

## Costs of war. The Syrian crisis and the economic consequences for Syria and its neighbours

*Peter Seeberg*

### News

International Monetary Fund (IMF) economists have recently (Dec. 2017) published an analysis focusing on the economic consequences of the conflicts in the Middle East. Taking Iraq, Libya, Palestine and Syria as examples they show how deep declines in the economies of these states follow from years of warfare and internal crisis – not surprisingly Syria in particular. The article discusses the significant economic consequences of the crisis in the Mashreq with a focus on Syria and its neighbouring states.

### Summary

The article deals with economic aspects of the costs of war in Syria and the related impact on the neighbouring countries. The analysis focuses on structural deficiencies as a result of the crisis in Syria and to what extent the high level of conflict in the Mashreq have persistent consequences for the economic development of the region as a whole. Taking its point of departure in four different dimensions of the economic problems related to warfare, the article claims that the Syrian crisis will have long-term significance and that huge efforts to organize an international response to these challenges will be necessary – both regarding Syria itself and its severely affected neighbouring countries.

### Key Words

War, economic consequences, Syria, spill-over, Jordan, Lebanon

### About the Author

Peter Seeberg is Associate Professor at Centre for Contemporary Middle East Studies, University of Southern Denmark and Director of Danish Jordanian University Cooperation ([www.DJUCO.org](http://www.DJUCO.org)), an academic partnership-project in Amman, funded by the Danish Ministry of Foreign Affairs.

## Analysis:

### Introduction

The crisis in Syria has been described as the worst humanitarian disaster since the end of the cold war.<sup>1</sup> We only have estimates of the true magnitude of the tragedy, but the high numbers of casualties and the fact that more than half of all Syrians have either left the country or live as internally displaced persons in Syria, leave no doubt that we are facing one of the worst internal wars in Middle Eastern history.

In addition to the human casualties the economic consequences of the warfare are enormous. The Syrian GDP has declined dramatically since the start of the internal war in 2011, the infrastructure is damaged and the trade with the Syrian neighbours have been reduced significantly. Beyond these obvious developments more hidden phenomena add to the costs of war. As described by Phil de Imus et al key economic organizations and institutions attached to the Syrian economy have been hurt severely.<sup>2</sup> For instance important economic institutions (banks, relevant ministries, tax authorities etc.) have witnessed how their performance have deteriorated because the normal rapid flow of communication between them and their financial partners has become seriously affected by the increasing crisis.

It is the idea of this article to analyse how Syria and its neighbouring countries are facing structural deficiencies as a result of the crisis. Furthermore the article will discuss to what extent it can be claimed that the high frequency of violent conflicts have substantial persistent consequences for the development of the Mashreq region as a whole.

### Syria and the changes of the physical, economic and social landscape

Seven years ago, at the onset of the so-called Arab Spring, a wave of optimism spread in the Middle East. Throughout the year 2011 a number of authoritarian leaders were overthrown and a series of surprising developments in many ways – as argued by Larbi

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<sup>1</sup> It should be mentioned that this general description covers a highly complex range of humanitarian issues, from short term emergencies to longer term support of many different kinds, not least in the neighbouring countries of Syria, mainly Lebanon, Jordan and Turkey, see for instance Benedetta Berti, "The Syrian Refugee Crisis: Regional Challenges," in *The Middle East and North Africa* (London and New York: Routledge, 2017).

<sup>2</sup> Phil de Imus, Gaëlle Pierre, and Björn Rother, "The Cost of Conflict. Middle East Strife Is Exacting a Heavy Toll on Regional Economies," *Finance and Development* December 2017 (2017).

Sadiki – marked the death of Middle Eastern exceptionalism.<sup>3</sup> However, what in the first place looked like a reshaping of the authoritarian region in a promising direction, over the next years turned into more problematic developments, in some states to intense violence, large-scale human suffering and destruction of production facilities, infrastructure, public and private buildings, etc.<sup>4</sup>

The economists from the IMF in particular highlight four channels through which the Middle Eastern economies have been affected by major conflicts and wars. Firstly, the human losses, injuries and displacements seriously erode the human capital in the affected countries.<sup>5</sup> In the case of Syria the figures in these contexts are extremely high. The spreading of poverty in connection with warfare is significant and as employment declines negative social consequences are disseminating even outside the directly involved geographic areas. Often the circumstances related to displacement are highly problematic and leading to situations where the specific refugee is only able to bring a few personal possessions to the new location.

Secondly, buildings, facilities and infrastructure are damaged or destroyed. In some cases this can be production facilities for instance related to extraction of oil or natural gas, in other cases roads, bridges, water supply facilities are becoming ruined or degraded. It is claimed that more than a quarter of the housing stock has been destroyed or damaged since the civil war started took its beginning in 2011.<sup>6</sup> The Syrian Centre for Policy Research has estimated that the costs of lost physical capital amount to 230 percent of the pre-war GDP.<sup>7</sup>

Thirdly, the non-physical organization and institutions have become ruined or damaged – and it should be emphasized that this has taken place in a context where the financial institutions and overall organizing of the economy was in a poor state already before the crisis set in. The consequences are “reduced connectivity, higher transportation costs, and disruptions in supply chains.”<sup>8</sup> Furthermore, a significant and decreasing absence of

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<sup>3</sup> Larbi Sadiki, ed. *Routledge Handbook of the Arab Spring. Rethinking Democratization* (London and New York: Routledge, 2015): xxxiii.

<sup>4</sup> Björn Rother et al., "The Economic Impact of Conflicts and the Refugee Crisis in the Middle East and North Africa," in *IMF Staff Discussion Note* (Washington D.C.: International Monetary Fund, 2016).

<sup>5</sup> de Imus, Pierre, and Rother.

<sup>6</sup> Ibid.

<sup>7</sup> Rother et al.

<sup>8</sup> de Imus, Pierre, and Rother., p. 20. This has been confirmed by data from the World Bank and World Economic Forum.

foreign direct investment has become a reality – partly as a result of the poor performance of financial organizations and institutions.

Fourthly, the overall stability of the region is becoming threatened as a result of the conflicts. This impacts the domestic and foreign investments and the general social cohesion – and leads to decreasing trade, shrinking tourism and to a focus on security, which in itself is costly and financially speaking unproductive. In a case like Syria the serious changes of the physical, economic and social landscape have had significant consequences for the neighbouring states, in particular Lebanon, but also Jordan, Iraq and Turkey.<sup>9</sup> A very important phenomenon regarding instability in the context of the Syrian crisis is the flow of refugees, which also has had significant impact on the general lack of economic development and the security environment.<sup>10</sup>

Berti shows how this has had a wide range of perspectives both regarding legal aspects, health and education issues, employment – for the refugees as well as for the host countries and in general for the economic situation of the host countries.<sup>11</sup> The international donor community has injected much-needed funding into both Lebanon and Jordan, but there is hardly doubt that even though some segments of the economy might have benefitted from the international aid and the supply of cheap labour, the international assistance far from covers the costs spent by the host countries. And what is worse – the refugees contribute to an economic situation in the host countries, which already is weakened by years of negative spill-over effects from the Syrian crisis.

## Conclusion and perspectives

The material, statistical data, etc. from the International Monetary Fund, the World Bank, the EU and other international organizations convincingly demonstrate that the high frequency of violent conflicts has had significant consequences for the development of the Middle East region. In countries like Libya, Syria and Yemen the seven years since the Arab uprisings have been devastating for the national economies and in particular in the case of Syria the neighbouring countries have suffered from the impact of the crisis.

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<sup>9</sup> Luigi Achilli, Nasser Yassin, and M. Murat Erdoğan, "Neighbouring Host-Countries' Policies for Syrian Refugees: The Cases of Jordan, Lebanon, and Turkey," *Papers IEMed*, (European Institute of the Mediterranean) 19 (2017).

<sup>10</sup> Lili et al Mottaghi, "Refugee Crisis in Mena. Meeting the Development Challenge," in *MENA Economic Monitor* (Washington DC: World Bank Middle East and North Africa Region, 2017).

<sup>11</sup> Berti.

The massive costs related to the warfare are likely for years to strain the affected economies. A recovery might take place at some stage, even though it seems realistic that we are speaking of long-term processes. The crisis has probably produced more or less permanent disadvantages for the involved economies, national political and institutional systems – which call for international assistance. If the international donors are unwilling to help, financial and economic stability can be compromised.

As the war in Syria here in late 2017 gradually seems to be brought to an end, a tremendous reconstruction effort will be necessary in order to make the country function and create some kind of normality, ideally even bring some social and economic stability to the Syrian society and in a long-term perspective make a return of millions of refugees possible. Huge efforts to organize an international response to these challenges will be necessary – both regarding Syria itself and its severely affected neighbouring countries.

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