 until December 2012, were mainly tasked with the management of the crisis on both political and socioeconomic tracks. The political reform agenda consisted of legislative and legal reforms, including local administration, NGOs, media, elections, political party formation, issuing a new constitution, and local and parliament elections. However, these efforts were a “de jure” and have not been translated into a “de facto” reform mainly due to the inefficient institutions, and/ or lack of political will.

Thus, formalistic reform did not pacify the protesters' demands. The security situation continued to deteriorate, more significantly in some parts of the country more than others. This deterioration was also due to the internal and external financial support for different armed groups. Meanwhile, external factors of the crisis did not remain the same, rather, external influences increased.

The government has allocated large part of its efforts and resources to deal with the security issue. However, this focus contributed to a failure in overcoming the dys-functionality of crisis situation and the building innovative, efficient, and inclusive institutions.

In our succinct evaluation, the government's handling of the political reforms and security situation were insufficient to calm the current crisis. Notwithstanding the importance of those two latter issues, our main focus in this report and in this chapter in particular, is on the social and economic aspects of the government's response strategy. In essence, it can be argued that the GoS lacked a comprehensive vision to address economic and social consequences of the crisis. This has been reflected in a set of reactive, rather than proactive, socioeconomic responses.

3.1.1. Populist and unsustainable expenditure policy

The government adopted expansionary fiscal policy during the crisis. It increased the current expenditure by raising compensations and wages. Decree number 11 doubled the monthly fuel compensation for public employees; decrees number 40 and 42 increased wages, retirement salaries, and the minimum wage exempted from tax; and decree, number 10197 employed 10,000 fresh graduates in the public sector. These public recruitments were mainly concentrated in administrative departments. Moreover, thousands of temporary employees in public sector became permanent employees, decree 62. The crisis also forced the government to increase the number of employees in the security and defense sector. Since most of these created jobs were not planned, it is expected that over-staffing and labor redundancy will be a major future challenge for the public and military sectors in post-crisis Syria.

Concurrent with a large increase in financing of military and security operations and in rehabilitating damaged infrastructure and equipment, particularly damages in the energy sector including electricity networks and fuel pipelines, current public expenditure, as a percentage of GDP, increased from about 18% in 2010 to 20.5% in 2011 and declined to reach 18.6% in 2012 while public investment decreased from 8.7% in 2010 to about 3.6% in 2012. The consequences were negative impacts on economic growth and job creation, revenue shortage, and a significant increase in fiscal deficit, financed mainly by internal debt with dire implications on future fiscal space and debt sustainability.

In October 2012, the 2013 budget was approved by Prime Ministry Council. The total amount of the budget was increased by 4.8% comparing to the 2012 one. About 80% of this budget is allocated for current spending with an increase of 16.4% comparing to the allocated current spending in the 2012 budget. The main part of the current spending (46%) is allocated for the "social subsidies" which includes fuel, electricity, wheat, sugar and rice subsidies. It is worth noting that the total amount of subsidies increased by 32.6% comparing to the allocated subsidies in the 2012 budget. The remaining 20% of the budget is the investment spending reduced by 26.7% comparing to the investment spending of the 2012. About 11% of investment spending will finance the rehabilitation and reconstruction of the damaged infrastructure. The government anticipates that the current revenues will decrease by 32% comparing to the current revenues of 2012; and capital revenues will decrease by 13% comparing with 2012. The estimated budget deficit for 2013 is 745 billion SYP which consists 54% of the total budget, this huge deficit reflects a fall in revenues and considerable increase of subsidies allocations in 2013, and raise the question about the ability of government to finance this huge deficit.

3.1.2. Mixed signals on exchange rate and prices

The inconsistency of the Central Bank policies was one of the reasons for high fluctuations in the exchange rate and increasing speculation on the currency which contributed to significant increase in inflation rates and in losses in foreign reserves. These inconsistencies were manifested in contradictory announcements by the Central Bank regarding the exchange rate. For instance, at one point, there was an announcement that the currency would be floated. At another time, the Bank prohibited private banks from dealing in hard currencies, and then it allowed them to do so, decree 1131. The Bank also increased interest rates on time and demand deposits to support local currency while reducing the mandatory cash reserve ratio at the same time. These policy responses did little to ease the fears of businessmen and investors; particularly as the Bank stopped publishing any updates on monetary sector performance since May 2011.

The government attempts to reduce the transaction volume in unofficial exchange rate market by issuing a decree allowing any citizen to buy monthly up to 5000 USD from the commercial bank (public bank) at the market price. The same decree asks the commercial bank to sell USD for importing purposes also at the official price. This decree may lead to currency appreciation in the immediate and short terms, yet, it will negatively affect the foreign currency reserves in the medium and long terms. It is worth mentioning that this

decree is suspended after few days of its issuing date which reflects again mixed signals that adversely affects credibility and uncertainty.

In a similar vein, the decision by the MoET to ban imports of all goods with customs tariff above 5%, which was revoked after 10 days, and by the Central Bank to limit all credit to private sector to finance imports also did little to calm growing market anxieties. Moreover, the latest official statistics available for the Consumer Price Index is for September 2012 in which the year-on-year inflation rate stands at 48.1%; the CPI continue to increase notably in the last three months in 2012 due to the increase in fuel and food prices, which caused mainly by the failure of government in supplying the market with vital goods like fuel in some regions.

3.1.3. Inefficient response in conflict areas

The government spent some efforts to ease pressure on consumers and to alleviate the crisis' impact on the poor. For example, decrees 23 and 70 in 2011 reduced taxes and customs tariff on some staple goods such as rice, sugar, oils, tea, coffee and milk. Moreover, the Prime Ministry issued a decision to facilitate the import of necessary goods, including foods and medical items. The MoET also issued an indicative weekly price bulletin for basic goods and internal trade public companies were instructed to sell basic goods at lower prices to break monopolies. Likewise, outstanding loans on farmers and industrial entrepreneurs were rescheduled, decree number 1046 and decree number 121 in 2011; access to alternative export markets, particularly in Iran and Iraq, was eased. The government also established the National Social Aid Fund (decree 9 in 2011), to provide direct cash subsidies to poor households. Two payments were cashed for about 135,000 households, who matched the criteria. The third and last planned payments were cancelled in 2012.

These efforts, while commendable, had minor positive impacts compared to the economic instabilities caused by giving mixed signals during a time of major crisis. In fact, two examples of the lack of preparedness of the GoS is its lack of any effective emergency plan to support IDPs and the very poor coordination between different local administrative entities in conflict areas. The conditions in health and education sectors in conflict areas have been particularly difficult as public employees confront dwindling financial resources, poor security conditions (as indicated by the number of teachers and medical staff were killed while on duty), and increased demand for their services.

3.2. International Responses

The regional and international responses developed with the escalation of the crisis. Some countries, and at the beginning of the crisis, have provided political and economic support to the social movement, thereafter; few of these countries supported politically, financially, and logistically various armed groups. On the other side, some countries have provided the regime political, economic, and logistic supports. This international polarization led to a lack of consensus on applying universal sanctions on the regime. In this context, the report investigates only the sanctions as an important component of international responses.

The United States, the European Union, the Arab League, Turkey, Australia, Canada, and others implemented various sanctions which meant to exert pressure on the Syrian regime. According to the sender countries, the sanctions are intended to target the current Syrian regime without placing undue hardship on the Syrian people (Hufbauer et al, 2011a). However, these sanctions have had an undeniable effect on the Syrian economy as a whole, and on the livelihoods of the Syrian people in particular.

At the most basic level, economic sanctions are tools used to pressure a country into changing its conduct. However, effects of sanctions are often felt much further and deeper than the countries that implement them officially intend.

3.2.1 Timeline of sanctions against Syria

The US has implemented three types of sanctions against Syria. Part of the sanctions was implemented prior to the Syrian crisis. The first sanction was the Syrian Accountability and Lebanese Sovereignty Restoration Act of 2004. It banned munitions sales, prohibited exports of most U.S. goods containing more than 10% US-manufactured component parts to Syria, and banned Syrian aircraft from U.S. airspace. The stated purpose of these sanctions was to end Syria's support of "terrorist activities", its pursuit of weapons of mass destruction, and its military presence in Lebanon.

In 2006, another type of sanction was levied, this one based on the USA Patriot Act. The Treasury Department designated the Commercial Bank of Syria as a "financial institution of primary money laundering concern" and required U.S. financial institutions to sever all ties with it. In addition, between 2004 and 2008, the U.S. also froze the assets of certain Syrian individuals and government officials involved in supporting policies seen as being against U.S. interests (Hufbauer et al, 2011a).

In a response to the uprisings in Syria, the U.S. began to expand sanctions, with the stated goal of ending the violence and the human rights abuses of individuals by the Syrian government. Herein, the type of sanction imposed was via Presidential Executive Orders. In April 2011, the U.S. froze the assets of and prohibited U.S. business dealings with the Syrian intelligence service and three Syrian government officials; In May 2011, additional properties of 7 senior officials in the Syrian government were blocked. In August 2011, sanctions were expanded to include prohibiting "new investments in Syria by any US person; exportation, re-

exportation, sale, or supply directly or indirectly, from the US or by a US person; the importation into the US of petroleum or petroleum products of Syrian origin; any transaction or dealing by a US person in or related to petroleum products of Syrian origin. In April 2012, orders were expanded to block the property and suspend the entry into the US of certain persons by the Governments of Syria (and Iran); and in May 2012, certain transactions were prohibited and entry suspended for those evading foreign sanctions with Syria (and Iran).

EU sanctions imposed since the beginning of the 2011 crisis have generally mirrored those of the United States in goal and scope. In early May 2011, the EU implemented an arms embargo, plus a travel ban and an asset freeze on 13 Syrian officials. In late May, shortly after the U.S. expanded its sanctions, the EU did likewise, imposing the travel ban and asset freeze to senior leadership (Hufbauer et al , 2011a).

In June 2011, the U.S. and EU extended their sanctions to include more officials and several business entities. Through March 2012, the list of banned people and groups was expanded to include a Syrian main mobile phone operator, domestic private television, two oil companies, and a significant number of individuals. The EU banned the export of equipment for the Syrian oil and gas industries, banned technical equipment used for surveillance, prohibited trade in gold and other precious metals with Syrian state institutions, banned cargo flights from Syria, and froze the assets of the Syrian Central Bank. In August-September 2011, the U.S. and EU governments agreed to ban imports of Syrian oil and new investments in Syria's oil industry, possibly the most consequential of the sanctions yet enacted, as the EU had previously bought most of Syria's oil exports.

In June 2012 EU imposed sanctions on 'luxury and dual use goods.' The ban on the export of luxury goods is rather clear. However, the ban on the export of "dual use goods" may have significant consequences on the health and utilities sectors. For example, banning the export of "chemical manufacturing facilities, including reaction vessels and storage tanks" and "chemicals that may be used as precursors for toxic chemical agents" includes a broad scope of materials. Chemicals used in industry – for civil and health purposes – may also be used for lethal purposes, for instance. The export ban is exceedingly vague, and thus allows for the cessation of export of necessary materials for civilian sectors. The ban on 'dual use goods' was particularly destructive and problematic in the 13-year sanctions against Iraq.

Other states also implemented sanctions against Syria. In February 2012, Australia expanded its travel ban and financial sanctions, previously on 34 people and 13 entities before the crisis, to an additional 75 people and 27 entities. Canada, in March 2012, banned all dealings with Syria's Central Bank and with seven cabinet members among another number of government officials. In November 2011, Turkey suspended all relations with Syria's Central Bank and all financial credit dealings, froze Syrian government assets, and halted a cooperation agreement with Syria. Also in November 2011, most of the Arab League imposed sanctions; those countries halted all financial dealings and trade agreements with Syria and suspended all dealings with the Syrian Central Bank and the Commercial Bank of Syria. The Arab League also imposed travel ban on large number of senior officials and froze Syrian government assets in Arab countries. Iraq, Lebanon, and Jordan three of Syria's most important economic partners, declined to participate in and endorse these sanctions.

The critical question here is: are sanctions effective means towards the stated objective of influencing the Syrian government, and, ultimately, of regime change, which has become the official objective for those countries imposing the sanctions? Furthermore, since the official aim of sanctions is to work towards a political solution in which human rights are respected one must ask: do the sanctions themselves harm the livelihoods of the people?

3.2.2 Sanctions effectiveness

In general, most economic sanctions' experiences have proved to be ineffective – as to their official objective (Drury, 1998). The effectiveness of sanctions depends on several factors: the economic structure of the targeted country, its geopolitical importance, and the universal consensus on the sanctions. In the following section, the impact of the sanctions on Syria is assessed.

Isolating the impact of sanctions from other intervening factors influencing the health of Syria's economy is methodologically challenging. In some sectors, such as the oil industry, the economic impact of the boycott is clear. In other areas, such as trade and finance, the effect of sanctions comingles with other factors, such as the ongoing violence and the policies and interventions of the Syrian government. Nevertheless, our report reveals that sanctions have had an alarmingly high impact on the standard of living of Syrian citizens.

In reflecting on whether the sanctions can be successful in reaching their official objective, and, more importantly, in understanding what could be the impacts of the sanctions, a comparative analysis with the Iraq case is instructive (Box 1). Bearing in mind that the sanctions on Syria differ from Iraq, since Syria meets a larger proportion of its food needs from domestic sources, there is yet no no-fly zone and a few neighboring and far away countries which maintained relations with Syria, and since, most importantly these sanctions are outside the UN framework, there nevertheless are numerous conclusions and lessons that can be drawn.

Sanctions against Syria have already exerted a high economic cost on the population of Syria, especially on vulnerable and poor people, and already lowered the quality of life. The sanctions have hindered Syria's development progress, increasing income poverty and placing it below expected levels of human development, as compared to its progress before the 2011 sanctions (Hufbauer et al, 2011a).

As mentioned in the impact of crisis, sanctions have already affected economy, especially the mining, financial, trade, transportation, and manufacturing sectors. In general, the loss in productions and the increase of business cost are due to the sharp reduction of oil sector by 50% which has affected the energy sources for firms and individuals.

Box1: Iraq: Sanctions failed to achieve stated objectives, but impacted millions

The six months of sanctions imposed prior to the military war of 1991 are most similar to the sanctions imposed on Syria now. The United Nations Security Council (UNSC) imposed mandatory, comprehensive sanctions almost immediately after Iraq's invasion of Kuwait in 1990. Since Iraq was utterly dependent on the world market for its oil export and for its imports of foodstuffs, consumer goods, inputs and capital goods, the impact of the sanctions was felt almost immediately by the people. The consequent food shortages resulted in sharp increases in food prices ranging from 200 to 1800 percent between August and November 1990.

The goal of these sanctions was originally to inflict sufficient costs on the Iraqi economy to convince the regime to withdraw its army from Kuwait. In this sense, this episode is an example of the failure of sanctions, since the Iraqi army did not withdraw from Kuwait until a U.S.-led military coalition expelled it in 1991. However, when the objective of the sanctions was finally met, the sanctions were not lifted; rather they were expanded and their objectives changed. Evidence suggests that the U.S. objective in maintaining sanctions, as early as Iraq's withdrawal from Kuwait, was regime change. Regime change in Iraq became formal U.S. policy with the passage of the Iraq Liberation Act in 1998; again, the regime was changed with the US-led military war and occupation of Iraq in 2003, and not with the sanctions.

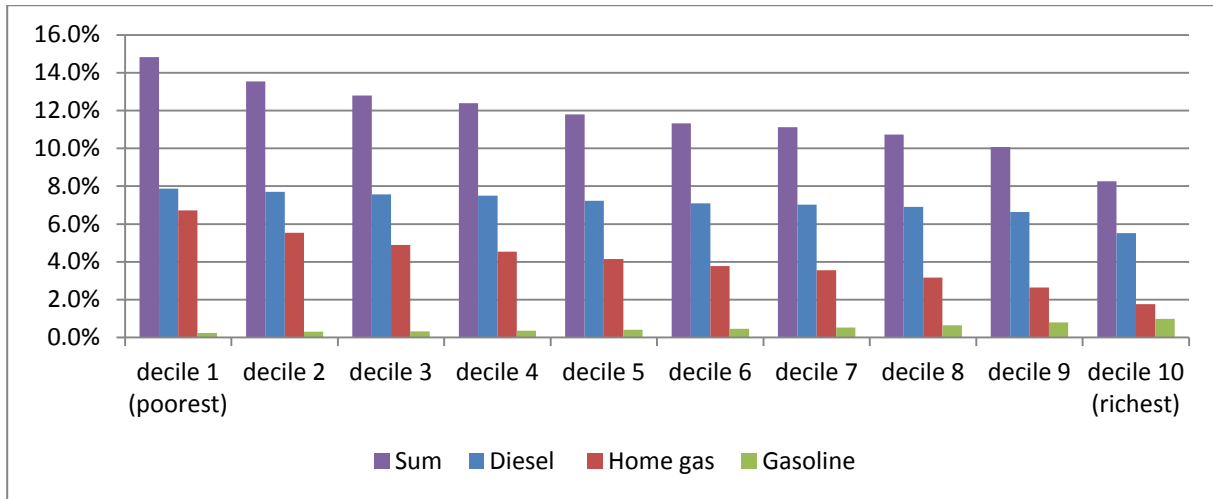
The fatalities attributed to the sanctions were well documented. By 1998, the UN estimated that at least 500,000 children under the age of five had died as a result of the sanctions. Between 1990 and 1998, over one fifth of Iraqi children stopped enrolling in school, consequently increasing the number of non-literates and losing all the educational gains made in the previous decade. The 1990s also saw a dramatic increase in child labor, from a virtually non-existent level in the 1980s.

The analysis shows that 28.3% (about 6.8 billion USD) of the total GDP loss in 2011 and 2012 was due to the sanctions. The main part of this loss (about 3.9 billion USD) was a result of the international sanctions on the oil sector in Syria. The transportation, manufacturing, and financial sectors were also negatively affected by the sanctions. Accordingly, public revenue reduced sharply leading to a decline in the public investment in vital sectors such as health and education by more than 50%. The loss in GDP was reflected in a reduction in the GDP per capita and in the average household income and expenditure. This led to deterioration in the wellbeing of households in Syria and to an increase in income poverty. Using micro-simulation approach, the report estimated that sanctions contributed to an increase of income poor in Syria by 877 thousand persons out of a total increase in poverty due to the crisis of 3.1 million persons.

In terms of sanctions on trade, the potential exports to Arab countries declined by 52% (mainly manufacturing goods), to EU countries and Turkey by 93%, 82% respectively (mainly oil exports). These results are derived from projections based on a gravity model for Syria. The reduction in exports led to increase the trade balance deficit; which has contributed to the depreciation in the SYP. Moreover, the difficulties of importing substantial goods and services due to the financial sanctions, embargo imposed by several countries, and the currency depreciation have had a negative impact on the livelihoods of people, including the lack of imported essential medicine (such as vaccine), energy sources, and maintenance of civil aircrafts. It is worth mentioning that the impact of sanctions on health and health services is beyond the lack of imported medicine, and it is more related to weakened physical and medical infrastructure due to the reduction in public funds (Garfield, 1999); which has limited the ability of providing decent health services and being effective in responding to health emergency.

The sanctions led to a shortage in diesel and fuel gas for home use, and to surge the prices of oil derivatives by about 200%. Using input/output model to simulate the impact of the oil derivatives prices increase due to sanctions, the report estimate a reduction in the real GDP by 6%, a reduction in the private consumptions by 10.7%, and an increase the CPI by the same percentage. Prices increase harmed the real expenditure of the households unequally; since the negative impact on the poorest was higher than the richest. The results show that the lower expenditure decile of household lost 14.8% of its expenditure, while the higher expenditure decile lost 8.3% (Figure 3.1). This increase in prices affected mainly the basic goods which formed a major part of the vulnerable and poor households' consumptions weakening their food securities and standard of livings.

Figure 3.1: Percentage loss of household's expenditure by deciles as a result of increase of oil derivatives prices



Source: Simulation using Input Output Model and household income and expenditure survey 2007, Planning and International Cooperation Commission in Syria.

It is worth mentioning that the strictness of implementing sanctions by part of the international community, have been accompanied with less serious humanitarian assistance efforts. Although the UN has estimated more than 4 million Syrian citizens who need immediate humanitarian assistance, the received fund is only around 184 million USD (out of targeted 348 million USD) for UN activities in Syria, and only 337 million USD (out of targeted 488 million USD) was received to support refugees. These amounts are far below the direct needs of UN agencies to actively support people (OCHA, 2012).

Concluding Remarks

Institutions in Syria failed to understand the need to establish a broad-based and empowered process of development planning with strong monitoring and evaluation of development results, and failed to create a strict system of accountability to effectively address poverty and social injustice. The crisis, therefore, in its essence, is a rights-based conflict to which no mix of socioeconomic policies can be a perfect remedy to the development deficiencies. It follows that any solution to this crisis cannot be envisaged outside an institutional/human rights framework with broad participation and consensus. Moreover, the crisis is an opportunity for substantial change in the existing institutions to achieve sustainable development that would ensure decent human life in Syria.

The report set out to estimate crisis socioeconomic impact in 2011 and 2012, highlighting to the extent possible the role of internal conflict, government responses, and international sanctions. The evidence presented in this report shows that the socioeconomic impact of the crisis in Syria is quite devastating. The country is rapidly losing its economic, social, human, and cultural assets and potentials. Furthermore, the state itself is under threat, and the socioeconomic impact of the crisis in Syria is unbearable. In this regard, a comprehensive and agreeable vision is extremely needed.

The report shows that the continuing armed conflict has had a gloomy future and led to reverse in development, since it enhances the violence and antagonism, distorts social solidarity, and diverts resources from productive to destructive activities. Moreover, the international military interventions proved not to be a supportive of a democratic, representative, and efficient change. The human and economic cost of such interventions was enormous in many cases over the world like in Iraq.

Sanctions exacerbated the impact of the crisis, and they caused relatively high share of the economic and social losses, including deteriorating of Syrian household welfare especially poor and vulnerable families. Moreover, the sanctions have hindered Syria's development progress, particularly through restrictions on trade and financial transactions, including importing of vital goods.

The solution needs to be build in an inclusive approach between Syrians, starting with recognising and respecting the rights of all citizens, aiming to reach a civil, democratic, independent, just, and welfare state; and forming long term vision for Syria as part of new social contract to clarify social relations, and the state and society institutions roles.

Immediate humanitarian strategy targeting the rebuild of social stability and solidarity, and reducing the negative impact on affected people and communities, are major needed step that should be built in a participatory approach between civil society, private sector, government, and international community.

The next step is using the findings of this report immediately to initiate a space for dialogue on the future scenarios to overcome the current crisis using evidence based policies and inclusive participation of Syrian people, especially that the continuation of the crisis will increase the damage and complicates the future dialogue at national level to reach a solution.

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Annex (1): Main Results

| | 2011 | 2012 | Total |
|---|--------|---------|--------|
| Economic impact | | | |
| Total economic loss | 13.1 | 35.3 | 48.4 |
| GDP Loss (billion USD) | 6.5 | 17.6 | 24.1 |
| <i>of which directly due to sanctions</i> | | | 6.8 |
| Capital stock damaged (billion USD) | 5.7 | 15.1 | 20.8 |
| Military expenditure increase (billion USD) | 1.0 | 2.6 | 3.6 |
| Public deficit | -8.61% | -10.09% | |
| Balance of payment (billion USD) | -5.05 | -10.92 | -15.97 |
| Inflation March 2011-Sep 2012 | | | 51% |
| Unemployment | 14.88% | 34.87% | |
| Social impact | | | |
| HDI | 0.613 | 0.554 | -15% |
| Population | | | |
| Growth rate | 1.51% | -2.51% | |
| Mortality rate | 0.43% | 0.66% | 62% |
| Refugees (in 000) | 30 | 512 | 542 |
| Voluntary migrants (in 000) | 160 | 688 | 848 |
| Displaced (in 000,000) | 0.2 | 1.8 | 2 |
| Poverty (in 000,000) | | | |
| Extreme | | | 1.550 |
| Overall | | | 3.105 |
| <i>of which directly due to sanctions</i> | | | 0.877 |
| Health | | | |
| Deaths (in 000) | 7 | 53 | 60 |
| Injuries (in 000) | 28 | 211 | 239 |
| Expenditure decrease (constant prices 2000) | | | 50% |
| Education | | | |
| Destroyed school (till 2012) | | | 2362 |
| Expenditure decrease (constant prices 2000) | | | 48% |

Annex (2): Imbalances between Governorates

| | Population Percentage Distribution (2010) | Labour force participation rate (2010) | Unemployment rate (2010) | Illiteracy aged 10 years and above (2009) | Consumer Prices Index - 2010 (2005=100) | Human Poverty Index (2007) | Real growth in expenditure (2004-2009) |
|----------------|---|--|--------------------------|---|---|----------------------------|--|
| Damascus | 9.5% | 44.0% | 10.0% | 5.9% | 136.6 | 5.8% | -3.3% |
| Aleppo | 21.6% | 38.7% | 4.9% | 20.4% | 148.7 | 13.0% | 0.1% |
| Rural Damascus | 13.6% | 44.5% | 6.1% | 8.3% | 131.2 | 20.4% | 0.5% |
| Homs | 8.7% | 44.4% | 6.9% | 10.3% | 140.2 | 8.5% | -1.8% |
| Hama | 7.6% | 49.7% | 5.5% | 9.2% | 145.3 | 9.8% | -2.6% |
| Lattakia | 5.5% | 49.7% | 15.6% | 10.4% | 140.7 | 8.6% | 2.4% |
| Idleb | 6.4% | 38.7% | 7.5% | 15.4% | 141.7 | 11.7% | -5.1% |
| Al-Hasakeh | 7.1% | 38.6% | 15.1% | 21.3% | 145.2 | 19.7% | -3.2% |
| Deir Ezzor | 4.9% | 40.6% | 13.2% | 23.6% | 151.0 | 19.8% | -10.2% |
| Tartous | 4.4% | 49.9% | 14.3% | 11.2% | 144.3 | 8.3% | 0.9% |
| Al-Raqqa | 4.0% | 41.6% | 6.8% | 25.7% | 150.6 | 21.2% | -4.0% |
| Dara'a | 4.4% | 38.9% | 9.0% | 9.3% | 148.5 | 7.5% | -5.9% |
| Al_Sweida | 2.0% | 41.5% | 12.9% | 8.5% | 146.6 | 6.8% | 3.5% |
| Al-Qunaitra | 0.4% | 40.9% | 19.2% | 12.3% | 146.5 | 8.2% | -1.0% |
| Syria | 100% | 42.7% | 8.6% | 14.2% | 144.1 | 11.5% | -2.1% |

Annex (3): Sanctions on Syria

Since December 2011, Syria's biggest trading partner, the EU, has imposed travel bans and asset freezes on more than 120 senior individuals, 40 companies and Syrian Central Bank. On 2012, the EU banned crude oil imports from Syria and in February it expanded sanctions to block trade in gold, precious metals and diamonds with Syrian public bodies and the central bank. The table (A3-1) below classifies the European sanctions on Syria since March 2011.

Table (A3-1): European sanctions on Syria since March 2011

| Decisions | Main issues | amended or implemented by | Main issues |
|---|--|---|---|
| COUNCIL DECISION 2011/782/CFSP of 1 December 2011 concerning restrictive measures against Syria and repealing Decision 2011/273/CFSP | <ol style="list-style-type: none"> 1. embargo on arms and related materiel 2. embargo on equipment which might be used for internal repression 3. ban on provision of certain services 4. embargo on telecommunications monitoring and interception equipment, and ban on provision of certain services (related to such equipment) 5. import ban on crude oil and petroleum products 6. ban on provision of certain services (related to crude oil and petroleum products) 7. embargo on key equipment and technology for the oil and natural gas industries 8. ban on provision of certain services (to the oil and natural gas industries) 9. ban on certain investment (in the oil and natural gas industries, in construction of power plants for electricity production) 10. prohibition to participate in the construction of new power plants for electricity production 11. ban on provision of new Syrian banknotes and coins | 1. COUNCIL IMPLEMENTING DECISION 2012/37/CFSP of 23 January 2012 implementing Decision 2011/782/CFSP concerning restrictive measures against Syria | amendment of the list of persons, entities and bodies (restrictions on admission (as regards natural persons) and freezing of funds and economic resources) |

| Decisions | Main issues | amended or implemented by | Main issues |
|-----------|--|---|---|
| | <ul style="list-style-type: none"> 12. ban on new commitments for grants, financial assistance and concessional loans to the Government of Syria 13. restraint on commitments for public and private financial support for trade with 14. Syria and ban on new long term commitments of Member States 15. prohibition for the European Investment Bank to make certain payments 16. restrictions on issuance of and trade in certain bonds 17. restrictions on establishment of branches and subsidiaries of and cooperation with Syrian banks 18. restrictions on provision of insurance and re-insurance 19. restrictions on admission of certain persons 20. freezing of funds and economic resources of certain persons, entities and bodies 21. prohibition to satisfy claims made by certain persons, entities or bodies | | |
| | | <p>2. COUNCIL DECISION 2012/122/CFSP of 27 February 2012 amending Decision 2011/782/CFSP concerning restrictive measures against Syria</p> | <p>ban on trade in gold, precious metals and diamonds with the Government of Syria. restrictions on access to EU airports for certain cargo flights. specific exception for Central Bank of Syria (freezing of funds and economic resources). amendment of the list of persons, entities and bodies (restrictions on admission (as regards natural persons) and freezing of funds and economic resources).</p> |

| Decisions | Main issues | amended or implemented by | Main issues |
|--|--|---|--|
| COUNCIL REGULATION (EU) No 36/2012 of 18 January 2012 concerning restrictive measures in view of the situation in Syria and repealing Regulation (EU) No 442/2011 | <ol style="list-style-type: none"> 1. embargo on equipment which might be used for internal repression 2. ban on provision of certain services 3. embargo on telecommunications monitoring and interception equipment 4. ban on provision of certain services (related to such equipment) 5. import ban on crude oil and petroleum products 6. embargo on key equipment and technology for the oil and natural gas industries 7. ban on provision of certain services (to the oil and natural gas industries) 8. ban on provision of new Syrian banknotes and coins 9. embargo on equipment used in the construction of new power plants for electricity production 10. ban on provision of certain services (related to the construction of such power plants) 11. ban on certain investment (in the oil and natural gas industries, in construction of power plants for electricity production) 12. freezing of funds and economic resources of certain persons, entities and bodies 13. prohibition for the European Investment Bank to make certain payments 14. restrictions on issuance of and trade in certain bonds 15. restrictions on establishment of branches and subsidiaries of and cooperation with Syrian banks 16. restrictions on provision of insurance and re-insurance 17. prohibition to satisfy claims made by certain persons, entities or bodies repeal of Regulation (EU) No 442/2011 | <ol style="list-style-type: none"> 1. COUNCIL IMPLEMENTING REGULATION (EU) No 55/2012 of 23/12/2012 implementing Article 33(1) of Regulation (EU) No 36/2012 concerning restrictive measures in view of the situation in Syria | <p>amendment of the list of persons, entities and bodies (freezing of funds and economic resources)</p> |
| | | <ol style="list-style-type: none"> 2. COUNCIL REGULATION (EU) No | <ol style="list-style-type: none"> 1. ban on trade in gold, precious metals and diamonds with the |

| Decisions | Main issues | amended or implemented by | Main issues |
|-----------|-------------|---|--|
| | | 168/2012 of 27 February 2012 amending Regulation (EU) No 36/2012 concerning restrictive measures in view of the situation in Syria | Government of Syria 2. specific exception for Central Bank of Syria (freezing of funds and economic resources) 3. amendment of the list of persons, entities and bodies (freezing of funds and economic resources) |

American Sanctions

Specific U.S. sanctions levied against Syria fall into four main categories: (1) sanctions resulting from the passage of the 2003 Syria Accountability and Lebanese Sovereignty Act (SALSA) that, among other things, prohibit most U.S. exports to Syria; (2) sanctions imposed by executive order from the US President that specifically deny certain Syrian citizens and entities access to the U.S. financial system due to their participation in proliferation of weapons of mass destruction, association with Al Qaeda, the Taliban, or Osama bin Laden; or destabilizing activities in Iraq and Lebanon; (3) sanctions resulting from the USA PATRIOT Act levied specifically against the Commercial Bank of Syria in 2006; and (4) sanctions activity since the start of the Syria uprising in March 2011.

1. Syria Accountability and Lebanese Sovereignty Act (SALSA) 2003

On December 12, 2003, President Bush signed H.R. 1828, the Syria Accountability and Lebanese Sovereignty Restoration Act into law, as P.L. 108-175. This law requires the US President to impose penalties on Syria unless it ceases support for international terrorist groups, ends its occupation of Lebanon, ceases the development of weapons of mass destruction (WMD), and has ceased supporting or facilitating terrorist activity in Iraq.

2. Financial Sanctions

US President has repeatedly taken action to sanction individual senior members of Syrian government. Through Executive Orders 13315, 13224, 13382, 13338, 13399, 13441, 13460, and the Executive Order signed on April 29, 2011, the President of the United States has imposed financial sanctions on Syrian individuals and entities for involvement in proliferation of weapons of mass destruction; association with al Qaida, the Taliban or Osama bin Laden; or destabilizing activities in Iraq and Lebanon; or benefiting from public corruption. The U.S. Treasury Office of Foreign Assets Control (OFAC) administers these sanctions against individuals and entities that operate in Syria by blocking assets and prohibiting U.S. persons to have financial transactions with them.

3. Sanctions against the Commercial Bank of Syria

Under Section 311 of the USA PATRIOT Act, President Bush instructed the Treasury Department in 2004 to prepare a rule requiring U.S. financial institutions to sever correspondent accounts with the Commercial Bank of Syria because of money laundering concerns. In 2006, the Treasury Department issued a final ruling that imposes a special measure against the Commercial Bank of Syria as a financial institution of primary money laundering concern. It bars U.S. banks and their overseas subsidiaries from maintaining a correspondent account with the Commercial Bank of Syria, and it also requires banks to conduct due diligence that ensures the Commercial Bank of Syria is not circumventing sanctions through its business dealings with them.

4. Sanctions activity since the start of the Syria uprising in March 2011

At present, a variety of legislative provisions and executive directives prohibit U.S. aid to Syria and restrict bilateral trade. Syria remains a U.S.-designated State Sponsor of Terrorism and is therefore subject to a number of general U.S. sanctions. Table below reviews sanctions introduced since early 2011 in response to Syria's uprising, and the legislation introduced in the 112th Congress regarding the Syrian uprising, sanctions, and U.S. policy (Table A3-2)

Table (A3-2): United States sanctions on Syria since March 2011

| Decision | Main issues |
|---|---|
| Sanctions implemented by Treasury Department's Office of Foreign Assets Control [OFAC] | <p>Targeting senior officials and businessmen in addition to entities like:</p> <ol style="list-style-type: none"> 1. Military Housing Establishment, Real Estate Bank (December 1, 2012); 2. Government of Syria, (August 18, 2011); 3. General Petroleum Corporation, Syrian Company for Oil Transport, Syrian Gas Company, Syrian Petroleum Company, Sytrol (August 18, 2011). 4. Commercial Bank of Syria and its Lebanon-based subsidiary, Syrian Lebanese Commercial Bank, Syriatel, the country's main mobile phone operator (August 10, 2011). |
| Syria Legislation in the 112th Congress | <ol style="list-style-type: none"> 1. H.R. 2106, The Syria Freedom Support Act would, among other things, sanction the development of petroleum resources of Syria, the production of refined petroleum products in Syria, and the exportation of refined petroleum products to Syria. 2. S. 1472, The Syria Sanctions Act of 2011—Denies companies that conduct business in Syria's energy sector (investment, oil purchases, and sale of gasoline) access to U.S. financial institutions and requires federal contractors to certify that they are not engaged in sanctionable activity. 3. S. 2034, Syria Human Rights Accountability Act of 2012 —Imposes sanctions on persons who are responsible for or complicit in certain human rights abuses. Also prohibits procurement contracts with persons that export sensitive technology to Syria. |

Arab League sanctions

On 27 November 2011 the Arab League has approved sanctions against Syria, including an asset freeze and an embargo on investments. The sanctions include:

1. Cutting off transactions with the Syrian central bank;
2. Halting funding by Arab governments for projects in Syria;
3. A ban on senior Syrian officials travelling to other Arab countries;
4. A freeze on assets related to Syrian government;

In addition, Arab League called on Arab central banks to monitor transfers to Syria, with the exception of remittances from Syrians abroad. Furthermore the league also voted to impose a ban on commercial flights between Syria and member states.



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