

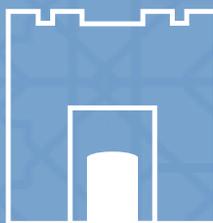
# THE WAR ECONOMY IN NORTHERN SYRIA

DECEMBER 2016  
ARMENAK TOKMAJYAN



Photo: Christian Payne

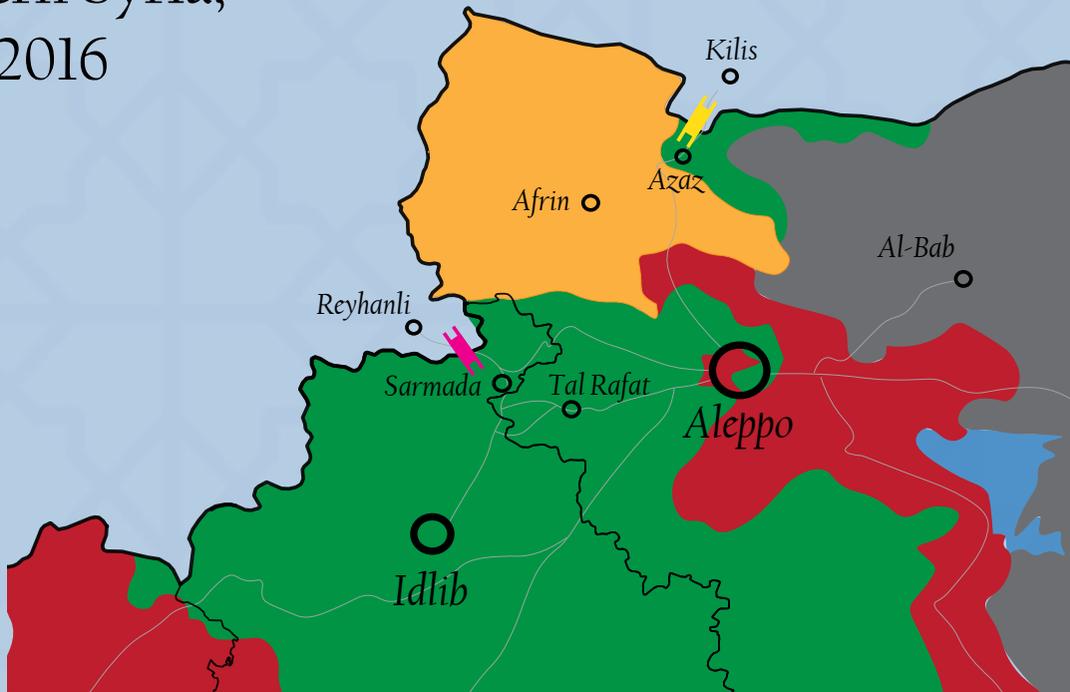
THE ALEPPO PROJECT



مشروع حلب

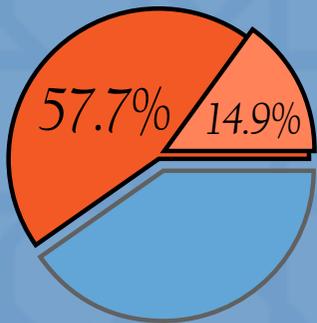
# Northwestern Syria, September 2016

- Rebels
- Kurdish Forces
- Government Forces
- ISIS
- Bab as-Salama
- Bab al-Hawa

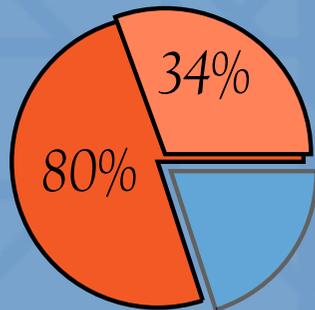


Based on [@deSyracuse Syria maps](#)

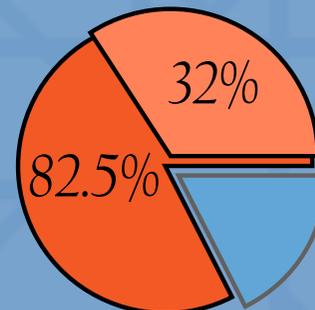
Ahrar as-Sham is the sole controller of the Bab al-Hawa crossing, which is the most important on the Syrian-Turkish border. No accurate data is available on group's financial gains. A low estimate of their income is around 3.6 USD million a month.



Unemployment rose from 14.9 % in 2010 to 57.7 % in late 2014



By 2012, 80 % of the labour force was in the informal sector, compared to 34 % in 2009



Poverty rose from 32 % in 2007 to 82.5 % in 2014.

## ISIS

### WAR ECONOMY

ISIS dependency on foreign support has been limited. Based on previous experiences, its leadership occupied facilities and land with economic importance such as oil. War profiteers, businessmen and the poor all are involved in the oil business. That what makes it very difficult to dismantle it. International community should provide an alternative source of oil in northern Syria. Destruction of the oil infrastructure will harm everyone, the poor more than the opportunist.

In the autumn 2014, ISIS produced somewhere between 80,000 to 120,000 barrels per day, earning between 2 and 4 million USD per day.

Even after the US-led coalition (2014) and Russian (2015) destruction of ISIS oil infrastructure, it was still producing between 34,000 and 40,000 bpd only in Syria. The revenue was estimated somewhere between 1 to 1.5 million USD a day.

After an ISIS oil embargo on Aleppo, the price of diesel jumped from 16,000 SP (62 USD) to as high as 80,000 (310 USD) per barrel

# THE WAR ECONOMY IN NORTHERN SYRIA

## SUMMARY

War upends economies. In Syria it has unraveled longstanding economic networks and created new groups: a violent, power-seeking elite that now controls most sources of wealth; a new opportunistic class providing services to a third group; that is the urban poor living on the edge of survival. There are three economies now in the north of the country: the combat economy, the shadow economy and the coping economy, all of which are now closely entwined. Long after peace comes, Syria will face enormous problems untangling the new economic relationships that have developed and yet it will be critical to do so to establish an enduring peace.

Syria's north has become dependent on the Turkish economy. The main link in northwest Syria, the Bab al-Hawa crossing, is under the control of Ahrar ash-Sham (a Syrian Salafi armed group). Controlling border crossings has been the main means by which armed groups have been able to fund their activities. It has been particularly important for them to maintain access to foreign military support, the main source of income for the combat economy. In tandem, markets in northern Syria and southern Turkey have become closely connected as hundreds of trucks cross back and forth every day. Most civilians now depend on armed groups, the shadow economy or remittances from abroad.

The coping, shadow and war economies share the same infrastructure. Destroying one harms the others. This means any effort to close down one will inevitably end up worsening the livelihoods of the poorest people and will likely be resisted not just at an elite level but by many who rely upon it. To untangle this web, a number of steps will be necessary:

- Eventual cuts to foreign military support, preferably done in a controlled manner with support for demobilization and reintegration of fighters.
- A peace process that takes into account the war economy, particularly the control of border crossings and other “bottlenecks” that allow for control of resources.
- Support for established business networks such as those previously centered on the Aleppo souk and manufacturing centers with investment and aid in order to return to a more organized economic environment.
- Prepare a new skilled workforce, particularly through expanding vocational training for refugees and others.

ISIS has managed to drag militants, war profiteers, traders and ordinary people into its well-structured war economy centered on oil resources and taxation. Even though much of the oil infrastructure has been damaged by Russian and Coalition bombing, ISIS has still managed to maintain control of energy in northern Syria, involving hundreds of thousands of people who have no choice but to work with or buy oil from them. Destroying energy supplies has a profound effect on humanitarian conditions in the country, harming the most vulnerable people. Bombing has diminished ISIS's oil income but will never eliminate it as ISIS will rely on small-scale production and artisanal refining.

- There is an urgent need to provide an alternative source of oil for northern Syria by creating an internationally supervised oil storage depot near the Syrian-Turkish border. Prices should be subsidized by donors. This would break ISIS control over the sector without harming those now dependent on its oil.

### A. INTRODUCTION

Organizing violence is an arduous and expensive task. In civil wars, this applies to both the state and rebels. War requires the ability to mobilize both civilian and military support; organize a supply chain of materiel: create a chain of command and control; manage governance and credibility; know when to use force; and develop resilience to recover from setbacks.<sup>1</sup> At the heart of all these issues is money.

The Syrian government has been using public money – reserves, loans and aid – to finance its war. At first, the rebels relied on limited local financial and military resources until support poured into Syria from the Gulf states and other supporters. The domestic economy has remained key in sustaining the conflict even as output has declined by as much as half and it has been transformed into a war economy. This has opened up new opportunities for funding for rebels and the military: illicit cross border trading, taxing imported and exported goods, protection rackets, kidnappings and the illicit exploitation of natural resources are just some of the core elements of Syria's new economy.

The unarmed majority of the population, especially those in areas outside government control, have had to join the war economy whether they like it or not. Three different groups – combatants, the business elites and the poor – now all depend on the war economy. These three groups occupy three different but greatly overlapping economies: the combat economy, the shadow economy and the coping economy, respectively.<sup>2</sup>

The same economic infrastructure, for example an official border crossing or a highway, can be equally important to sustain the three economies. This is the case at the Bab al-Hawa and Bab as-Salama border crossings, as well as the supply corridors that have become the arteries of the north; for militants, business elites and traders, and for the ordinary population trying to survive.

The same can be said of natural resources. ISIS has used Syria's oil reserves to fund its war and sustain its "state" institutions. Its oil business is dependent on the supply line that stretches from Der az-Zor all the way to northwestern Syria. It has become one of the most important aspects of economic life in the north. Rebels, smugglers, shopkeepers, factories, criminal networks and ordinary people have been sucked into the ISIS war economy.

It is important to note that the motivations of those involved in the war economies differ.<sup>3</sup> While combatants seek to sustain the fighting and preserve their military viability against the government and sometimes rival groups, participants in the coping economy usually have no other way to survive. Some businesses

see advantages in sustaining conflict to ensure they can operate in a lawless environment that can produce windfall profits.

The deep corruption in Syria before the war means that many components of the new economy: smuggling, local capture of resources, bribery and extortion thrived before violence exacerbated their roles. Ethnic and religious divisions have been mobilized to ensure armed groups can maintain control over economic resources.<sup>4</sup>

Syria fits very much into the pattern of a rentier state that relied upon foreign subsidies and extraction to pay off internal dissenters and maintain control.<sup>5</sup> With the collapse of the Soviet Union, that external support dried up, reducing the provision of social goods. The state responded with an incomplete set of reforms that empowered cronies but left many deprived of support. Although the civil conflict has many sources, economic stresses of the past decades combined with a lack of government responses created the conditions for violence. External funding for both sides has inflamed and sustained the war.

The overlap among the economic practices, actors and socio-political networks make understanding and confronting the war economy very difficult. Targeting one sector will harm the others. Closing a border crossing may shrink the combat economy but will also eliminate jobs from the shadow economy. Targeting the infrastructure of the shadow economy would leave many civilians without a source of income, which is particularly troubling given the failure of the international system to provide sufficient humanitarian assistance to Syrians.<sup>6</sup> Destroying the means of illegally exploiting and producing natural resources might damage the livelihoods of the many who depend on the production of these resources.

The legacies of the war economy will persist long after peace returns to Syria. In many cases, peace agreements tend to ignore the effects of war economies and incorporate few measures to reduce their impact.<sup>7</sup> Unless steps are taken to ensure a more equitable division of resources and prevent the emergence of entrenched criminal elites, it will be hard to sustain any peace.

## B. BEXTERNAL BORDERS AND REBEL WAR ECONOMY

Syria is now divided into different zones of control. Life in ar-Raqqa is different from Aleppo where the reality of daily existence is very different from the government-controlled areas of Damascus. There are many dividing lines, but one of the clearest is between north and south. Damascus and Aleppo represent the hearts of the two areas but these economic hubs are now disconnected. Whilst Damascus still plays an important economic and political role in the southern half, the war has diminished Aleppo's economic and political status to a large extent. The Government's destructive war on Aleppo has left it depopulated, destroyed, divided and de-industrialized.

Now the economy of the northwest is strongly dependent on Turkey.<sup>8</sup> Armed groups depend on Turkey to receive military aid, fighters and finance. Many traders, businessmen and smugglers live on cross-border activities. Many small, medium and large business moved from Aleppo and reestablished themselves in safer areas such as Atareb. Several border towns gained greater importance and the quality of life actually increased in some of them. Many vulnerable families depend on remittances sent by about 200,000 Syrians who were working in Turkey by late 2014.<sup>9</sup> This suggests that the economic power in the north has shifted from the core, Aleppo, to the peripheries and border areas.

Much of the fighting in northwest Syria has been over the two most important supply lines. In the north, the line starts at the Bab as-Salama border crossing, goes through the town of Azaz and on to Aleppo. In the west, the line starts at the Bab al-Hawa border crossing and either goes to Aleppo via Sarmada and Atareb or south towards Idlib. The two crossings have been outside government control since 2012. The government's presence along the supply lines has been very limited since late 2012. Since then, many armed groups, including FSA affiliates ISIS and JN, have fought each other to win a share of income from the crossings and supply lines.

### 1. BORDERS AND THE COMBAT ECONOMY

Armed groups make millions of US dollars every month by controlling key border crossings. Ahrar ash-Sham is the sole controller of the Bab al-Hawa crossing. This crossing is by far the most important on the Syrian-Turkish border as most trade and humanitarian aid pass through it. It also has a civilian administration with the capacity to manage the crossing of people between Turkey and Syria. There are no taxes on civilians or humanitarian trucks, only on commercial traffic. Although accurate data is not available for Ahrar ash-Sham's financial gains from the Bab al-Hawa crossing, it earned at least between 3.6 to 4.8 USD million a month in 2015 and 2016.

#### *Border crossings and supply lines*

Bab al-Hawa has traditionally been the largest and most important crossing in the north, particularly for commerce.<sup>10</sup> During the conflict its role has grown. In summer 2012, the government lost control of the

crossing to the FSA.<sup>11</sup> After pushing the FSA out the following year in December, the Islamic Front (IF), then the largest armed coalition in Syria bringing together a range of members from hardline Salafi Jihadists to more moderate Islamists, took control of the crossing.<sup>12</sup> This was a triumph for the Salafi Ahrar ash-Sham, the most powerful member of the IF especially in Hama, Idlib and the western Aleppo countryside, and a defeat for the western-backed moderates. In late 2014, IF was collapsing and at least since April 2015 Ahrar ash-Sham has been the sole armed group to manage the crossing.<sup>13</sup>

Armed groups have also fought over supply lines. Bab al-Hawa has been the most important access point for the opposition in the northwest. It is a lifeline for Idlib province, and Aleppo to some extent, especially after it came entirely under rebel control in mid-2015. Control by Ahrar ash-Sham and Jabhet an-Nusra (JN) has meant a relatively free flow of goods through the border.

The importance of Bab as-Salama and the supply line to Aleppo city declined over time mainly due to security concerns, though the struggle to control it has been fierce.<sup>14</sup> The crossing has changed hands from Asifet ash-Shamal – a small Azaz-native group – to ISIS in October 2013 and eventually to al-Jabah ash-Shamiyeh – a coalition of several large armed groups in the Aleppo region. The fight to control this corridor has also included government forces and Syrian Democratic Forces (SDF). As of autumn 2016, the supply line was divided among government forces and its allies as well as the SDF, JN and different rebel groups. In addition, the line is close to ISIS-held territories in eastern Aleppo. This web of control zones makes it the most vulnerable route for businesses and civilians.

### *Customs fees*

Before Ahrar ash-Sham took over the Bab al-Hawa crossing in early 2015, customs charged a fixed fee of 1,000 Syrian pounds (~5 USD) and 2.5 per cent of the total value of the goods. There was no charge for people crossing the border.<sup>15</sup>

In 2014, Turkish exports to Syria stood at 1.8 USD billion, the same as in 2010.<sup>16</sup> If 1 billion worth of goods passed Bab al-Hawa, revenue would be about 25 USD million a year or 2.1 USD million a month. This is a very low estimate given that the crossing is the busiest. This does not include corrupt income for those controlling the border.

A member of the Bab al-Hawa Media Office said in an interview that the “custom taxes on the border are symbolic.” Trucks entering Syria are taxed only according to the type of goods and the amount. “7 USD for one ton of electronics; 4 USD for plasma TV and laptops, 5 USD for wheat, 5 for cement, 7 USD for iron”<sup>17</sup> according to the official. He would not reveal the revenues but given that more than 1.5 billion dollars of Turkish exports crossed, it is quite significant.<sup>18</sup>

The office confirmed that 150-200 commercial trucks pass every day. Reports and interviews suggest that fees can be as low as 150 USD<sup>19</sup> or as high as 2,000.<sup>20</sup> If we consider that the average is about 800 USD per truck (bribes excluded), the daily revenue of Bab al-Hawa could be between 120,000 and 160,000 USD or 3.6 to 4.8 USD million a month.

Although this is an important source of income for Ahrar ash-Sham, it and other armed groups are also heavily dependent on foreign military and financial aid. Apart from earning revenue from border trade, the main aim of controlling border areas is to ensure the free flow of that aid.

### *Human mobility*

Ahrar ash-Sham has considerable leverage over the people whose livelihoods depend on Turkey. Since it took sole control of the crossing in 2015, it changed the administration, introduced security measures, started registering those who crossed the border in a unified database and organized the transfer of goods and medical patients across borders. In short, Ahrar ash-Sham wanted to replace the state. In several videos edited by the group, the speakers underlined the resumption of state institutions on the border and an end to lawlessness and military control of the crossing.<sup>21</sup>

Three Syrians with firsthand experience confirmed that after Ahrar ash-Sham took control, order at the crossing improved, especially after civilian authorities took over. Nevertheless, there is still some corruption required to speed any crossing.<sup>22</sup> In October 2015, the head of the Bab al-Hawa media office accused Ahrar ash-Sham of taking 100-150 USD from each Syrian who crossed the border. He also accused them of receiving bribes for smuggling people.<sup>23</sup>

Turkish authorities treat Ahrar ash-Sham as its counterpart at the Bab al-Hawa crossing. There is constant communication and coordination between the Turkish and Syrian sides. For example, family reunification applications are submitted to the immigration office on the Syrian side which processes the papers and passes them to the Turkish authorities.<sup>24</sup> The Turkish side also informs the Syrian side about border opening and closing dates.<sup>25</sup>

In March 2015, Turkey closed the Syrian border, putting end to its open door policy.<sup>26</sup> Since then the situation on the border has been unpredictable. Few categories of people have been permitted to cross the border to Turkey: students enrolled in Turkish universities; registered refugees (or guests as Turkey prefers to call them); businessmen who have permission from Turkey; transit travelers; and those taking part in family reunification. Another maximum of 40 people are allowed to cross the border to receive medical treatment.<sup>27</sup>

According to the Bab al-Hawa administration, about 50,000 Syrians crossed the Turkish border to Syria to celebrate Eid al-Fitr in July 2016.<sup>28</sup> This highlights the strong connection between southern Turkey and northern Syria. There are no official crossing fees.<sup>29</sup> In order to avoid chaos, the border administration gives consecutive numbers to each passenger coming to Syria. When the return date comes, the border administration matches the numbers with the dates (i.e. 1-3,000 on Wednesday).

### *Channeling military and financial support to Syria: Sustaining the combat economy*

At the start of the conflict in late 2011, most fighters were military defectors and some civilians who took

up arms in response to government crackdowns on protests. Most were organized under the Free Syrian Army and almost immediately began receiving aid from governments with long-standing grudges against the Assad regime.

Donors established underground operation centers and monitored the shipment of arms to Syria across the border. One such center is the Military Operation Center (MOC) based in southern Turkey and supervised by the United States.<sup>30</sup> From early 2012, FSA received arms, although not in sufficient quantities to actually defeat the regime.<sup>31</sup>

When the IF took over the Bab al-Hawa crossing in December 2013 from the FSA, it also confiscated FSA arms depots.<sup>32</sup> The United States declined to support the more radical IF but others such as Turkey continued supplying groups such as Ahrar ash-Sham.

Turkey supports many key armed groups in northwestern Syria, including Failaq as-Sham and al-Jabha ash-Shamiyeh, which has ties to the Muslim Brotherhood movement.<sup>33</sup> Several Turkmen armed groups were raised and armed by Turkey.<sup>34</sup> The relationship, however, with Ahrar ash-Sham is particularly important. This is more due to the realities of fighting on the ground than ideological affinity as Ahrar ash-Sham is far closer to the radical end of the Islamist spectrum than the Turkish government.<sup>35</sup> Supply routes from Turkey to Idlib province were crucial for the rebel's takeover of the province in March-April 2015. A newly formed Jaish al-Fatah, led by JN and Ahrar ash-Sham, received generous support from Turkey, Saudi Arabia and Qatar right before the coalition took over Idlib city.<sup>36</sup> Turkish government officials admitted they provided "logistical and intelligence" support to the command center of the coalition in Idlib.<sup>37</sup> Without Ahrar ash-Sham's full control of large border areas, Turkey could not have provided this support.

The border crossings were also important in getting cash to armed groups. From 2012-2014, a well-established funding channel emerged between Kuwait and Syria. Many rich individuals from the Gulf raised money in Kuwait, taking advantage of the country's weak anti-terrorism financing rules. According to some estimates, in 2013 the sum amounted to more than 100 million dollars. In early stages, many used hawala agencies or businesses in Syria to transfer money but later the main way to move money was to take cash across the Lebanese, Jordanian and Turkish borders.<sup>38</sup>

At the beginning of the armed conflict and with the rapid expansion of the rebels in 2012, there was a widespread belief that the regime would crumble rapidly. This did not happen and many saw they would need money to take care of their families and themselves. So the combatants began charging fees at checkpoints, particularly on major routes into cities.<sup>39</sup>

Some rebel groups also extorted protection money from businesses and wealthy individuals. Some asked for money to provide security. Others demanded a percentage of goods and sold the products themselves – for example scarce pharmaceuticals. In extreme cases, armed groups looted factories and then resold the machinery back to owners.<sup>40</sup> Some rebels managed the entire supply chain of oil products before ISIS took control in 2013.<sup>41</sup> Other groups opened small businesses such as bakeries and textile workshops and then used the money both to fund the war and for personal gain.<sup>42</sup>

In any conflict the economic environment changes in favor of armed groups and the civilians connected to them.<sup>43</sup> This creates a situation where rebels exploit their position of power and contribute fully or partly to the shadow economy; an economy that is largely dominated by the investors who profit from the new economic conditions created by the war.

## 2. BORDERS AND SHADOW ECONOMY

In 2014, a Syrian activist said: “three years ago rebels really wanted to fight the regime.”<sup>44</sup> There is no doubt that many Syrians protested against the government truly seeking a more inclusive political system, a better life and more equitable economic opportunities. The same could be said when the revolution turned to a civil war. Some fighters even sold their properties to fund their war.<sup>45</sup> But most of those involved had next to no experience in military or political matters. They soon ended up facing a harsh reality where despite their sacrifices they were far from achieving their goals. Whether driven by greed or need, almost all became part of the shadow economy. According to one defector, 85 per cent of the fighters he knew have started smuggling oil and cars.<sup>46</sup>

Smuggling goods in and out of Syria has been an important part of the shadow economy for decades. The late Hafez al-Assad complained about the problem although his cronies and family were major beneficiaries.<sup>47</sup> Smuggling made up at least 30 per cent of GDP, or 3.5 USD billion dollars, in the 1980s.<sup>48</sup> Back then many goods were not allowed into Syria. This encouraged smuggling, which was dominated by people close to the ruling elite. The situation improved in the 1990s with trade liberalization. Smuggling declined further after Bashar al-Assad came to power in 2000 and began a new round of reforms.<sup>49</sup>

The scale of the shadow economy in the 2000s shrunk as the economy opened up slightly. According to a 2002/2003 estimate, the shadow economy contributed 21.6 percent, or 4.5 USD billion dollars to Syria’s GDP.<sup>50</sup> A newer study suggests the shadow economy in Syria was around 19 per cent between 1999 and 2007.<sup>51</sup> To put it in perspective, the average informal/shadow economy in the Middle East and North Africa was 27.3 in 2005.<sup>52</sup> If true, these numbers suggest that Syria’s shadow economy had declined in the decade before the war started as the lifting of restrictions on economic activity brought more businesses into the mainstream.

Today the scale of the shadow economy is massive but there is no accurate data about its scale. Looking at employment rates by sector suggests that the informal sector might have grown by 2.5 times. In 2009, employment in the informal sector was about 34 per cent. By 2012 this number had reached about 80 per cent.<sup>53</sup> This suggests that the shadow economy may have reached 50 per cent of GDP – which itself contracted by about 55 percent between 2010 and 2015.<sup>54</sup> Several estimates confirm that the scale has passed 40 per cent of GDP in 2015 and is likely to have increased in 2016.<sup>55</sup>

## *Smuggling: who, what and how?*

Before the conflict, smuggling took at least two forms. Smuggling in and out of Syria through irregular routes (i.e. transporting goods loaded on donkeys or small vehicles through mountainous areas) or smuggling goods to Syria by bribing custom officers at the border. Informal smuggling was on a much smaller scale than goods crossing borders with the collusion of officials.<sup>56</sup> The latter benefited wealthy businessmen and corrupt customs officers. The former form of smuggling was practiced by impoverished border residents.

### *a. Smuggling*

At the National Congress of the Ba'ath Party in 1985, when the issue of controlling the black economy in Lebanon was discussed, a courageous woman asked how it could be controlled if “all the attendees” were earning their living through it.<sup>57</sup> Lebanon was a key source of goods for Syrian traders. Hundreds of tons of prohibited goods crossed the Syrian-Lebanese border each day.

An investigation done by a Syrian journalist working for a state-owned newspaper showed that the head of customs in Daraa (a vital border crossing with Jordan) was transferred to Kessab in 1971, a small border town near the Turkish border, because he refused to allow illegal goods to pass through. The same person was dismissed from his position at the Latakia port in 2000 for the same reason.<sup>58</sup> Some authorities did try to confront smuggling but the networks were too strong. Stopping illegal shipments could be a dangerous business. In 1981, a top customs officer received threats to his life and “did not dare to leave his house” after confiscating two trucks of smuggled goods. He also refused a 100,000 SYP “gift” to release one of them.<sup>59</sup>

Traders employed various techniques to avoid taxes at the border. One was to fake the value or type of goods on paperwork to pay lower tax rates.<sup>60</sup> Large traders employed *mukhalles jumruki* or custom brokers.<sup>61</sup> Profits could be considerable, not least because some goods were very heavily taxed in Syria even after the partial economic liberalization that began in 2000.<sup>62</sup> Today there are no formal taxes or regulations at the Bab al-Hawa and Bab as-Salama border posts.

“The market and the new trade in this area [northwestern Syria] is determined first by the almost complete absence of regulations on what can go into the area through the borders with Turkey and the new system of taxation on these borders, second by the lack of any regulations inside this area on economic and building activities and third by the damage and lack of access to what used to be the most important markets in the areas, specifically Aleppo.”<sup>63</sup>

One of the main components of the war economy that thrives in northwestern Syria is the importation of cars bought or stolen in Europe. Vehicle imports were subject to very high taxes before the war. In 2010, the tax for cars with engines over four liters was 100 per cent. Cars with 1.6-litre engines or less, which constituted nearly 90 per cent of all cars registered since 2008, were taxed at 40 per cent.<sup>64</sup>

Car sales have become a very profitable new business. Between the beginning of 2012 and end of 2013 about 250 cars entered Syria every day before Turkey banned the business. Thereafter, imports declined

to 20 cars a day mostly imported to Syria illegally.<sup>65</sup> The business has thrived in Atareb, one of the cities where the standard of living has actually risen in the past five years.<sup>66</sup> Such businesses are also doing well in border towns like ad-Dana, where monthly sales had reached 4 USD million in early 2014.<sup>67</sup> Sarmada, an important hub for goods imported from or through Turkey, offers a wide range of used and new cars. One car dealer from the city asked a buyer if he wanted a Mercedes. “This the Mercedes that used to cost 7 million SYP [152,170 USD], it’s 700,000 now. You can also get it for 5,000 USD.”<sup>68</sup>

Sarmada has attracted investors in infrastructure such as electricity. A private company called “Zidan for Electricity,” for instance, has set up five generators and provides electricity to 90 per cent of the town.<sup>69</sup> In late 2015, The Islamic Committee in Idlib countryside unified the price of electricity at 9 SYP/h for 1 amp with minimum 8 hours daily supply. Each household needs at least 3-4 amp (0.66-0.88 kw/h) for a basic supply. With 8 hours supply of 3-4 amp every day for a month (or about 211 kw/h per month) this would cost 6,600-8,800 SYP/month or 19-25 dollars a month, which could be half the salary for a poor family.<sup>70</sup> Nevertheless, the prices and regulations fluctuate frequently, making calculations difficult. The price for 1 amp. can be as low as 1,500 SYP per month or as high as 2,400 SYP.<sup>71</sup>

This is expensive compared to government-supplied electricity. The official price for house usage ranges between 1 to 29 SYP for one kw/h for each cycle (two-months), depending on the expenditure.<sup>72</sup> With this calculations, for 211 kw/h, the government price in January 2016 was 211SYP or 60 US cents<sup>73</sup> while it cost just half of this – 105,5 SYP or 2.4 USD – in 2010.<sup>74</sup> But during the war, the black market dominated. In most of northwestern Syria the government has not been able to provide reliable electricity.<sup>75</sup>

Both government and rebel-held areas of Aleppo depend on the ampere system. Even in government-controlled western Aleppo, residents long ago abandoned the hope that one day the government might provide electricity.<sup>76</sup> People are now at the mercy of the war profiteers.<sup>77</sup> Some factories choose to buy their own generators to reduce costs but still have to buy fuel.<sup>78</sup> As one Syrian from Idlib observed, “if a Syrian from the area has capital they turn it into metal, buy cars or generators and sell them inside Syria.”<sup>79</sup>

Importing construction materials is another thriving business. In areas that are relatively calm people have either rebuilt properties or illegally enlarged them. This explains the large markets for construction materials that have developed in cities such as ad-Dana, Salqin, Atareb and Azaz. In al-Dana, monthly sales of cement and other materials reached 5 million USD in 2014.<sup>80</sup>

The value of trade in food items imported from Turkey or grown locally exceeds the value of previously mentioned products. Several border towns have created wholesale food markets. The daily sales of food items in ad-Dana and Armanaz made up about 500,000 USD a day in 2014 whereas in Salqin and Atareb the value reached 1 USD million a day.<sup>81</sup> In Azaz, it was 2 million a day.<sup>82</sup>

#### *b. Small-scale smuggling*

Before the war, besides the goods that were officially imported from or via Turkey, there were markets filled with smuggled goods in towns such as Azaz, Sarmada and Tal Kalakh. Trade was dominated by locals who knew the smuggling routes and customs officials.<sup>83</sup> In the 1980s, at what was probably the height

of the black economy, there were an estimated 50,000 people earning their living this way.<sup>84</sup> According to a survey conducted with about 400 people in 2007, electronic devices topped the list of smuggled goods followed by tobacco, food, clothing and medicines.<sup>85</sup> Foreign goods were often cheaper and better quality. It was possible to buy smuggled goods from shops, street vendors and apartments in all cities but especially in border towns.<sup>86</sup>

Lack of alternative jobs was one of the factors that pushed border residents to take up this work.<sup>87</sup> As one border village mayor said to a state owned newspaper in 2007, “we support the anti-smuggling efforts but the government should provide alternatives.”<sup>88</sup> On the other hand, the government was not well placed to stop the business. Gangs of smugglers often would resort to violence. The head of customs in Homs complained in 2007 that there were laws and regulations that prevented him from fighting smugglers, who were often armed.<sup>89</sup>

Azaz was a typical smuggling center before the war. Located 5 km from the Bab as-Salama border crossing, fuel derivatives were sold to Turkey in exchange for consumer goods.<sup>90</sup> On Fridays, many Aleppians took a bus to Azaz to shop. Specialized “tour guides” would accompany the visitors from one home to another where the families would dedicate one room to selling smuggled wares.<sup>91</sup> The process of smuggling had clear gender divisions. While smuggling was the business of men, selling almost exclusively was done by women.<sup>92</sup> Today such goods are still smuggled to Syria but the bulk of this trade happens “legally,” meaning through official border crossings.

After expelling the Syrian Army from the city, Azaz, along with the Bab as-Salama crossing, came under the control of Asifet ash-Shamal. Almost all its members originated from Azaz itself. The leader of this group, Omar Dadikhi, was a smuggler<sup>93</sup> turned fighter.<sup>94</sup> He has been accused by many of being little more than a war profiteer.<sup>95</sup> He claimed to have received money from Qatar to finance Asifet ash-Shamal’s war against the central government. He, alongside other smugglers, is also likely to have smuggled weapons into Syria using the already well-established routes. According to a Syrian Coalition member, at the beginning of the conflict 20 per cent of the weapons were smuggled to Syria from Lebanon, Jordan and Turkey.<sup>96</sup>

Azaz is not an exception, many border towns may have similar stories with locals using established smuggling networks. A similar development happened in Tal Kalakh, a border city on the Lebanese border.

### *Petroleum Product Smuggling*

While consumer goods and weapons come in from Turkey, petroleum products have long been the main illegal export from Syria due to the price differences across the border. In 1998, 10 liters of diesel in Syria was 1 USD, in Lebanon it was double the price. In Turkey it was five times more expensive. In 2006, 10 liters of diesel in Syria was still the same price, in Lebanon it had increased to 6 USD and in Turkey it had more than tripled to 16 USD.<sup>97</sup> The price difference is largely because oil derivatives in Syria were highly subsidized until 2008. Yet even after lifting state support in 2010, the price of diesel in Turkey remained four times higher than in Syria where 10 liters was 5 USD.<sup>98</sup> The same pattern has continued during the

conflict. In 2012, 10 liters of diesel in Syria was 4 USD compared to 23 USD in Turkey.<sup>99</sup> This made smuggling oil to Turkey highly profitable.

Oil was smuggled out either through the border crossings or irregular routes. If a smuggler chose the first option, his journey started with a vehicle with a modified fuel tank to hold extra diesel or gasoline. After crossing the border, the smuggler would meet his partner in Turkey. Before Turkey prohibited the entrance of vehicles from Syria in May 2015, this was the most common smuggling method.<sup>100</sup> For the second option, smugglers used small vehicles or loaded horses or donkeys.

Now that there are no controls on the Syrian side of the border, this business has flourished.<sup>101</sup> Smugglers have even constructed makeshift pipelines to get products across the border.<sup>102</sup> One of the main new businesses to emerge since the war started is to set up a small refinery and process crude oil from ISIS areas. This surged especially after the US-led coalition started targeting ISIS oil refineries in the eastern part of the country.<sup>103</sup> Such businesses are now common in the border towns of ad-Dana, Atareb, Salqin, Sarmada and Azaz.<sup>104</sup>

Smuggling archaeological artefacts is also a lucrative business. There are some estimates as to its scale but no accurate data on profits generated by selling antiquities looted from museums or removed from Syria's many archaeological sites. The main destination is Europe through either Turkey or Lebanon. Objects are often given false provenances and are then sold through galleries or auction houses.<sup>105</sup> A study that assessed 1,289 sites suggests that as of early 2015, 28 per cent of looted sites were under opposition control, 27 under Kurdish control, 21 under ISIS and 16.5 under the regime. If this is true, artefact trading in opposition-held areas is common. At the same time, ISIS is by far the worst offender for looting.<sup>106</sup>

Another source of income is kidnapping. Some estimates suggest that rebels made about 200 million USD a year in 2013 and 2014 from kidnappings, including of foreign journalists who were sometimes sold to other armed groups.<sup>107</sup> Groups also loot factories and transport equipment out of the country, smuggle drugs and engage in other criminal activity.

The shadow economy in Syria connects "business rebels," criminal gangs, traders and businessmen, warlords, workers, shopkeepers and housewives. All these actors have become part of local as well as regional and global economy. While in theory the motivation of investors and warlords are very different, in a war economy reality this distinction blurs. This makes confronting the shadow economy, particularly after a conflict, almost impossible and it provides many with a vested interest in maintaining a state of war.

### 3. BORDERS AND COPING ECONOMY

The poor and the vulnerable are at the center of the coping economy. Those who do not have the military or financial power to impose their will in this chaotic environment develop new strategies to survive.<sup>108</sup> Even though their activities may overlap with the shadow economy there is an important distinction between those who benefit from the war by maximizing their power and interests and those who are forced to join in to survive.<sup>109</sup> This includes most of the population given the fact that the overwhelming majority of Syrians

had become impoverished by the end of 2014.

The poverty rate, based on household income and expenditure surveys, reached 82.5 per cent in late 2014.<sup>110</sup> In 2007, 12.3 per cent of the population were in extreme poverty and another 22 per cent were in the next bracket up and were facing a possible fall into extreme poverty.<sup>111</sup> The unemployment rate had reached 57.7 per cent in the last quarter of 2014 up from 14.9 per cent in 2011. In other words, 2.96 million jobs were lost which had a direct impact on the welfare of about 12 million people.<sup>112</sup> This was accompanied by a dramatic increase in employment in the informal economy that had already passed 80 per cent in 2012.<sup>113</sup> The situation was exacerbated by the collapse of the Syrian pound which caused the life savings of millions to evaporate. By the end of 2015 the situation has slightly worsened.<sup>114</sup>

Remittances, cheap labor, humanitarian aid and illegal economic practices became important sources of income for Syrians who remained in the country. With the Syrian pound falling constantly and salaries remaining the same life is becoming very hard in cities like Aleppo. The daily minimum set by the World Bank is 1.9 USD (in May 2016 this meant about 1,200 SYP at the black market exchange rate).<sup>115</sup> A person would need 36,000 a month to rise above the poverty line.<sup>116</sup> A Syrian economist suggested that due to the fall of the Syrian pound a Syrian family would need to earn 6.5 more than the average salary to meet the basic requirements in March 2016.<sup>117</sup>

In March 2016, the head of the consumer protection committee said that the average salary was 50 USD a month.<sup>118</sup> In Aleppo this amount of money is not enough for a family of five to survive. A widow from the city said the minimum was 100 USD a month, which in May 2016 was about 62,000 SYP.<sup>119</sup> Before the war, a falafel sandwich in Aleppo would cost around 15 SYP (31 US cents) and the minimum government official salary was 8,000 SYP (~170 USD). Now a sandwich costs 175-200 SYP and salaries are at 25,000 SYP.

Finding basics such as clean water, food and electricity is a constant struggle. Water from the Euphrates is distributed in Aleppo city by pumping stations. The largest station, Suleiman al-Halabi, requires 8 mw of power a day to function at full capacity. Even before the conflict, water was often cut off for 11 hours a day during the summer.<sup>120</sup>

Since the early days of the conflict in Aleppo, water has been a problem. Besides the destruction of important facilities, several different groups control the infrastructure between the Euphrates and Aleppo. With no piped water available for much of the time, most people have resorted to drawing it from wells or buying it from tanker trucks. Prices vary depending on the situation and the area but can reach 45 USD for 1,000 liters.<sup>121</sup> Most of the time, however, the water is not clean, coming from dubious sources such as unauthorized wells or Aleppo's polluted Quaiq river.

The main source of electricity in the city is known as the "ampere system". People with money and connections install generators and sell electricity to the neighborhood. Prices range from 1,500 SYP per month to 2,400 SYP per month for a four to eight hour per day supply.<sup>122</sup> For many this is not affordable.

Eastern and western Aleppo have suffered through several sieges in the course of the conflict, leading to

severe food shortages. A resident of as-Suleiymanieh, a middle class district in western Aleppo, remembers July 2013 when the opposition imposed a complete siege: “For one month there was no meat in the market. People could not afford to buy a kilo of tomatoes or even bread. People were on the street begging for food. That was the impact of the war exacerbated by the blockade. I could never imagine that one day Syrians would be that poor.”<sup>123</sup>

Civilians on both sides were not just poor but also fleeing the country—especially young men who left to escape forced conscription or seek work. A resident of Bustan al-Qaser in eastern Aleppo observed that only “the old and the poor” were left in the city.<sup>124</sup>

The east of the city has suffered continuous barrel bomb attacks and airstrikes. In June and July 2016, government troops and allies severed all supply lines into rebel-held areas. Food that mainly came from the countryside soon disappeared. Most people in the east of the city were poor before the war and suffered from the area’s poor services, higher crime rate, illegal construction, pollution and lack of green space. Today they are coping with a much worse socio-economic situation and intensive Russian and Syrian airstrikes.<sup>125</sup>

### *Diaspora remittances*

As with many conflicts, diaspora remittances play a major role in almost all aspects of the war: funding fighters, the war economy, supporting the poor, etc.<sup>126</sup> The term diaspora includes many communities living outside their home country.<sup>127</sup> In the Syrian case, one useful distinction is between the long-established diaspora who left before the conflict and the refugees who left as a result of war.

During the decade before the conflict, 93 per cent of remittances came from the Middle East and North Africa.<sup>128</sup> This made up about 1 billion USD in 2007 or 2.5 per cent of GDP.<sup>129</sup> Despite the large number of Syrians living in the Americas and Europe, their contribution was very small. In 2010, remittances from the US made up 186 million USD, from Germany 105 million. In the same year, the diaspora in Jordan, Kuwait and Kuwait sent 518 million, 353 million and 255 million to Syria respectively.<sup>130</sup>

Monitoring these transfers during peace time is difficult but in war time it becomes impossible. It is widely believed that there is now a greater dependency on remittances. The influx of refugees to neighboring countries and employment-related migration to the Gulf contributed to this increase. Syrians working and living in Turkey, Lebanon and the United Arab Emirates say that remittances have risen significantly.<sup>131</sup>

Limited employment opportunities in Turkey mean many refugees cannot afford to send large sums back home. But even small amounts make a difference. A hundred USD can be enough for a family of five to survive in Aleppo for a month. This is “what kept the Syrian economy alive in 2012-2014” a Syrian expert said.<sup>132</sup>

Besides the members of the coping economy, criminal networks and armed groups have also received money from abroad. For terrorist or criminal networks, informal ways of transferring money are secure

because they do not require detailed paperwork and identification of the sender and receiver. Many studies from similar cases to Syria suggest that the recipients are a mix of people in need, criminals and rebels.<sup>133</sup>

The overwhelming majority, if not all, transfers to relatives from countries around Syria and beyond do not flow through banks or international money transfer companies. One well-explored method is the Hawala. The sender trusts the money to the Hawala “company” or person who through his/her counterparts delivers the money to the intended receiver.<sup>134</sup> At the moment, at least two forms of Hawala networks exist, registered and unregistered.

Fouad is one of the companies which dominates the Syrian market. It receives UAE Dirham and gives Syrian pounds to people in the country.<sup>135</sup> AlHaram, one of the formerly large registered Hawala companies in Syria, is another example which still operates but only in government and Kurdish-controlled areas.<sup>136</sup> Opposition-held areas largely depend on informal Hawala networks or money delivered with the help of relatives and friends.

Alternatives to Hawala includes trusting money to a friend or familiar person in Turkey who knows the sender’s relatives or is from the same village. Another common way, especially when the amount is relatively high, is that person A gives money to person B in Turkey, then person B’s connection gives the same amount of money to person A’s family in Syria.<sup>137</sup>

Before its closure, the Syrian-Turkish border was important for sending money to Syria. Cross border shipments of cash have decreased significantly since late 2015 when Turkey closed the borders. This has forced people to rely more heavily on Hawala networks.<sup>138</sup> The dramatic increase of money filtering through these unregistered and unregulated networks in turn contributes to all three segments of the war economy.

### *Humanitarian aid*

Humanitarian aid has become the main source of support for millions of Syrians.<sup>139</sup> According to the UN’s Office for the Coordination of Humanitarian Affairs (OCHA), by the end of 2015 there were 13.5 million people inside Syria in need of assistance. Aleppo province hosts 1.2 million displaced persons, the most in any province.<sup>140</sup> As of August 2015, 1.1 million people in Aleppo province and about 740,000 in Idlib province received food aid. In other words, 31 per cent of all food aid recipients were in Aleppo and Idlib. While the need for health-related aid is immense, in August 2015, only about 200,000 in Aleppo and 117,000 in Idlib received this type of assistance. They made up almost quarter of the population who received aid.<sup>141</sup>

### *Other survival strategies*

There are many other survival strategies that locals have developed to cope with economic hardship. The informal petroleum sector employs a significant number of people. Many basic refineries employ desperate people who are ready to do such jobs despite serious health risks.<sup>142</sup> Many sell this fuel in local markets

which are frequently targeted by Syrian or Russian air strikes.<sup>143</sup>

Another important source of employment for the desperate is fighting. Men who do not have the chance to leave the country, find a job or receive sufficient foreign aid have limited survival options. As a last resort, they join armed groups to access some benefits and a small amount of money. Armed groups can recruit fighters for as little as 30 USD a month.<sup>144</sup>

The Syrian Government, which still pays salaries to most civil servants even outside the areas it controls, is an important source of income for civilians in rebel-held Aleppo is .<sup>145</sup> In this way, the government supports both the coping and shadow economies. Some reports even claim that some government employees have become rebel commanders and still receive their salaries.<sup>146</sup>

Northwestern Syria is mostly fertile agricultural land.<sup>147</sup> Historically, agriculture has been one of the most important sectors. Even after two decades of decline and a harsh drought, it still made up 17.9 per cent of GDP in 2007.<sup>148</sup> The conflict has destroyed agriculture and the country now faces immense food insecurity. The harvest of wheat and barley in 2015, which was considered the best war-time harvest, was lower than amounts grown in the 1960s.<sup>149</sup>

Nevertheless, this sector remains active in some cities like ad-Dana, Atareb, Armanaz, Afrin, Salqin, Idlib and Azaz. Farm workers, who are a typical example of the coping economy, worked for between 500 and 1,500 Syrian pounds per day as of late 2014.<sup>150</sup>

## C. INTERNAL BORDERS AND THE ISIS WAR ECONOMY

What distinguishes ISIS from other opposition groups is not just its ideology and scale of violence but its ability to extract resources systematically and redirect them to its state institutions, including its Ministry of War. This has been possible through its management of a proto-state. It has regular and religious police forces and courts; it provides basic services like water and electricity, education and healthcare; runs a strong semi-conventional army and relatively advanced state institutions.

It has clear socio-economic rules. Trucks that enter its territory are taxed; people who travel there have to obey the rules of the caliphate (i.e. no cigarettes, no alcohol, wearing niqab for women, regular prayers, to name a few); ISIS “citizens” cannot leave unless granted permission. Going in and out of ISIS territories is similar to traveling between countries. Occasionally, ISIS even shuts its borders. Even though it is mostly based on coercion, physical and structural violence, ISIS has been able to sustain its state and is unlikely to disappear in the near future. Although the predecessors of ISIS never achieved this level of organization, they paved the way. The Islamic State of Iraq, the predecessor of ISIS, started organizing on a large scale in 2004. It emerged as a sustainable, self-financing terrorist group with minimal dependency on foreign financial support.<sup>151</sup> According to some estimates, from 2006-2009, ISIS may have made up to 2 USD billion on the black market.<sup>152</sup> Networks for smuggling oil, human trafficking, trading artefacts, and looting were already in place when ISIS declared its existence in 2013.

In 2014, ISIS collected 360 USD million dollars in tax revenues.<sup>153</sup> In 2015, revenue from taxation and property confiscation rivalled revenues generated by oil, which was estimated to be about 450 million USD.<sup>154</sup>

Natural resources are key to the ISIS economy. In late 2014, it controlled lands rich with oil, natural gas, phosphate, asphalt, sulfuric acid and phosphoric acid in addition to farm lands.<sup>155</sup>

Based on his experience of jihad in Afghanistan in the 1980s and 1990s, the jihadi conflict theoretician Abu Musab as-Suri noted that dependency on foreign financial aid (in that case Saudi Arabia) limited the operational freedom of jihadi groups. He advised jihadi leaders to occupy facilities or land with economic importance.<sup>156</sup> There is no way to confirm whether ISIS leadership follows as-Suri’s advice in Syria. But, it is crucial to note that jihadi circles have a body of literature upon which to rely to build a multi-sector economy in addition to their practical experience.

ISIS mostly sells oil from Der az-Zor to Aleppo and Idlib. Some donors have restrictions on purchasing outside the country or providing goods in kind so some of their money is used by people working in places like Aleppo to pay ISIS for fuel for trucks and generators. Similarly, people from these areas are in dire need of diesel. This has created a dependency among ISIS and other groups. The barrel of oil that moves down the supply line from Der az-Zor to ar-Raqqa and eventually to Aleppo and Idlib provinces where it is purchased with western aid money is emblematic of the intertwined war economy.

The predecessor of ISIS, the Islamic State of Iraq, infiltrated the Syrian conflict through JN. In 2011, al-Baghdadi sent a delegation to Syria headed by Abu Mohammed al-Golani and supported the creation

of JN. The relationship ended in April 2013 but by then ISIS controlled a significant area of the country.<sup>157</sup>

For one year, several groups like Ahrar ash-Sham, JN and ISIS controlled and benefited from the oil rich east of the country. In early 2014, a large scale war broke out among several allied Syrian rebel groups and ISIS, which was eventually removed from western Aleppo and northern Idlib.<sup>158</sup> By the summer of 2014, after a series of massacres, ISIS expelled all other groups from Der az-Zor, leaving it in control of the majority of oil fields.

In 2014, about 40 per cent of ISIS revenues came from extracting oil. In the autumn of that year, the organization produced 80,000 to 120,000 barrels per day (bpd), earning between 2 and 4 million USD per day.<sup>159</sup> In October 2015, even after the US-led coalition started targeting its oil infrastructure, ISIS still produced between 34,000 and 40,000 bpd in Syria and 8,000 in Iraq, earning 1 to 1.5 million USD per day.<sup>160</sup>

Oil production generates jobs for war profiteers and the poor. ISIS supervises oil extraction and takes some for military use. The rest enters the market within the territory of ISIS with regulated prices. Whatever is left is trucked to Syria and Iraq.<sup>161</sup> ISIS does not have access to the two major government-held refineries in Syria: Baniyas with a capacity of 130,000 bpd and Homs with a 110,000 bpd capacity.<sup>162</sup> Instead, ISIS and private companies have set up mobile refineries near well heads.<sup>163</sup>

Truckers are an integral part of this process. They are not necessarily ISIS sympathizers and may come all the way from Aleppo and Idlib to carry fuel. In reality, the business is about need rather than ideology. As one truck driver put it: “We come to ISIS and say: ‘There is no one better than you.’ And then we come to the Free Syrian Army and we say: ‘There is no one better than you.’ In reality, I don’t like any of them.”<sup>164</sup>

In June 2015, ISIS cut supplies to northwestern Syria. The ISIS Emir in al-Bab addressed the rebels saying “We will make you carry your tanks and vehicles on donkeys.”<sup>165</sup> This ISIS embargo, which had a devastating impact on rebel-held areas, lasted for a week. A rebel commander in Aleppo, whose forces are fighting ISIS, buys their oil. “it’s a situation that makes you laugh and cry [...] but we have no other choice, and we are a poor man’s revolution. Is anyone else offering to give us fuel?”<sup>166</sup>

The impact of oil on rebel military actions is only a small part of the story. What the June embargo did to civilians in Aleppo is of greater concern. The prices of diesel skyrocketed. In June, it jumped from 16,000 SP (62USD) to as high as 80,000 (310USD) per barrel.<sup>167</sup> Unable to afford these prices, transportation either became very expensive or stopped completely. The cost of transporting food items increased. During the ISIS blockade, the cost of transporting water increased five-fold.<sup>168</sup>

An administrator of a charity bakery in Aleppo complained about the prices, saying that if the situation were to continue, all bakeries would eventually shut down.<sup>169</sup> The spokesman for the Civil Defense in rebel-held Aleppo said that hospitals needed diesel to operate and that the blockade would lead to the closure of medical centers.<sup>170</sup>

When it comes to business, all sides are pragmatic because of their mutual dependency. A truck driver explained: “whether it’s Assad, PYD or an [ISIS] zone, there is not much interference with merchants. [The armed forces] want the trade to continue because they all benefit from it. Sometimes clashing groups

declare temporary truces, say for four hours, to allow commercial vehicles to move freely.”<sup>171</sup> US-led coalition and Russian airstrikes on ISIS oil infrastructure has also contributed to fuel price increases. After the coalition targeted ISIS oil refineries in the northwest of Syria in September and October 2014, prices increased sharply. In October 2015, after Russia also joined the air campaign against ISIS, oil production decreased to 34,000 to 40,000 bpd.<sup>172</sup> As of December 2015, the coalition said it had destroyed 30 per cent of ISIS production capacity.<sup>173</sup>

Within a year, the coalition had destroyed 283 oil tanker trucks, 120 storage tanks and facilities in Syrian oil fields.<sup>174</sup> No accurate data has been released from official Russian sources but their targeting of hundreds of trucks and several fuel wholesale markets have had a serious impact on civilians.<sup>175</sup>

Targeting ISIS oil infrastructure shows the difficulty of separating the coping economy from the shadow and military economies. Destroying ISIS production is necessary because it is a key source of financing to sustain the war. Yet, at the same time, this business is an important source of income for many poor and vulnerable Syrians who have lost their livelihoods.

## D. RECOMMENDATIONS

### 1. FROM A WAR TO A PEACE ECONOMY

Moving from a war to a peace economy in the sense of making peace more profitable than war will be vital in Syria. This road is full of challenges and will require decades. A comprehensive agreement among major powers and local actors is crucial. But still violence in all its forms will likely continue.

This will require curbing the combat economy, reducing the shadow economy and boosting the earnings of poor and vulnerable Syrians. This will be an arduous task. Inevitably those who dominate a war economy end up also dominating post-conflict reconstruction. A new elite has emerged out of the combat economy. This criminal network is unlikely to give up the power, authority and privileges it gained during the conflict. The new economic players who dominate the shadow economy will not easily give up businesses acquired during the war. Those who stayed or will return first are disproportionately the poor and vulnerable who lacked the skills and resources to join the mass exodus of the educated and skilled from Syria. Any transformation from war to peace economy must consider these factors.

Policymakers should:

- *Ensure that the war economy is part of a peace process.* The Dayton Accord that ended the war in Bosnia did not address the issue and the Bonn Agreement of 2001 that created an interim government in Afghanistan ignored the fact that most of the signatories had been involved in the war economy. In both cases, and in Iraq, Somalia and elsewhere, a failure to address criminality in the economy has undermined the peace, deepened instability and led to a vast waste of resources. Syria had a deeply criminal economy before the war; the low level of regulation and transparency has now entirely vanished. A failure to tackle these problems in peace agreements has been a disaster. “In countries such as Bosnia and Afghanistan, the results are enduring and pernicious: a large informal economy, powerful and armed organized crime groups, corruption in public office, the intimidation of public officials and drug trafficking and trafficking in humans. As a result, funds are generated for, and by, extremist groups and sometimes spoilers who have the power to undermine peacebuilding efforts.”<sup>176</sup>
- *Foreign military support.* The most important resource sustaining the combat economy is foreign military aid to rebel groups. Even the strongest armed group, Ahrar ash-Sham, is dependent on this. Curtailing it could force rebel groups to the negotiation table. These measures should come within a comprehensive package of diminishing combat economy resources of all sides. Cutting military aid from the rebel groups without destroying ISIS and Jabhet an-Nusra, which are fairly self-sustaining, will simply cede ground to these radical organizations. Similarly, the foreign resources directed to the regime’s combat economy must be halted. Undertaking these measures will require a consensus among all the important regional and international actors, something that has remained elusive.

- *Revive Aleppo's economy.* Investments should follow after funds to fighters have been cut. Investing in a war zone is very risky. It will not be possible without trusted local partners. One solution, in particular for Aleppo, is to revitalize its middle and upper-middle class business elite. This group has traditionally played a fundamental role in the private sector even during the peak of state control.

Investments can flow to Aleppo through a body of recognized Aleppian traditional businessmen. This body should be inclusive, non-sectarian and non-ideological as much as possible. This will give a chance to the locals, who know the conditions of the market and local traditions well, to rebuild their companies and enterprises. This could be one way to open up lending to legitimate businesses that have been squeezed in the past by crony capitalism. This can also help reduce the shadow economy by side-lining war profiteers who usually have access to large amounts of capital.

- *Focus on education now.* Investments will create new job opportunities for skilled workers but Syria is likely to suffer from shortages of well-trained personnel. Many skilled workers and educated Syrian left the country. The longer the war drags on, the less likely they are to return. Syrians inside the country or in refugee camps are becoming increasingly dependent on humanitarian aid. There have only been minor efforts to support education for refugees since the start of the war.

The post conflict reconstruction period will require significant investment in education and training as well as support to small businesses and individual entrepreneurs.

## 2. CONFRONTING THE ISIS WAR ECONOMY

Confronting the ISIS war economy requires some new thinking. Its economic structure differs from that of other rebel groups. It has established institutions, a taxation system, central authority and mechanisms of extraction and redistribution of resources. The dilemma is that ISIS is an intruder and its project cannot be included in the post-conflict Syria. Yet destroying the ISIS economy will endanger the already tenuous livelihoods of many civilians forced to survive within this system.

One possible solution is to identify vital ISIS economic sectors on which Syrians are dependent and provide an alternative instead of merely destroying it as the international coalition and Russian jets have tried to do. Ultimately, ISIS is fairly self-sufficient but its most important markets for oil are beyond its borders.

- *Provide alternative to ISIS oil.* ISIS has a monopoly over oil production in Syria. As a result, many organizations, including the government and foreign aid donors end up buying petroleum derivatives sourced from its area of control. Breaking the monopoly would severely limit their income and power.

With the authorization of the UNSC, the International Syria Support Group, headed by US

and Russia and including Iran, Turkey and Saudi Arabia, should establish a new subsidized oil storage and distribution system near the Syrian-Turkish border undercutting ISIS prices.

In this way the oil business will not be harmed but rather, transformed. The product will be cheaper due to subsidies from international humanitarian donors. Cheaper energy will lower the prices of food, water, electricity and other commodities. Oil will not be used as a weapon of war by ISIS against its purchasers, whether civilian or military, as it has been the case in Aleppo and Idlib on many occasions. ISIS will stop being a major oil producer and revenues will dry up.

This entails serious security risks as ISIS will try to sabotage, likely by force, the whole process from purchasing oil near the border to selling it in the market. But taking certain security measures can decrease these risks. Logistically this is possible but politically there needs to be consensus among the key international and regional actors, something that has not been achieved to date.

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The following are the major steps in the job: 1) traders have to provide the broker with the details of their imported product, including the certificate of its origins. 2) the broker tracks the process of importation from the source (China for instance), and starts calculating the required tariffs and taxes in regards to the quantity, and quality of the product, he sends a quality report and provides samples to customs to confirm that it meets national quality standards. 3) once the product arrives at customs, it is the broker's duty to complete all the clearance papers as quickly as possible because every day the merchandise stays in the port, or with customs, the trader has to pay fees. Thus the process could become very expensive. Here the role of the customs broker is to use his influence to make things go smoothly. 4) practically, customs brokers have to tip everyone from the guys responsible for lifting the merchandise to the highest ranking official in order to complete the process rapidly, and that usually is cheaper than paying another day of landing fees. In short, it depends highly on clientalism, reputation and influence.

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