

# A DECADE OF WAR IN SYRIA: THE ECONOMIC SIDE

**A retrospective for the World Bank's  
"Syria Analytical Roadmap"**

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# TABLE OF CONTENTS

- 1. INTRODUCTION..... 1**
  
- 2. THE WRATH OF THE WAR ..... 6**
  - THE IMPACT OF THE WAR IN SYRIA ..... 6
  - THE REGIONAL IMPACT OF THE WAR ..... 12
  - THE RETURN OF THE SYRIAN REFUGEES ..... 18
  - SYNOPSIS..... 21
  
- 3. THE STEEP ROAD AHEAD ..... 22**
  - ECONOMIC RECOVERY IN SYRIA..... 22
  - REFUGEE RETURNS TO SYRIA ..... 24
  - REGIONAL FALLOUT ..... 27
  - SYNOPSIS..... 28
  
- 4. ELEMENTS OF A NEW APPROACH..... 29**
  - A UNILATERAL APPROACH ..... 30
  - A REGIONAL APPROACH ..... 32

# 1. INTRODUCTION

The Arab Spring protests marked the beginning of a new era in the Syrian Arab Republic in 2011. Minor public protests began almost immediately after the initial protests in Cairo in January 2011. The first large demonstrations began two months later in March, and the following months saw a process of escalation as demonstrations spread and increased in size within the country. By the summer of 2011, the armed conflict was already unfolding.

Within a decade, the conflict has claimed more than half a million lives directly, with more than half of the country's pre-conflict population remaining displaced (6.6 million internally displaced persons and 5.6 million registered refugees). The social and economic impact of the conflict is also large—and growing. A lack of sustained access to health care, education, housing, and food have exacerbated the effects of the conflict and pushed millions of people into unemployment and poverty. With a severely degraded healthcare system, Syrians remain extremely vulnerable to additional shocks, such as the COVID-19 outbreak still unfolding. A child in Syria is now expected to live 13 years less than before the conflict.<sup>i</sup>

Trends in more conventional economic indicators have been similarly appalling. According to latest official estimates, between 2010 and 2019, gross domestic product (GDP) in Syria shrank by 45 percent when the official exchange rate is used for conversion and about 78 percent when the black-market rate is used (**Figure 1**).

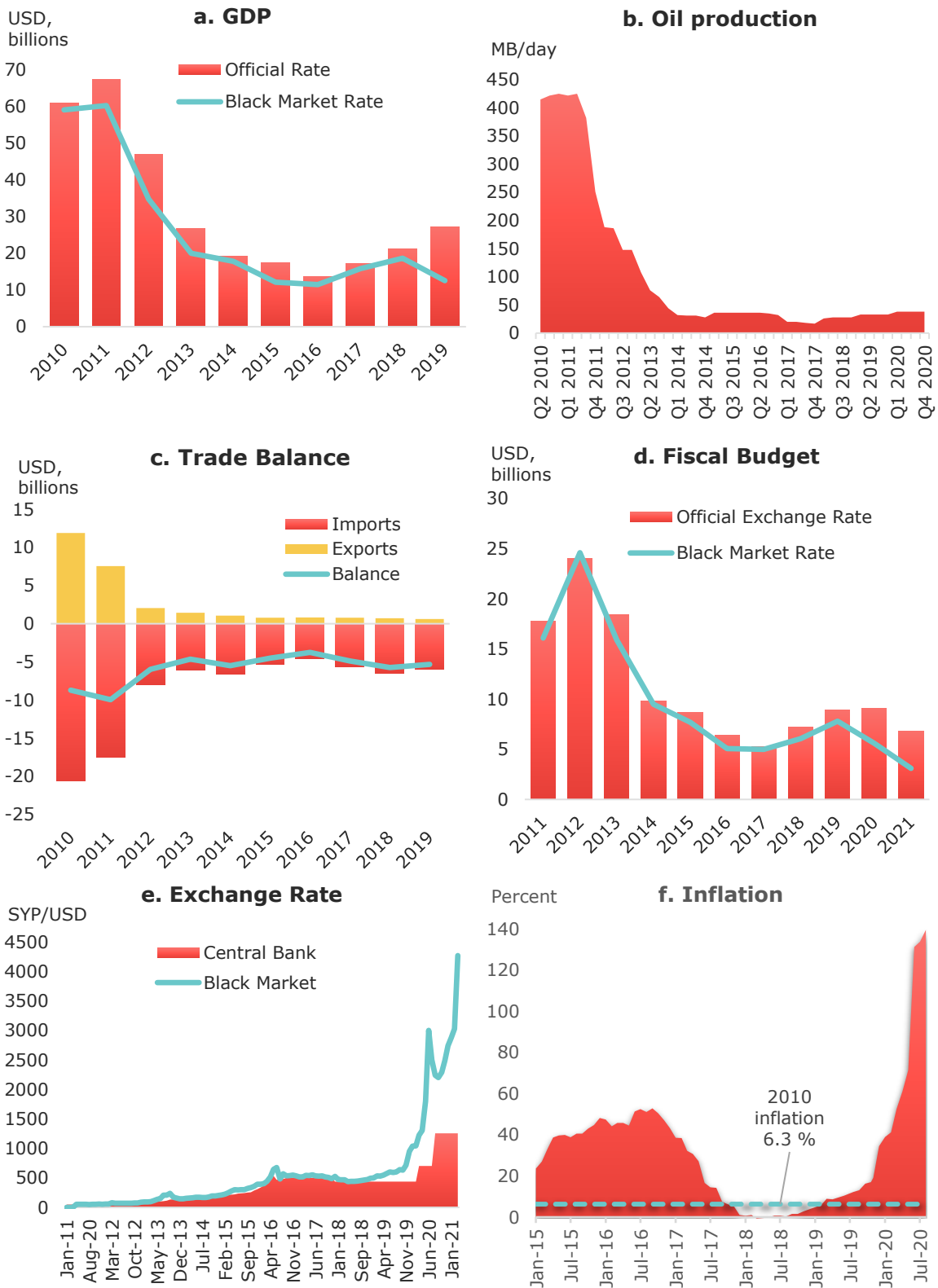
The difference has been driven by a rapidly expanding wedge between the two exchange rates. The official exchange rate increased from 47.7 SYP/USD in April 2011 to 1256 SYP/USD in March 2021, a 26-fold devaluation. In comparison, the black-market exchange rate registered an 82-fold depreciation since the beginning of the conflict. In March 2011, the black market rate stood at 4270 SYP/USD, about 3.4 times the official rate. Both the depreciation in official and black-market rates, and the widening wedge between the two, gained momentum since July 2020, after the erection of the Caesar Law related sanctions.

The black-market dynamics in exchange rate is mirrored by inflation dynamics. From mid-2019 to mid-2020 (latest available data) Consumer Price Index (CPI) surged from single digits to about 140 percent, further straining the already impoverished Syrian's purchasing power.

The high correlation between black market exchange rates and inflation can be better understood in light of the country's external balances. Syria's export revenues collapsed from USD 11.9 billion in 2010 to USD 0.6 billion in 2019, about 20-fold decrease. In comparison, imports decreased from USD 20.6 billion to USD 6.0 billion in the same time frame, about 3.3 fold decrease. Not only this decrease is less than that of exports, but also that of GDP. Thus, the import dependency of the economy deepened. Thus, the Syrian economy has become more susceptible to exchange rate pass through, and when its currency lost value rapidly, domestic prices adjusted quickly.

Finally, it is important to note that the Syrian Government's fiscal resources shrank significantly over the curse of the conflict. The 2021 budget stood at 1/8<sup>th</sup> of that in 2012, using the black-market conversion (about 1/3<sup>rd</sup> using the official rate).

**Figure 1.** Major trends in the Syrian economy



Source: Central Bureau of Statistics.

In recent years, the World Bank Group has made a specific effort to monitor the economic developments in Syria and to analyze the main drivers of those developments. Prior to the conflict, the Bank provided support to Syria through its technical assistance and advisory services on private sector development, human development, social protection, and environmental sustainability. After 2011, all operational activity and missions to Syria were halted. Until 2016, the Bank focused on monitoring the developments in Syria and supporting the Syrians and their hosts in neighboring countries. This included two Economic and Social Impact Analyses (ESIAs) in Lebanon and the Kurdistan Region of Iraq, as well as financial support to the host country governments. To date, the World Bank has supported over US\$3 billion worth of projects in Jordan and Lebanon (most on concessional terms) which support jobs, economic opportunities, health, education, and emergency services to shore up social resilience and local infrastructure.

In 2017, the World Bank initiated the “Syria Analytical Roadmap (SAR)”, comprising three flagship reports aimed at shedding light on the economic and social consequences of the Syrian Conflict (**Figure 2**).

- The first report in this series, **The Toll of War (TOW)**, was released in June 2017. This study considered the economic and social impact of the conflict inside Syria. By its nature, the analysis was fully backward-looking (e.g., what had happened by then).
- Following the feedback for the first report, the second one, **The Mobility of Displaced Syrians (MODS)**, focused on Syrian refugees’ return, and what would be the factors that affect such return decisions. This report analyzed the drivers of return that already took place thus far and considered how different conflict and economic trajectories could affect the future return patterns.
- The third report, **The Fallout of War (FOW)**, turned the focus to the Mashreq Region, and analyzed how the conflict in Syria has affected the economic and social outcomes in countries neighboring Syria. This report also formulated a forward-looking perspective based on what had happened thus far.

**Figure 2.** The effects of the conflict in Syria



The series adopted a systematic approach and amassed a large analytical capacity to provide objective and rigorous monitoring and analysis of the facts on the ground (Appendix 1). This was particularly useful in the case of Mashreq where factual ambiguity fed political exploitation. Thus, the series was supported by a wide coalition of partners comprising the governments of Iraq, Jordan, and Lebanon, financial contributions from the governments of Canada, Germany, the Netherlands, the United Kingdom, and the United States, and technical support from the UNHCR, UN-Habitat, European Space Agency, and others, including civil society organizations.

The remainder of this paper first summarizes what we have learned about the economic and social impact of the conflict through the SAR. A complete account of these effects are provided in the original reports; here, we will only focus on a selected subset of the results. Next, the paper focuses on the implications such findings for future trends. Finally, it concludes with a discussion on how future analyses can help us better understand the developments on the ground and better prepare for shaping those trends when opportunity arises.

## 2. THE WRATH OF THE WAR

Conflicts cut lives short, destroy tangible and intangible assets, lead to misery among those who survive, and leave deep marks on a country's social fabric, culture, and collective memories. They also affect people in other countries. They can disrupt economic activities across borders and create new types cross-border flows like the movement of people and sometimes the spread of instability itself. The Syrian conflict quickly became a particularly harsh example of all these factors.

### THE IMPACT OF THE WAR IN SYRIA

The effects on human lives and demographic displacement have been the most dramatic effect of the conflict. The pre-conflict population of Syria was estimated at 20.7 million in 2010. By 2020, the direct death toll of the conflict was estimated at more than half a million people<sup>ii</sup>, with 6.6 million survivors in IDP status in Syria and another 5.6 Syrians registered as refugees in neighboring countries.<sup>iii</sup> The most recent calculations by the UN Population Division<sup>iv</sup> put the population within Syria at 17.5 million as of 2020. Data limitations render a precise and comprehensive decomposition of the demographic changes impossible.



The conflict inflicted extensive damage on Syria's physical infrastructure. Cities like Homs, Aleppo, and Damascus, and many smaller towns, served as battlegrounds for government and rebel offensives, with tragic consequences for their inhabitants. Across the 15 cities covered by MODS in 2018, 4.4 percent of the housing stock was destroyed and 15.9 percent partially damaged. The percentage varied across cities, with the highest full destruction occurring in Dayr az-Zawr (10 percent) and the highest partial damage in Tadmur (also called Palmyra, 32.8 percent). With 8 percent destroyed housing units and 23 percent partially damaged, Aleppo was also among the worst impacted cities.

The damage was particularly high in the health sector, as medical facilities were specifically targeted. Estimates showed that about half of all medical facilities in the 15 cities studied in MODS were damaged, with 11.2 percent total destruction. The results were similar in education facilities (42 percent damaged, with 6.8 percent total destruction). By June 2018, only 44 percent of schools and 40.4 percent of health facilities were functional.

The losses in GDP between 2011 and 2016 sum to about four times the size of the Syrian GDP in 2010. The destruction of physical capital, casualties, forced displacement, and breakup of economic networks has had devastating consequences for Syrian economic activity. Syria's GDP was estimated to contract by 63 percent between 2011 and 2016 in real terms. Estimates of national account indicators, including counterfactual GDP numbers estimated by using statistical estimation methods, show that the actual GDP fell \$51 billion (in 2010 prices) short of the counterfactual GDP in 2016. Aggregating these differences between counterfactual and actual GDP numbers between 2011 and 2016 shows that the cumulative loss in GDP amounts to \$226 billion in 2010 prices, about four times the 2010 GDP.

**Table 1.** Damage and functionality estimates, percent (by June 2018)

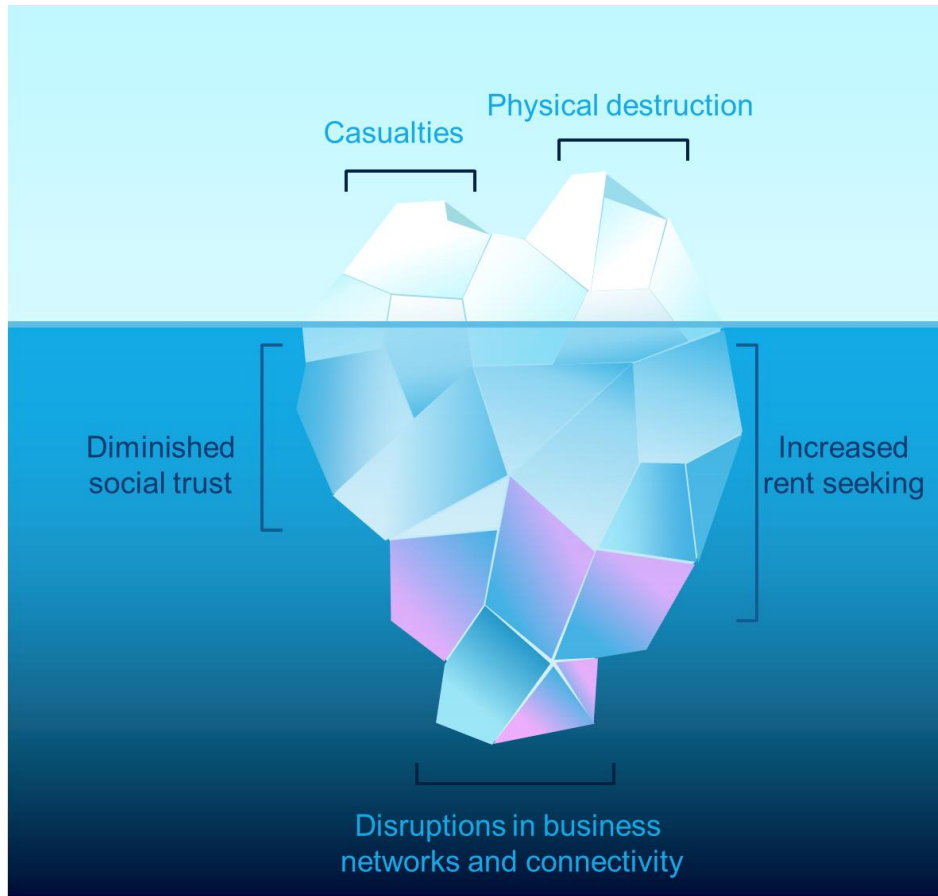
	PHYSICAL DAMAGE			OPERATIONAL STATUS	
	DESTROYED	PARTIAL DAMAGE	NO DAMAGE	NOT FUNCTIONAL	FUNCTIONAL
<b>SCHOOLS</b>	6.8	35.2	54.8	44.0	52.3
<b>HEALTH FACILITIES</b>	11.2	37.2	45.6	40.4	56.0
<b>HOUSING</b>	4.4	15.9	79.7	.	.

Source: The Mobility of Displaced Syrians (2019)

## ***Economic disorganization has hurt the Syrian economy much more than infrastructure destruction***

The conflict in Syria not only destroyed productive factors, it also prevented the connectivity of people, reduced their incentive to pursue productive activities, and breaks economic networks and supply chains. Those disruptions in economic organization have been the most important channel through which the conflict has manifested its economic impact (**Figure 2**). The TOW simulations show that, an economic-disorganization-only scenario would create 20 times more GDP losses than a capital-destruction-only scenario. This is mainly because, without further economic disorganization, capital destruction creates its own antidote. Other things being equal, a decrease in capital stock increases the return to capital, and thus, investments. Thus, capital is rebuilt quickly. This is not true where the economy suffers from sustained productivity losses under economic disorganization scenario.

**Figure 3.** The effects of the conflict in Syria



**Figure 4.** natural disasters vs. conflicts: a comparison



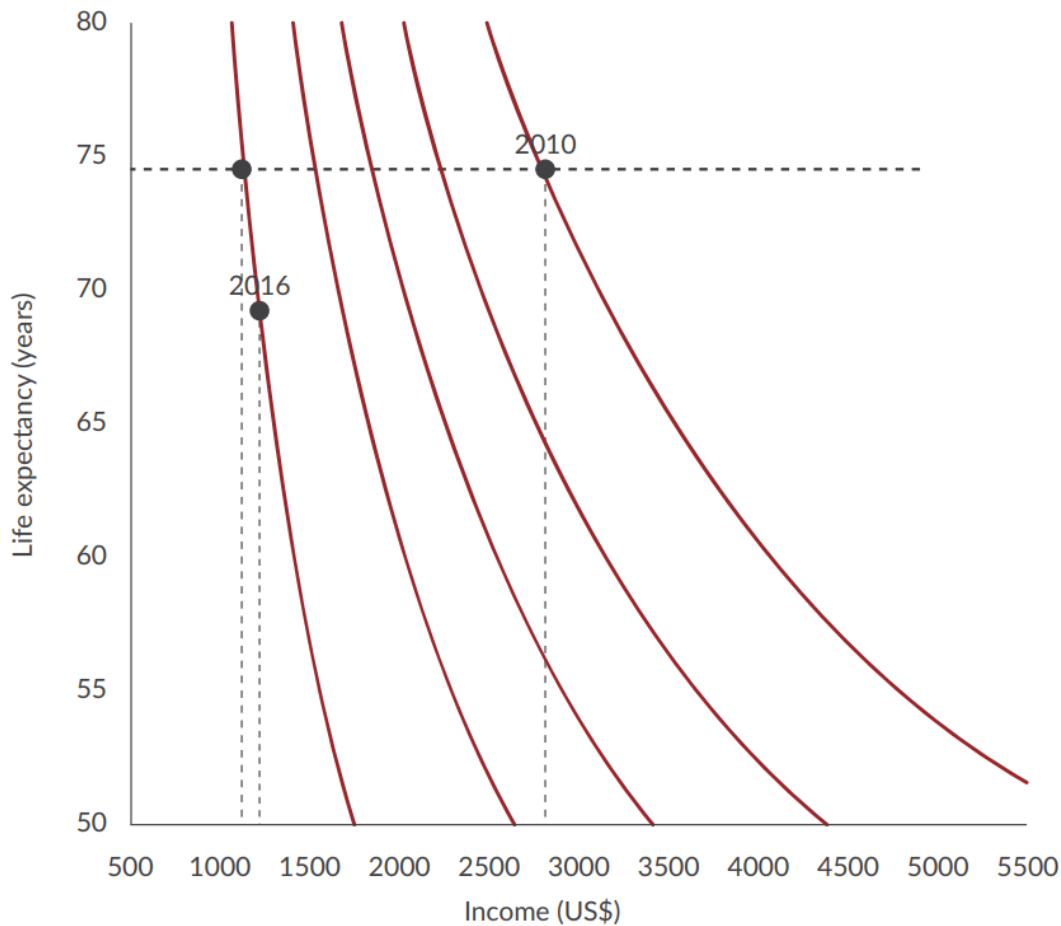
Photo credits: Jay Janner/Austin American-Statesman (a) and Osman Sagirli /Turkiye (b).

To illustrate this point, we can compare the social behaviors after a natural disaster with that after the Syrian conflict. **Figure 4** shows two images:

- The first panel features a line of trucks, owned by private individuals, waiting for their turn to help others stranded by floods. The image was taken the day after the Hurricane Harvey made a landfall as a category 4 storm in Texas. The hurricane caused significant casualties (107 deaths), but small compared to the Syrian conflict, nonetheless. Interestingly, the number of housing destruction was comparable to the ones in Syria's Deir Ezzor Governorate at the time. However, unlike Syria, Texas did not suffer a persistent suppression of economic activity as a result of the hurricane.
- In the second panel, Adi Hudea, a 4-year old Syrian girl residing in Atmeh Refugee Camp after losing her father. She raised her hands in surrender when the photographer pointed his telephoto lens mounted camera towards her. The shock is obviously persistent in this case. The point here is not to elaborate all differences between natural disasters and conflicts, but to emphasize that they leave different traces in the economic and social fabric of societies.

These results suggest that even reinstating lost capital, by itself, would not be sufficient to bring the economy back to its pre-conflict level, if institutional and organizational challenges are not tackled simultaneously. Regardless of the source of financing, boosting public investments without a comprehensive approach would trigger further rent seeking and cronyism, which were important enabling factors in the conflict's onset, as described in the first section. Thus, recovery and reconstruction are by no means an engineering issue only; our results show that the issue is primarily an economic and social one, where the incentives of Syrian citizens are at the core.

**Figure 5.** Indifference map for income and life expectancy in Syria



Source: The Toll of War (2017)

***Ironically, the welfare impact of the Syrian war is largely about the misery faced by the survivors***

Finally, it is important to pinpoint the incidence of the welfare impact. The welfare of Syrians were reduced both because they suffered major income losses (a 65 decrease in aggregate GDP and about 57 percent decrease in GDP per capita) and because their life expectancy decreased through the conflict (6.6 percent). When considered together, with some plausible assumptions regarding the value of statistical life, the results show that about 92 percent of the welfare loss was driven by the income shock and the remaining 8 percent by the longevity shock (**Figure 5**).

## THE REGIONAL IMPACT OF THE WAR

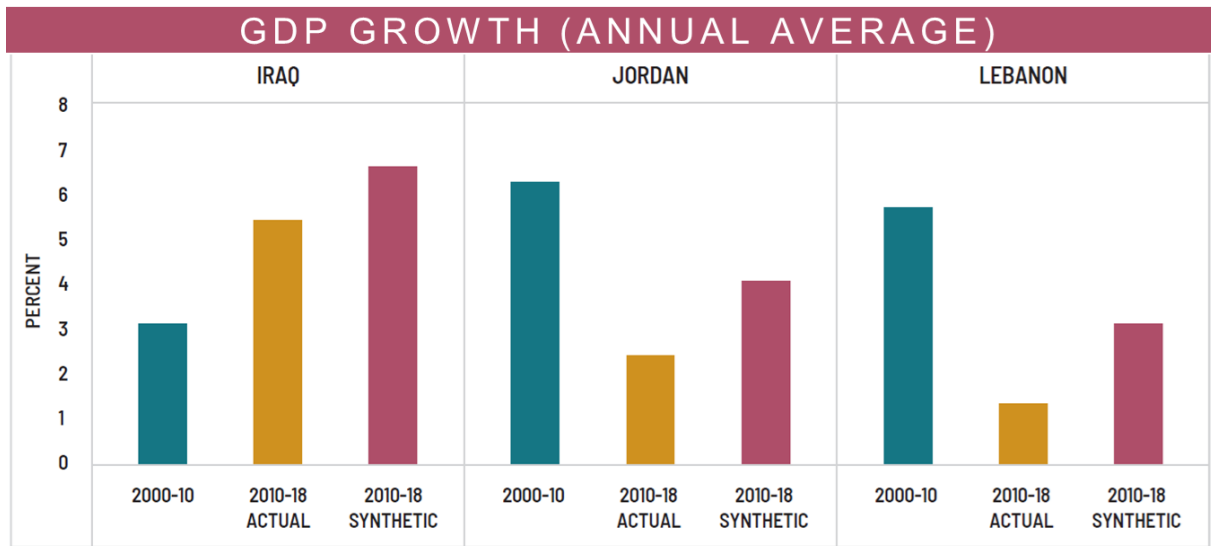
The repercussions of the brutal war have spread beyond the borders of Syria in many ways. At its peak, the number of Syrian refugees registered by the United Nations High Commissioner for Refugees (UNHCR) represented more than a fifth of local populations in Jordan, Lebanon, and the Kurdistan Region of Iraq (KRI), leading to a massive policy challenge even by advanced economy standards. The broader insecurity in Syria and Iraq (including the Islamic State insurgency) disrupted economic connectivity and reduced confidence in economic prospects in these countries. Together, these factors made up a toll that has been paid so far not only by Syrians but also by their neighbors.

***Not everything since 2011 was caused by the Syrian war, and the war's impact was not only about refugees***

The FOW estimates show that, even in the absence of a conflict in Syria, the Jordanian and Lebanese economies would have slowed down between 2000s and 2010s. This would be driven by global factors like the lingering effects of the Global Financial Crisis and commodity price bust and MENA-specific factors like other Arab Spring events. Specifically, the average annual GDP growth in Jordan would decrease by 2.0 percentage points and that in Lebanon would decrease by 2.3 percentage points during 2010–18 compared to the previous decade. To put these into perspective, Middle Income Countries experienced an average 1.3 percentage points reduction in growth at the same time.

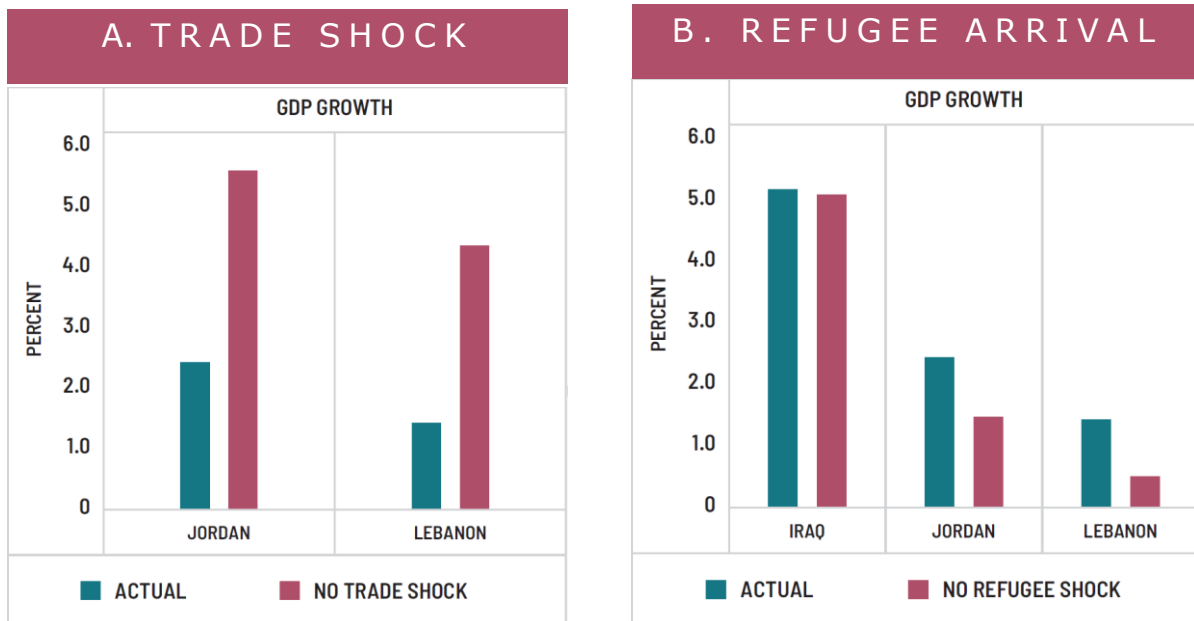
The Syrian conflict added to these downward trends with a sizeable negative impact on neighbors' GDPs (**Figure 6**). Between 2011 and 2018, conflict-driven factors reduced GDP growth by 1.2 percentage points in Iraq, 1.6 percentage points in Jordan, and 1.7 percentage points in Lebanon. These adverse net effects reflected a combination of several factors, including major refugee inflows, collapse in trade, especially in tourism, and broader regional insecurity.

**Figure 6.** GDP growth rate comparison, 2000–10 versus actual 2010–18 versus counterfactual 2010–18



Source: The Fallout of War (2021)

**Figure 7.** GDP impact of different shocks, 2011–18



Source: The Fallout of War (2021)

According to FOW estimates, at the margin, the refugee arrivals increased GDP in all 3 countries but especially in Jordan and Lebanon for a simple reason. With more consumers and workers, aggregate economic activity increases. In the absence of refugees arrivals, the Jordanian and Lebanese GDPs would have grown on average 0.9 percentage points more slowly between 2011 and 2018, annually (**Figure 7**). The impact of the refugees on growth in Iraq was positive but modest, about 0.1 percentage point.

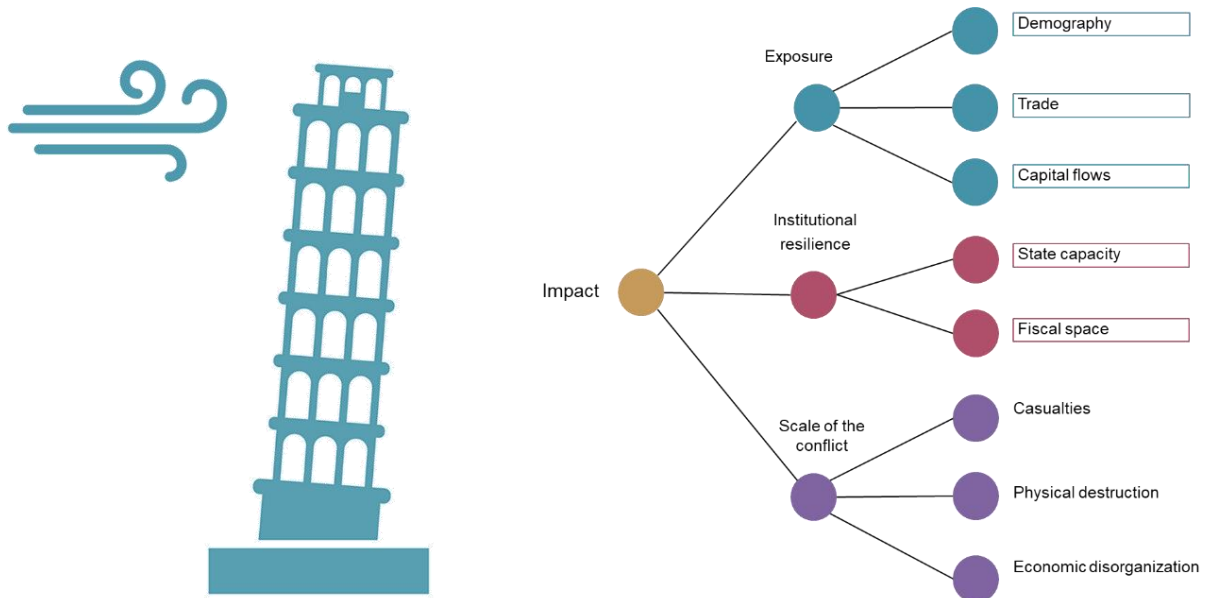
Trade shocks associated with the Syrian conflict had a significant dampening effect on growth in Jordan and Lebanon. Other things being equal, with the higher counterfactual trade growth, the Lebanese GDP would have grown on average 2.9 percentage points faster between 2011 and 2018 (by 4.3 percent instead of the actual 1.4 percent). Similarly, Jordan's GDP would have grown 3.1 percentage points faster (at 5.5 percent instead of 2.4 percent) without the trade shock. The effects of negative TFP shock were also substantial in all three countries (2.8 percentage points in Lebanon and 2.6 percentage points in Jordan).

The conflict also had other far-reaching consequences in the Mashreq. The conflict-driven economic slowdown pushed up poverty rates by 4.0 percentage points in Jordan, 7.1 percentage points in Lebanon and, with internal displacement, 6.0 percentage points in Iraq. Labor market conditions for locals, especially women, deteriorated in all three countries after 2011 as a result of the conflict-driven slowdown, but they are not necessarily correlated with subnational refugee intensity.

The arrival of refugees boosted demand for public services, resulting in a mix of congestion and fiscal effects. In education and water, adaptations in service provision largely prevented congestion. In transport, health, and energy, congestion was observed (with fiscal costs through built-in energy subsidies). The demographic shock has unambiguously increased municipal solid waste, but refugee-driven increases of pollution in water and air bodies have been detected only in some local settings



**Figure 8.** The pre-conditions of the regional impact



Source: The Fallout of War (2021)

## ***The regional impact of the Syrian war has been larger than those in comparable cases, globally. Why?***

The overall economic impact of the Syrian conflict on Iraq, Jordan, and Lebanon has been disproportionately high compared to similar situations elsewhere in the world in the last few decades. This difference is driven by three factors: (i) the sheer scale of the Syrian conflict and ensuing forced displacement, (ii) the high exposure of neighboring countries to a possible fallout, and (iii) the low institutional resilience in neighboring countries, which propagated the shock further (**Figure 8**). Intuitively, as the Pisa tower continues to list in one direction, even a slight breeze may one day trigger a catastrophe. Where would the blame lie in that case, the wind or the structural integrity? It is probably both.

**The scale** argument is self-evident in the case of the Syrian conflict. The conflict in Syria has been one of the most brutal civil wars in recent

decades regardless of how we measure it, including indicators of mortality, destruction, economic collapse, and the forced displacement.

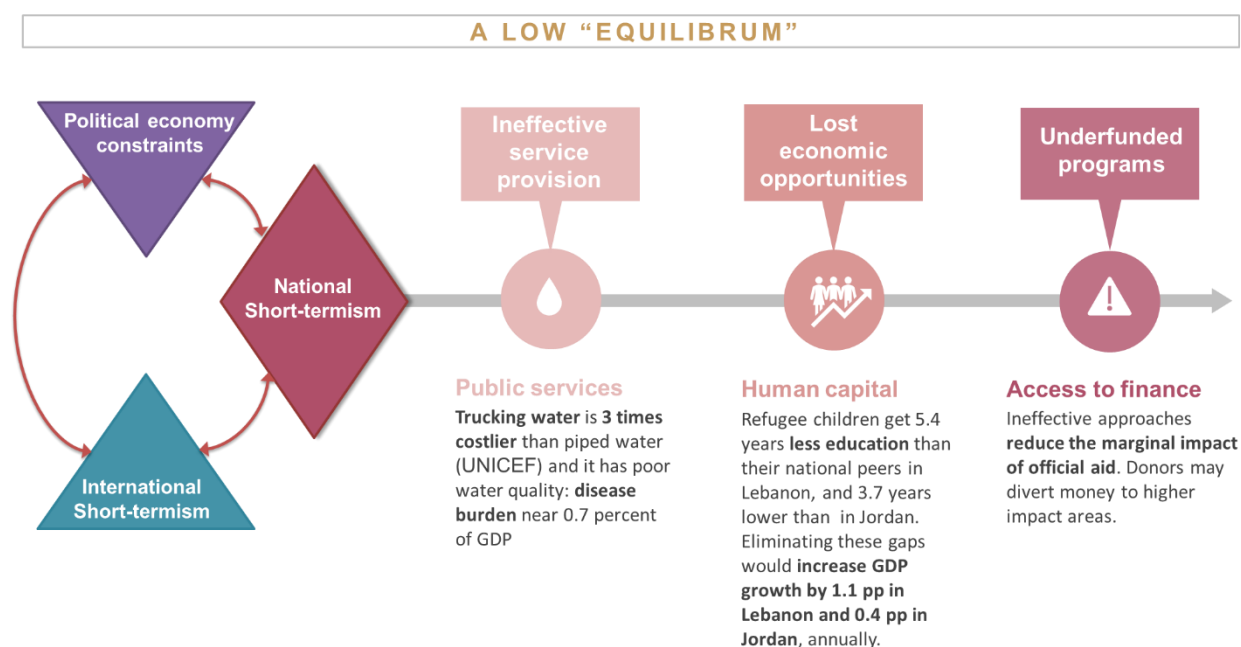
**The high exposure** stemmed from unconventional channels. For Syria's neighbors, bilateral trade with Syria was relatively small. Nevertheless, the conflict still affected their external balances. Lebanon and Jordan relied heavily on foreign direct investments and service exports (tourism), which reacted strongly to instability. Iraq's exposure also materialized through a bolstered Islamic State insurgency.

**Institutional resilience** was low in the three countries for different reasons. Before 2011, Iraq had one of the lowest state capacities in the world. Jordan had one of the best in the Middle East and North Africa region, but its fiscal space was narrowing as revenues decreased. Lebanon had both problems: driven by a complex political economy, its state capacity suffered from years of underinvestment; and an excessive public debt burden, along with an ineffective tax system, suffocated its fiscal space.

Together these three factors (a large shock, high exposure, and low institutional resilience) paved the way for a sizeable regional impact. However, a suboptimal set of policy responses have contributed to these outcomes as well. Despite the heroic efforts of the host country governments, citizens, and the international community, the mitigation efforts have not been perfect.

To see this, note that the low legacy institutional resilience are themselves the outcomes of complex political economy factors in these countries. The same political economy factors also prevented the governments from committing to a more structural effort in dealing with the refugee problem. The refugee situation was known to become protracted at the outset. However, policy responses were often transitory. Quick and dirty solutions (e.g., trucking water to temporary refugee shelters, instead of piping it) to increasingly structural problems regenerated the problem again and again.

**Figure 9.** The regeneration of a low equilibrium in the region



Source: The Fallout of War (2021)

## ***A "low equilibrium" is regenerated by daunting political-economy challenges and suboptimal policies***

This short-termism of the host country governments fed to, and was fed by, a short-termism of the international community. The support provided to these countries are programmed year by year, country-by-country, and project by project. This, in return reinforced the short-termism of the host country governments. Thus, the absence of longer-term commitments on one side regenerated the same problem on the other side. The result is a "low equilibrium", where:

- **Service provision is often ineffective.** Short term solutions like water trucking is up to 3 times costlier than grid alternatives, and it is also unhealthy with lots of E.coli content, which costs the countries up to 0.7 percent of GDP in health costs.
- **There are economic losses.** Refugee children receive about 5.4 years less education than their Lebanese peers and 3.7 years less than Jordanian peers. Only closing these education gaps would

increase the GDP by 1.1 percentage points in Lebanon and 0.4 percentage points in Jordan.

- **Mitigation programs are left underfunded.** With costly and ineffective transitory measures, the on-the-ground impact of the donor money is limited. As a result, financial resources may be diverted to more impactful alternatives.

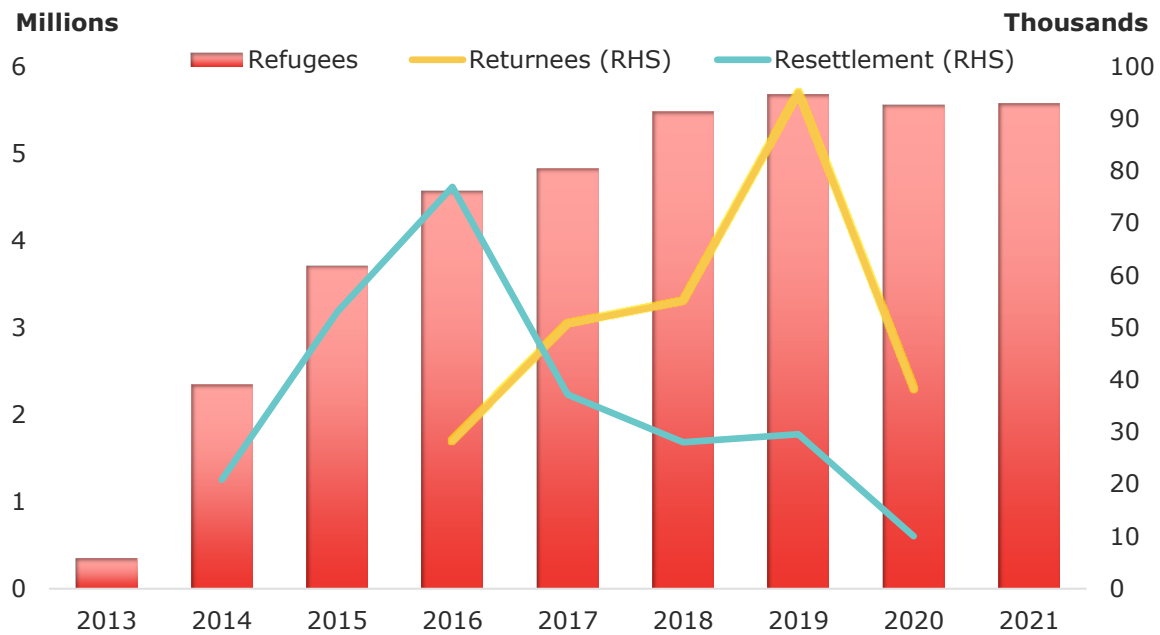
## **THE RETURN OF THE SYRIAN REFUGEES**

Syrian refugees sometimes faced adverse conditions in exile. Nevertheless, only a small fraction of Syrian refugees, about 267,170 persons or 4.6 percent of total refugee population, spontaneously returned to Syria by the end of 2020 (**Figure 10**). The MODS report analyzed the factors that helped or hindered this pattern by using the actual return (or no return) information of more than 2.1 million Syrian refugees in Lebanon, Jordan, and Iraq by 2018.

Results show that, the “pull” factors in Syria had unambiguous effects on return behavior. Security in Syria was one of the most important determinants of return. A one-standard deviation increase in a refugee’s hometown in Syria reduced her likelihood of return by 4.5 percentage points. Refugees were 3.6 percentage points more likely to return if the district of origin was not controlled by the government of Syria. Similarly, low provision of education, health, and basic services in Syria provides an effective deterrent against return. Refugees were 2.2 percentage points less likely to return if access to basic services (electricity, fuelwood, and so forth) was a primary concern in their home district.

***Refugees return more when conditions in Syria are better but not necessarily when conditions in exile are worse.***

**Figure 10.** Refugees, Returnees, and Resettlement, 2013-2021

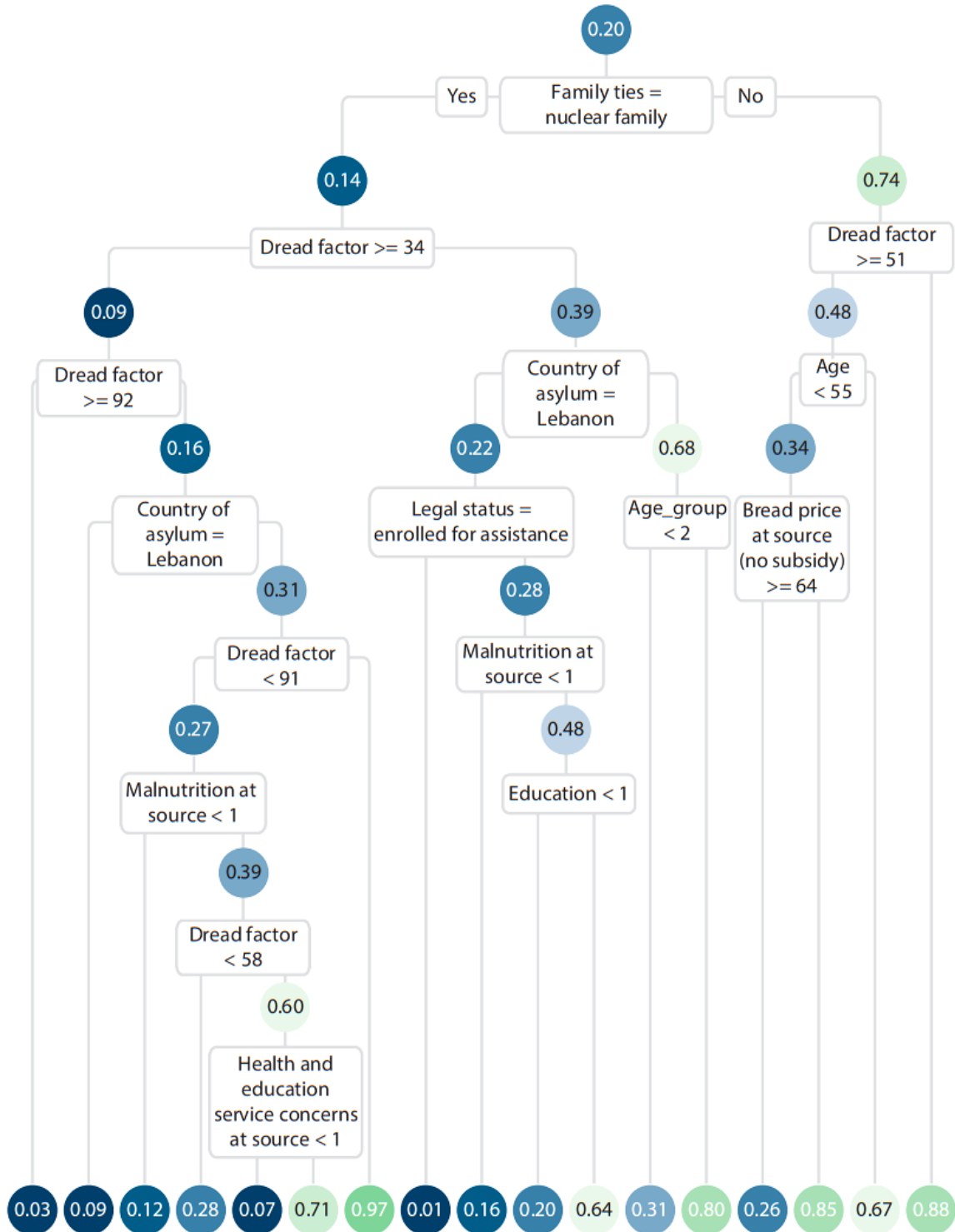


Source: UNHCR (2021)

In comparison, the “push” factors in countries of asylum had mixed effects. Bad living conditions in host communities did not always make refugees go back. Other things being equal, refugees were 15 percentage points more likely to return if they consumed an extra meal per day. Similarly, a one-standard-deviation increase in food insecurity in exile decreased the likelihood to return by 1.8 percentage points.

The analysis showed that the actual returns to date were of a special kind, in both their scale and composition, and were generally different from large-scale returns. Similarly, different refugees responded to different factors in making the return decision. Refugees who were single were 2.7 percentage points more likely to return than married refugees. Male family members were 0.6 percentage point more likely to return than female, and extended family members were 12 percentage points more likely to return than nuclear family members.

**Figure 11.** Decision tree algorithm for refugee returns



Source: The Mobility of Displaced Syrians (2019)

With intensive conflict in home locations in Syria, returnees were more narrowly selected from a specific profile of refugees. A machine-learning algorithm elaborated on more complex dynamics (**Figure 11**). In the (biased) sample used for this exercise, only 14 percent of nuclear family members returned, whereas 74 percent of non-nuclear-family members returned. However, the returns of nuclear family members became even less likely under high-intensity conflict. For instance, only 3 percent of nuclear family members returned when the dread factor (tank, artillery, and air strikes) was high in the district of origin in Syria. In comparison, among those in the non-nuclear-family member group, 88 percent returned when the dread factor was low, and 67 percent returned when the dread factor was moderate and the non-nuclear member was older than 55 years of age. These findings provided some support for the anecdotal evidence that, despite an active conflict, senior relatives went back for family reunification, to identify return conditions, or to guard property against appropriation risk.

## **SYNOPSIS**

In the past decade, the conflict in Syria imposed significant damages to the economies of both Syria and its neighbors. This impact manifested largely through economic disorganization in Syria and trade and productivity shock emanating from regional insecurity in Syria's neighbors.

Today, even after passing the one decade milestone, the Syrian conflict continues to impoverish Syrians and serve as an anchor of instability in the Mashreq region. Millions of Syrians in the region are trapped in a basic struggle for survival. Generations of Syrian children are deprived of opportunities to build on their human capital. Every day these children are further locked into frustrating living conditions, which will endure decades.

# 3. THE STEEP ROAD AHEAD

Going forward, the economic and political trajectories of the Mashreq countries will remain intertwined. Future developments in Syria are likely to influence the economic and social outcomes in other Mashreq economies. An economic recovery fueled by a credible political resolution and subsequent improvements in security and service access conditions in the country would have significant positive repercussions in the region. Conversely, deteriorating conditions, including the rekindling of the conflict or a deepening economic bottleneck in Syria, would add to the adverse impact of the conflict so far. In the end, the scale and the composition of such future impact will depend on the policy measures adopted going forward in the Mashreq economies.

## ECONOMIC RECOVERY IN SYRIA

The TOW estimated in 2017 that, with continued conflict, the real GDP in Syria would continue to shrink, although at a lower rate (i.e., another 2 percentage points between 2016 and 2020, **Error! Reference source not found.**) than before as the economy has already been highly depressed. It is difficult to verify the accuracy of this prediction as other



unanticipated factors like additional sanctions and the Covid-19 pandemic have interfered. Nevertheless, estimates between 2017 and 2020 are not far off from this projection.<sup>v</sup>

Looking ahead, the economic recovery in Syria is expected to be slow. To study these dynamics, the MODS report developed a bottom-up scenario-based approach. To avoid making strong, top-down assumptions regarding the complex and unpredictable political economy dynamics surrounding the Syrian conflict, this approach built scenarios for two prominent pull factors: security and infrastructure. To do this, eight underlying conditions were analyzed for every governorate in Syria (14 overall): political influence/control, administrative capacity, social tensions, reconstruction priority, rule of law, legal/procedural complexity of return, financial capacity, and the region's connectivity with other regions. By using observations and expert assessments regarding these conditions, three possible future paths for security and infrastructure were generated for each location:

- **Baseline environment:** The insecurity index decreases to 0.15 in 2023 (it was 1.4 in 2017). In the meantime, 16 percent of the currently damaged infrastructure is rebuilt or fixed in the entire country, but the reconstruction ratio varies from 3 percent to 32 percent in different areas.
- **Optimistic environment:** The insecurity index decreases to 0.07 by 2023, and about 30 percent of the currently damaged infrastructure is rebuilt or fixed during that period. With a greater amount of rebuilding, the reconstruction ratio is more divergent across different locations than the baseline: 5 percent in the lowest case and 48 percent in the highest.
- **Pessimistic environment:** The insecurity index decreases to 0.54 by 2023. The average reconstruction ratio remains at 5 percent of the current damages across the country, with significant disparities between the highest reconstruction at 14 percent and the lowest at 2 percent.

In the first scenario (baseline), gross domestic product (GDP) growth increases by 0.8 percentage points annually in the next five-year period. In comparison, the second and third scenarios yield GDP growth of 1.7 percentage points and 2.5 percentage points, respectively. It is important to remember that these are incremental growth rates brought about by security improvements and service restoration only and should not be interpreted as GDP growth projections. These estimates took into consideration the productivity-enhancing aspects of better security and greater infrastructure stock, as well as the endogenous response of refugees outside the country in the form of spontaneous returns.

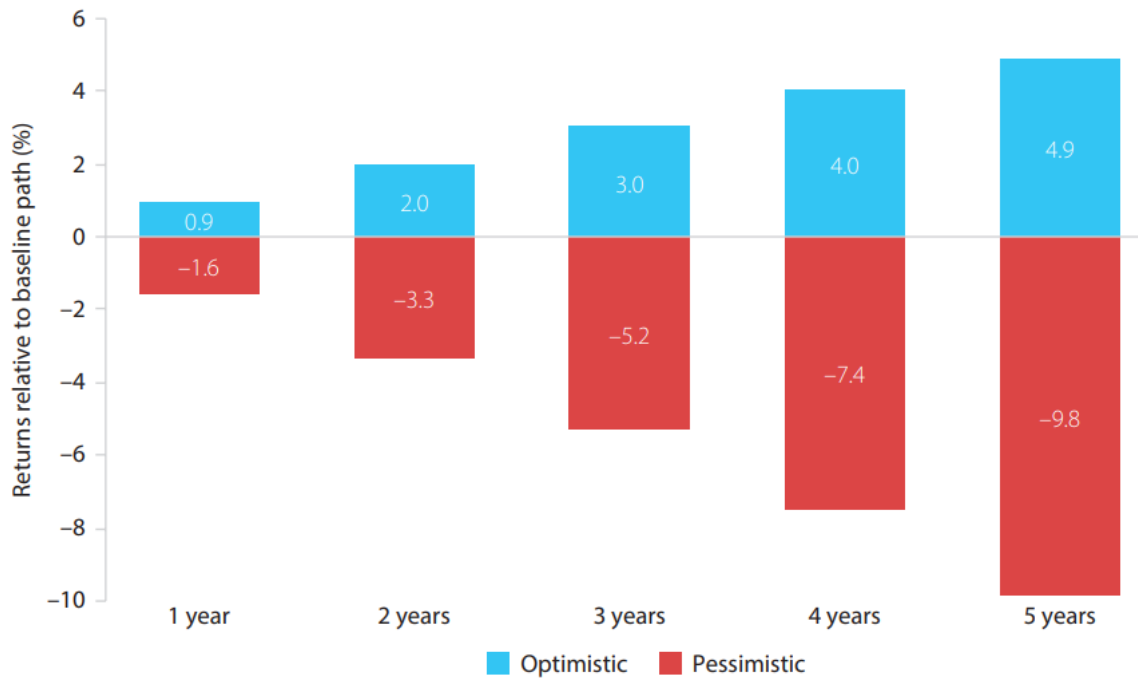
## **REFUGEE RETURNS TO SYRIA**

The future mobility of Syrian refugees could be different from their past mobility. In many ways, the return that has taken place so far has been undertaken in specific circumstances—that is, during an active conflict—with specific motives like protecting property. Going forward, however, both the circumstances and motives are likely to be different. To capture these concerns, the analysis next considers scenario-based simulations.

***A large scale refugee return to Syria will fundamentally be different than the selective returns so far.***

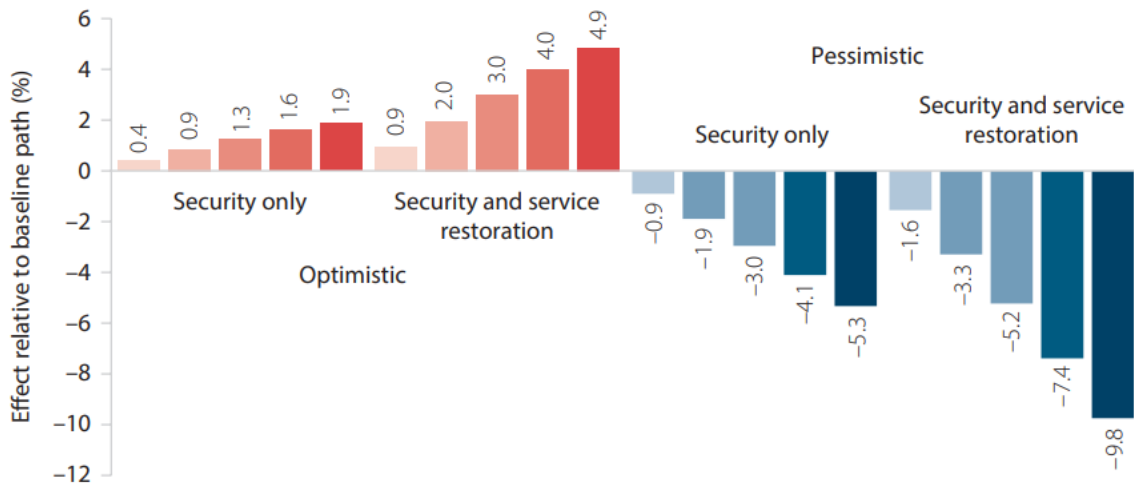
Simulations confirm the importance of security and service provision in Syria for the return of the Syrian refugees in the future. If the insecurity index is reduced from 1.40 now to 0.07 (optimistic environment) in five years, instead of 0.15 (baseline environment), and if 30 percent of the infrastructure is rebuilt (optimistic environment) instead of 16 percent (baseline environment), then returns would be 4.9 percentage points higher than in the baseline environment by the fifth year (**Figure 12**). In contrast, if the insecurity index decreases to only 0.54 and only 5 percent of the infrastructure is rebuilt (pessimistic environment), then returns would be about 9.8 percentage points less than the baseline.

**Figure 12.** Return dynamics, percentage points difference with baseline



Source: The Mobility of Displaced Syrians (2019)

**Figure 13.** The effect of service restoration on refugee returns



Source: The Mobility of Displaced Syrians (2019)

Service restoration is more effective in mobilizing refugees when security is less of an issue. To better understand the distinct roles played by improving security conditions and service restoration, these effects were introduced separately. When only security improvements are considered, the optimistic path features 1.9 percentage points more returns than the baseline environments in five years (**Figure 13**). This ratio more than doubles to reach 4.9 percentage points when service restorations are involved (second blue group in the figure). In comparison, the gap between “security only” and “security + service restoration” cases is smaller when the pessimistic scenario is compared to the baseline scenario. The pessimistic insecurity path, by itself, reduced returns by 5.3 percentage points as compared to baseline path. When differences between service restoration rates are also accounted for, this gap widens to 9.8 percentage points, nearly double. Thus, the difference-making potential of service sector restoration goes together with improvements in security.

***Maximizing returns and maximizing welfare are different objectives, and there are trade-offs between them.***

Simulations show that, on average, mobility subsidies are the most effective in mobilizing refugees, but the least desirable from a welfare perspective. Returns under the subsidy scheme can exceed those under the service restoration scheme by about 29 percentage points, 45 percentage points, and 60 percentage points under pessimistic, baseline, and optimistic environments, respectively. Intuitively, for refugees, subsidies provide a more direct, exclusive, and thus larger benefit associated with returns. In comparison, the benefits of service restoration are shared by all Syrians and, thus, diluted from the refugee’s perspective. The difference between the two schemes is the most prominent in the optimistic environment, where a larger financial resource is either shared among returnees (subsidies) or diluted by means of service restoration.

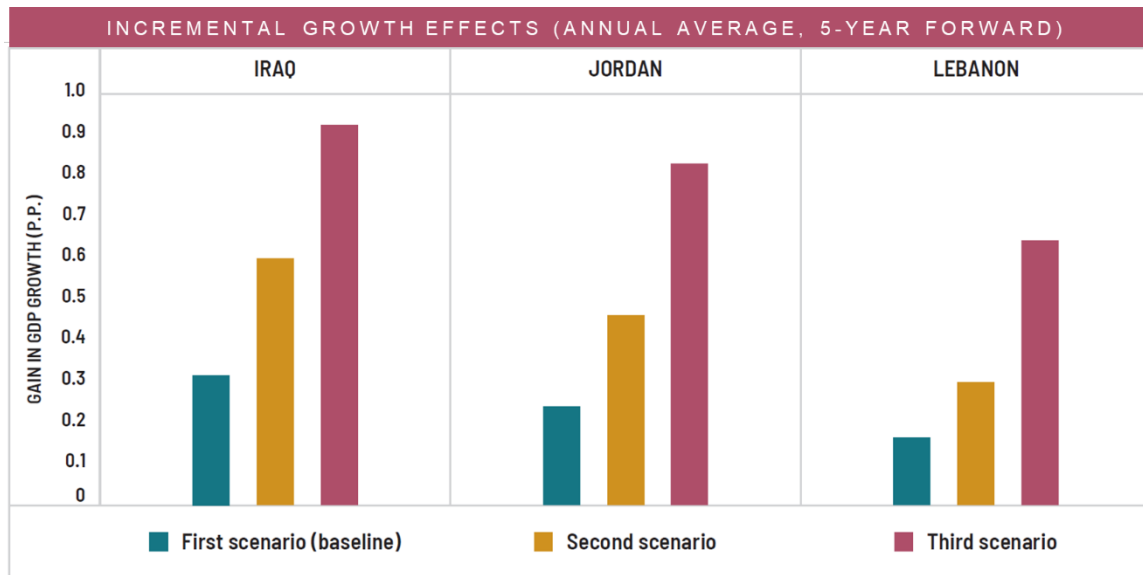
## REGIONAL FALLOUT

Theoretically, a positive fallout from Syrian recovery is possible; however, it would largely be driven by better regional security and confidence rather than by immediate economic opportunities. In practice, the muted future economic recovery in Syria is expected to translate into a slow reversing of the adverse economic and social impact of the conflict on Iraq, Jordan, and Lebanon so far.

Simulations in the FOW shows that, in the baseline case (scenario 1), the additional GDP growth in Iraq, Jordan, and Lebanon is estimated to be limited to 0.2–0.3 percentage points (**Figure 14**). In the other two scenarios, in which security improvements and service restoration are both more significant, the growth increments are between 0.3 and 0.6 percentage points (scenario 2) and 0.6 and 0.9 percentage points (scenario 3). A large share of these additional growth rates (more than 90 percent) is driven by the security- and confidence-driven total factor productivity (TFP) improvements.

The complementarity between potential material requirements for service restoration and the current trade profile of Syria's neighbors is low. In order to see why the trade channel may be relatively small, the FOW compared the actual trade patterns in the Mashreq region with the likely import demand associated with service restoration in Syria. Accordingly, the following materials constituted the top five (by value) across all three scenarios: concrete structure (cement, sand, aggregate), rebar steel, wood, concrete block, and waterproofing. These five are followed by electrical copper, roof tiles, wood doors, paint putty, and ceramic tiles; but their demand is on average much smaller compared to the top-five list. Both Jordan and Lebanon have historically run significant trade deficits in all these top-five materials. Thus, in current economic conditions, we do not observe a revealed advantage in either country (besides proximity) that would grant these countries a competitive edge or first mover advantage in supplying these materials to Syria in the future.

**Figure 14.** GDP growth gains from security and service restoration in Syria



Source: The Fallout of War (2021)

## SYNOPSIS

Although the crisis in Syria is not the only cause of problems in the Mashreq, it will continue to fuel them. The economic interconnectivity between Syria and its neighbors has shrunk as a result of the economic collapse in the former and the erection of new barriers (such as border closures) in the latter. This reduced interconnectivity limits the nature of Syria's impact on its neighbors as compared to the earlier years of the conflict. Nevertheless, Syria's influence continues to extend outward, even if in the form of a security black hole that threatens the stability of the region as a whole.

In Syria's neighbors, the same pre-conditions that facilitated a disproportionately large impact and sub-optimal outcomes will also restrict future efforts to mitigate the persistent challenges. Thus, the future policy agendas should explicitly consider how those preconditions, including some formidable political-economy barriers, can be incorporate into planning. Those who ignore these barriers will do so at their own peril.

# 4. ELEMENTS OF A NEW APPROACH

The discussion so far has characterized the mechanisms that explain the economic and social outcomes of the Syrian conflict in the Mashreq Region. Much of these mechanisms are propagated by a complex political economy that surrounds policies in these countries. Thus, specific policy choices and resulting suboptimal conditions should not be regarded simply as poor policy choices.

An extreme example for this was the brutal response of the Syrian Government against Arab Spring demonstrations in the country, which paved the way for one of the most brutal civil wars in recent decades. However, political-economy constraints of different degrees are prevalent in all countries in the region. For example, in Lebanon, confessional patronage is embedded in the Lebanese political system: power-sharing arrangements and the electoral system encourage sectarian groups to compete for the key levers of the state and for access to lucrative patronage opportunities (USIP 2013). Lines between political and business elites are blurred the exploitation of public funds for personal gain are normalized.<sup>vi</sup> The result is a suboptimal equilibrium, in which successive governments do not find it incentive compatible to invest in state capacity or to develop a longer-term vision.

## ***A two-part policy problem: what to do (i) within the current constraints, (ii) to relax those constraints?***

Under these circumstances, a determined policy maker can go a long way in improving conditions for constituents despite the political economy constraints. However, major shifts that relax some of the political economy constraints faced by policy makers could open more space for such improvements. The FOW proposed a strategy design that separates the two situations explicitly: a “unilateral approach” corresponds to the former case (operating within constraints) and a “regional approach” denotes the latter case (shifting the constraints). We now turn to this discussion. Whereas the unilateral approach presents an adaptive policy path where countries try to implement their best responses to changes in the regional context with the support of an international community (which shares the same country-specific focus), the regional approach enables a cooperation in which jointly beneficial policies can be implemented with the support of the international community that shares the same regional perspective.

## **A UNILATERAL APPROACH**

Regardless of other factors, the governments in the Mashreq can and should address structural weaknesses and eliminate inefficiencies to better mitigate shocks. Despite the political economy constraints, potential synergies between different objectives can create the necessary slack to make progress. Specifically, authorities can both deploy a medium-term strategy for addressing the protracted challenges of the Syrian crisis and reinforce public service delivery to own constituents. Synergies are especially strong in the following areas:

- ***Bring “Robin” into the “hood.”*** Refugee arrivals can create both winners and losers. An important role that governments can play is to smooth out the gains and losses by means of proper public policies. Progressive social insurance and assistance



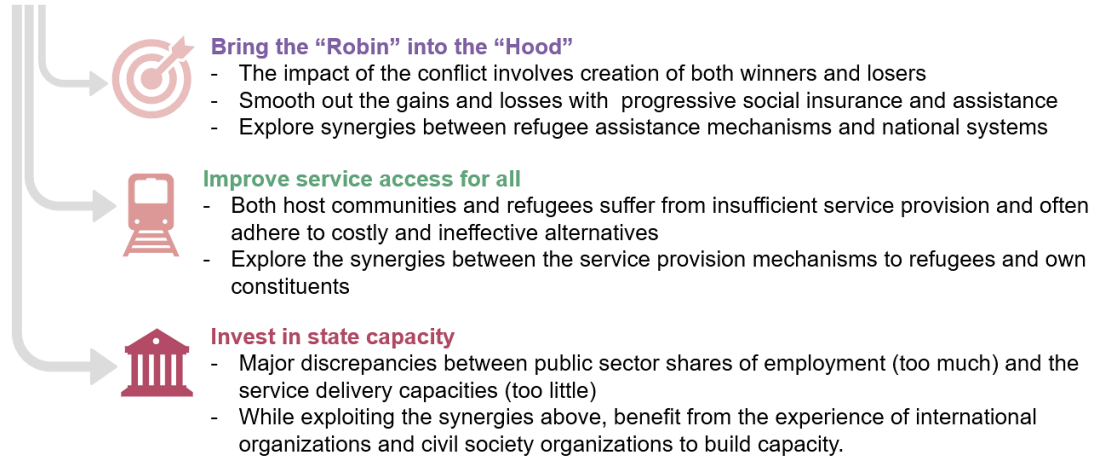
mechanisms are examples in this regard. All the countries we cover in this study have weak automatic stabilizers like unemployment insurance, especially in nonpublic employment. In comparison, social assistance programs were more prevalent but not sufficiently targeted or progressive, especially in Iraq and Lebanon. Overall, better protection of the vulnerable and redistribution of gains from the winners to the losers are needed. Achieving such improvements requires exploring the synergies between refugee assistance mechanisms and national social assistance systems.

- **Improve service access for all.** The provision of public goods and services for host communities can be improved in several areas. For instance, insufficient attention is paid to periodic maintenance in transport (all countries), and costly options like diesel generators are used too often in the energy sector (mainly Lebanon). Refugees also face similar problems: costly and unhealthy provision of water by tanking and trucking and the economic losses due to low school attainment among Syrian children are some examples. In addition, the presence of refugees makes the prevailing inefficiencies more costly and visible (for example, the higher subsidy bill in energy provision). Thus, while trying to improve the efficiency and effectiveness of service provision to own constituents and refugees, countries can exploit synergies between the two provision systems.
- **Invest in state capacity and build policy space.** The successful implementation of such activities requires building further public sector capacity and policy space. Currently, major discrepancies exist between public sector shares of employment (too much) and the service delivery capacities (too little) in the region. Developing a medium-term strategy for better service delivery for locals and refugees alike can provide an opportunity in this regard. The presence of international organizations and civil society organizations could provide an opportunity to align the two systems in a transparent manner.

**Figure 15.** What can national authorities do unilaterally?

**Two distinct but interconnected priorities:**

1. Improve provision of public services to own constituents
2. Strengthen the medium-term perspective on protracted problems driven by the Syrian conflict



## A REGIONAL APPROACH

From broader regional insecurity to sudden demographic changes, the conflict in Syria has imposed numerous changes on neighboring countries. But this conflict has not been the only one. The region’s history teems with conflicts whose effects go beyond borders; however, it is not only “public bads” but also “public goods” that have cross-border effects. For instance, better roads in Syria made transportation costs lower not only for Syrians but also for Iraqis, Jordanians, and Lebanese through transit trade. This effect became evident during the conflict when road closures inside Syria affected the trade patterns of neighboring countries. Similarly, economies of scale in many areas like energy and information and communications technologies can help countries like Lebanon and Jordan overcome market size problems. A regional approach can exploit these spillovers.

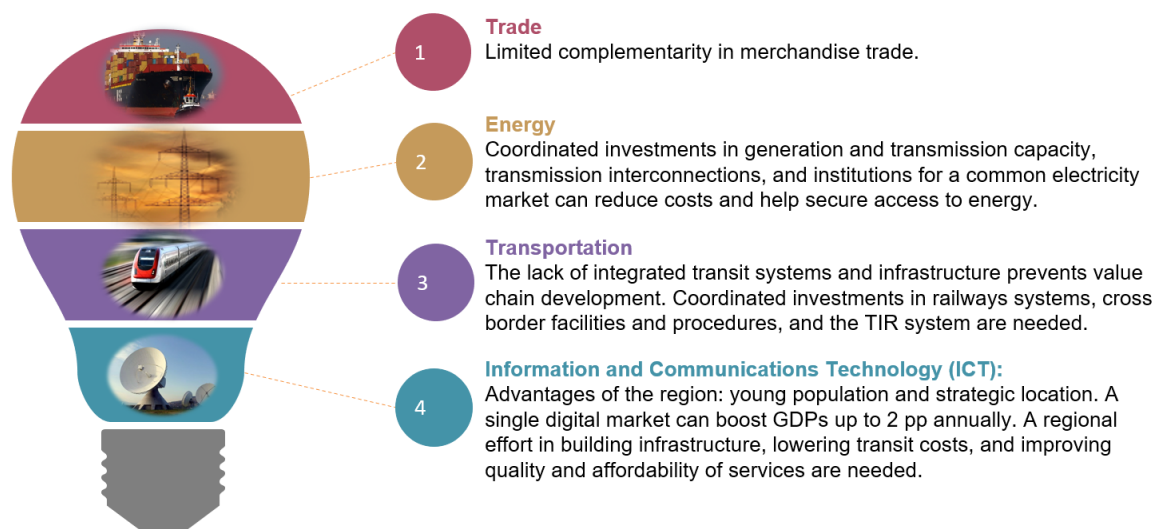
***In the Mashreq region, many problems are transboundary; their solutions should be too.***

In a unilateral framework, governments do not take such spillovers into consideration when deciding the level of public services (thus, they do not provide enough when spillovers are not internalized). In a regional framework, cooperation among countries can address this problem. With greater perceived benefits, the optimal levels of public goods and services could increase. Consequently, higher investments in state capacity would become incentive compatible and the conflictual and rent-seeking activities within a country would decrease at the margin (Karayalcin and Onder 2020). But, what are the mechanisms through which regional cooperation can contribute to peace, stability, and prosperity in each country? Are there clear gains for everyone from a regional approach? If yes, why have these gains so far failed to mobilize policy makers for such an approach?

Important gains are possible in service market integration and infrastructure cooperation. Although the intraregional complementarity of merchandise trade has been relatively low, the potential gains from removing the barriers to service market integration and infrastructure cooperation are large. Opportunities to exploit cross-border synergies in energy, transport, and information and communications technologies are particularly promising.

- **Energy.** There is much room for deeper mutual integration of countries' electricity infrastructure and markets at the regional level. Coordinated expansion of generation and transmission capacity, joint building of transmission interconnections, and joint efforts to build and strengthen the institutions for a common electricity market can all contribute to cost savings and better security of supply. Cross-border interconnectors of Jordan with West Bank and Gaza, Saudi Arabia with Iraq, Jordan with Iraq, and Saudi Arabia with Jordan can generate an estimated \$9.2 billion in benefits—derived mainly from avoided capital expenditures as well as reliability benefits and fuel cost savings. Such integration can also encompass other major regional markets.

**Figure 16.** Gains from infrastructure cooperation and market integration



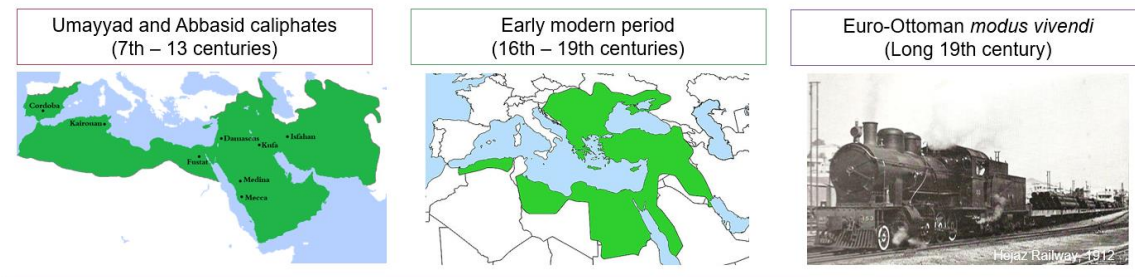
- **Transportation.** The lack of integrated transport systems and infrastructure constitutes a bottleneck, preventing regional value chains and participation in the global system of production and distribution. Main action areas are the following. First, accelerate railway systems: all countries in Mashreq suffer from weak railway interconnectivity, with Lebanon entirely lacking railway lines. According to the Agreement on International Railways in the Arab Mashreq, 60 percent of the total railway network remains to be built. Second, improve cross-border facilities and procedures: underdeveloped transit systems cause delays and increase freight rates. Finally, expand the TIR (Transports Internationaux Routiers) system to streamline the transit system and improve the transportation sector locally.
- **Digital market.** The digital transformation of the Mashreq with regional integration of infrastructure and data markets can generate additional GDP growth between 1.6 percent and 2.4 percent in all countries. Main action areas are as follows. First, increase connectivity through infrastructure, reduce the costs of access to regional networks, and position the region as a hub in Europe–Asia traffic. Second, lower regional transit costs, and standardize an open-access regime for backbone interconnection,

including the possibility of purchasing wholesale transit capacity. Finally, improve affordability and quality of connectivity services; survey telecom policies to take stock of interconnection fees, number portability, infrastructure sharing challenges, and price regulation of dominant market players.

Potential gains alone do not suffice for a regional perspective. Although the region has maintained economic interconnectivity throughout its history, it has not always sustained a true cooperative framework at the regional scale. Domestic political economy (for example, majority-minority dynamics) and significant economic or political asymmetries between the region's economies can hinder regional efforts. To shed light on preconditions of a successful region framework, the FOW studied three episodes in the region's long history, each driven by different dynamics. From these episodes—the Umayyad and Abbasid caliphates (661–1258), the Pax Ottomanica during the early modern period, and the EuroOttoman *modus vivendi* of the long 19th century (1800–1945)—we have distilled the following lessons:

- ***Demographic shocks may provide an opportunity to increase cross-border connectivity by supporting trade.*** With a slow economic recovery in Syria, trade benefits for neighboring countries are likely to remain modest. With a common regional vision, however, and with infrastructure cooperation (including physical and institutional dimensions), gains can be transformative. Demographic networks can play a facilitating role in this case as in the Umayyad and Abbasid caliphates period. •
- ***External factors can play a major role in facilitating economic integration.*** In the 19th century, expansion of trade with Europe promoted a bottom-up economic integration, in which the market dynamics shaped labor mobility and infrastructure provision across the Mashreq. The role of external factors becomes more important when none of the regional actors can be the locomotive of growth, as is currently the case.

**Figure 17.** Lessons from historical episodes of regional connectivity



- 1** **The role of demography**  
With the right approach, demographic shocks can boost cross-border connectivity (e.g., migrant networks).
- 2** **External factors matter**  
Opening of external markets can facilitate a bottom-up integration if complemented by infrastructure cooperation and labor mobility, regionally.
- 3** **Balance between competition and cooperation**  
Encourage market principles and contestability, nurture with supportive infrastructure and institutions.

- ***The right balance between competition and cooperation is essential.*** The Pax Ottomanica period suffered from stagnant economic dynamics as urban guilds, empowered by imperial institutions, reduced incentives for innovation and competition. In comparison, the 19th century witnessed a chaotic race to establish natural monopolies through infrastructure investments, which led to incompatibility across regions. Overall, a regional framework should encourage market principles and contestability, yet it should nurture markets with strategic and supportive infrastructure and institutional systems.

With the right approach, today's challenges can beget tomorrow's opportunities. Currently, there are several impediments to a regional perspective: major asymmetries within and across the countries of the region have so far prevented a regional perspective. Nevertheless, history shows us that a better outcome is possible. Although the conflicts in Syria and Iraq have fundamentally changed the conditions faced by other countries in Mashreq, they have also created the conditions to build a better equilibrium. Under the right circumstances, service restoration and economic recovery in Syria can provide an opportunity to foster a regional perspective.

Shifting to a regional focus for stability and prosperity necessitates a concerted international effort. A supra-national commitment to stability at the regional level is a prerequisite of a successful regional approach. Only such a commitment can make elites feel safe enough to perform deep social and economic reforms, relaxing economic exclusion and alleviating the inherently interdependent fragility. The right combination of local, regional, and international inputs can thus help surpass the inherent limitations observed in the past. This is not an easy task, yet there seems to be no alternative that is equally desirable or feasible, at least not for the foreseeable future. The global spillovers from an unstable Mashreq region, including emigration and security threats, should provide incentives for all parties to wish for better stability and prosperity for all in the region.

In sum, although the conditions are less than ideal for a regional drive, such a motive can provide a feasible exit from a fragile regional equilibrium. Studies on regional cooperation often highlight the importance of stability before attempting cooperation. Mashreq, however, does not have this option. Drivers of instability in the Mashreq are numerous and powerful, and overcoming them is a formidable task. Past experience shows that the region requires all the help we can muster to begin stabilizing and tackling its structural problems. Thus, this report took a different approach and asked a fundamental question: Can a regional perspective that is owned locally but supported internationally help stabilize the region? Our answer is affirmative, albeit cautiously so. If and when a consensus is established, the international community has the means to facilitate such a vision. Will there ever be such a consensus? We are optimistic because the alternative is in no one's interest.

## NOTES

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<sup>i</sup> Jabbour, S., Leaning, J., Nuwayhid, I., Ager, A., Cammett, M., Dewachi, O., ... & Yassin, N. (2021). 10 years of the Syrian conflict: a time to act and not merely to remember. *The Lancet*.

<sup>ii</sup> Ibid.

<sup>iii</sup> <https://data2.unhcr.org/en/situations/syria>

<sup>iv</sup> United Nations, Department of Economic and Social Affairs, Population Division (2019). *World Population Prospects 2019*, custom data acquired via website.

<sup>v</sup> See UNESCWA (2020). *Syria at War: 8 Years On*, UNESCWA and University of St. Andrews: Beirut, Lebanon.

<sup>vi</sup> See El Kak and Zoughaib (2020).