

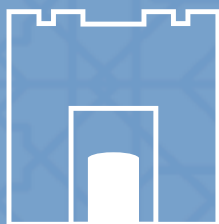
THE WAR ECONOMY IN NORTHERN SYRIA

DECEMBER 2016
ARMENAK TOKMAJYAN



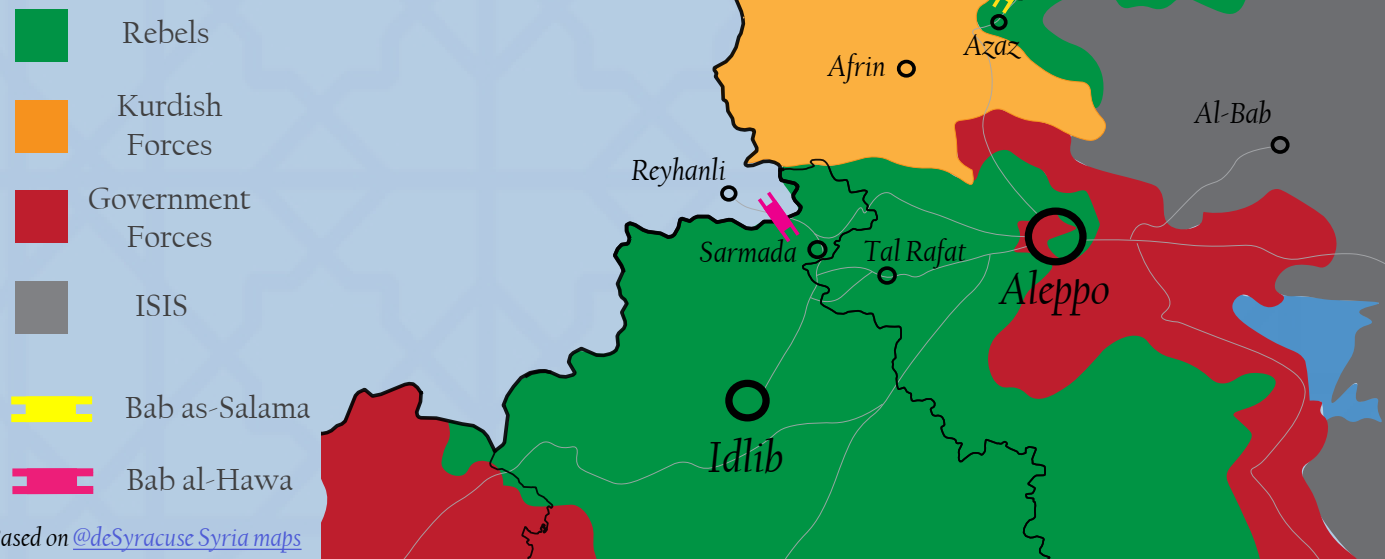
Photo: Christian Payne

THE ALEPPO PROJECT

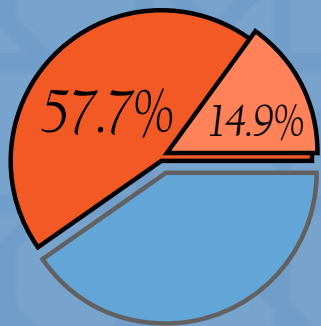


مشروع حلب

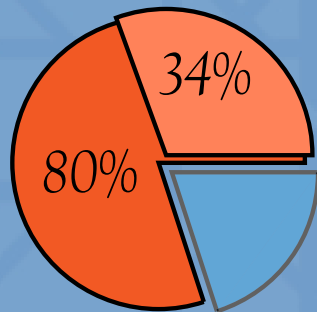
Northwestern Syria, September 2016



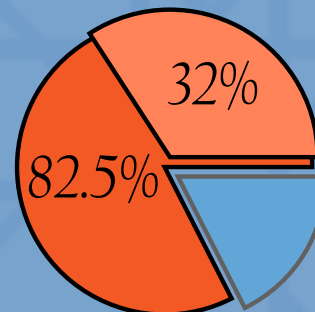
Ahrar as-Sham is the sole controller of the Bab al-Hawa crossing, which is the most important on the Syrian-Turkish border. No accurate data is available on group's financial gains. A low estimate of their income is around 3.6 USD million a month.



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 imbargo 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 is through the Bab al-Hawa crossing in the northwest Syria, 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 so 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 on 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 take into account the war economy, particularly the control of border crossings and other “bottlenecks” that allow for control of resources.
- At the same time, support 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 that is 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 them 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 end it entirely as it will rely on small-scale production and artisanal refining.

- There is an urgent need to provide an alternative source of oil for the population of 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 their oil.

THE WAR ECONOMY IN NORTHERN SYRIA

REPORT

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; knowing when to use force; and the development of resilience to recover from setbacks.¹ 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.²

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 entire north. Rebels, smugglers, shopkeepers, factories, criminal networks and ordinary people have become sucked into the ISIS war economy.

It is important to note that the motivation of the population effected by each of the war economies is different.³ 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 has meant that many of the components of the new economy: smuggling, local capture of resources, bribery and extortion were all thriving before violence exacerbated their role. Ethnic and religious divisions have been mobilized to ensure armed groups can maintain control over economic resources.⁴

Syria fits very much into the pattern of a rentier state that relied on foreign subsidies and extraction to pay off internal dissenters and maintain control.⁵ 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 in the country deprived of support. Although the civil conflict has many sources, the economic stresses of the past decades combined with the 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 it will also take away jobs from the shadow economy. Targeting the infrastructure of the shadow economy would leave many civilians without any income, which is particularly troubling given the failure of the international system to provide sufficient humanitarian assistance to Syrians.⁶ 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 impact of war economies and incorporate few measures to reduce their impact.⁷ 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.

A. EXTERNAL 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 now 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 southern half, the war has diminished Aleppo's economic and political status to a large extent. 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.⁸ 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 working in Turkey by late 2014.⁹ 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. As for the corridors, already in late 2012, the government's presence along the supply lines was very limited. Since then many armed groups including FSA affiliates, ISIS, and JN, have fought with 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 is also equipped with a civilian administration which has the capacity to manage the crossing of people between Turkey and Syria. There are no taxes on civilians nor on humanitarian trucks, only commercial. No accurate data is available on Ahrar ash-Sham's financial gains. The minimum estimate of this report is 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.¹⁰ During the conflict its role has grown. In summer 2012, the government lost control of the

crossing to the FSA.¹¹ 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.¹² 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.¹³

Armed groups have also fought over all the 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 Jabhat 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 also been fierce.¹⁴ The crossing has changed hands from Asifet ash-Shamal – a small Azaz-native group – to ISIS in October 2013 and eventually to al-Jabhat ash-Shamiyeh – a coalition of several large armed groups in Aleppo region. The fight to control the 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, as well as many different rebel groups. In addition, the line is close to ISIS held territories in east 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.¹⁵

In 2014, Turkish exports to Syria stood at 1.8 USD billion, the same as in 2010.¹⁶ 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 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”¹⁷ 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 believed to be quite significant.¹⁸

The office confirmed that 150-200 commercial trucks pass every day. Reports and interviews suggest that fees can be as low as 150 USD¹⁹ or as high as 2,000.²⁰ 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 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 livelihood depends on Turkey. Since they took sole control of the crossing in 2015, they changed the administration, introduced security measures, started registering the passers in a unified database and organized the transfer of goods and patients across borders. In short, Ahrar ash-Sham wanted to replace the state. In several videos edited by the group, the speakers underline the resumption of state institution on the border and an end to lawlessness and military control of the crossing.²¹

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

Turkish authorities treat Ahrar ash-Sham as their counterparts 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 who process the papers and pass them to the Turkish authorities.²⁴ The Turkish side informs the Syrian side about the border opening and closing dates.²⁵

In March 2015 Turkey closed the Syrian border, putting end to its open door policy.²⁶ 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 40 people are allowed to cross to receive medical treatment.²⁷

According to the Bab al-Hawa administration, about 50,000 Syrians crossed the Turkish border to Syria to celebrate Eid al-Fitr in July 2016.²⁸ This highlights the strong connection between southern Turkey and northern Syria. There are no official crossing fees.²⁹ Not to create 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.³⁰ From early 2012, FSA were receiving arms, although not in sufficient quantities to actual defeat the regime.³¹

When the IF took over the Bab al-Hawa crossing in December 2013 from the FSA, they also confiscated its arms depots.³² 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 Northwest Syria. The list includes Failaq as-Sham and al-Jabha ash-Shamiyeh, which has ties to the Muslim Brotherhood movement.³³ Several Turkmen armed groups were raised and armed by Turkey.³⁴ But the relationship with Ahrar ash-Sham is particularly important. This is more due to the realities of fighting on the ground rather than ideological affinity as Ahrar ash-Sham is far closer to the radical end of the Islamist spectrum than the AKP government.³⁵ The 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.³⁶ Turkish government officials admitted that they provided "logistical and intelligence" support to the command center of the coalition in Idlib.³⁷ 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 the armed groups. In 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.³⁸

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.³⁹

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.⁴⁰ Some rebels managed the entire supply chain of oil products before ISIS took control in 2013.⁴¹ 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.⁴²

In any conflict the economic environment changes in favor of armed groups and the civilians connected to them.⁴³ This creates a situation when the 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.”⁴⁴ 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.⁴⁵ But most of those involved had next to no experience of 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.⁴⁶

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.⁴⁷ It is estimated that it made up at least 30 per cent of GDP, or 3.5 USD billion dollars, in 1980s.⁴⁸ 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 1990s when there was some liberalization in trade and smuggling declined further after Bashar al-Assad came to power in 2000 and began a new round of reforms.⁴⁹

The scale of shadow economy in 2000s was said to have shrunk as the economy opened up slightly. According to one estimate in 2002/2003 the contribution of this sector to the GDP was estimated to be 21.6 percent, or 4.5 USD billion dollars.⁵⁰ A newer study suggests that shadow economy in Syria was around 19 per cent between 1999 and 2007.⁵¹ To put it in perspective, the average informal/shadow economy in the Middle East and North Africa was 27.3 in 2005.⁵² If true, both numbers suggest that Syria’s shadow economy had declined in the previous decade as the lifting of restrictions on economic activity brought more businesses into the mainstream.

Today the scale of the shadow economy is believed to be massive but there is no accurate data on its scale. Looking at employment rates by sector suggests that the informal sector might have grown 2.5 fold. While in 2009, employment in the informal sector was about 34 per cent but by 2012 this number reached about 80 per cent.⁵³ This suggests that the shadow economy may have reached 50 per cent of GDP – which itself contracted by about 55 percent between 2010 and 2015.⁵⁴ Several estimates confirm that the scale has passed 40 per cent of GDP in 2015 and it is likely to increase in the following year.⁵⁵

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 the custom officers at the border. Informal smuggling was on a much smaller scale than the value of good crossing borders with the collusion of officials.⁵⁶ 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.⁵⁷ 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 the 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.⁵⁸ Authorities did try to confront smuggling but these networks were too strong. Stopping illegal shipments could be a dangerous business. In 1981, top custom officers 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.⁵⁹

Traders employed various techniques to avoid taxes on the border. One was to fake the value or type of goods on paperwork to pay lower tax rates.⁶⁰ Large traders employed mukhalles jumruki or custom brokers.⁶¹ Profits could be considerable, not least because some goods were very heavily taxed in Syria even after the partial economic liberalization that began in 2000.⁶² 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.”⁶³

One of the main components of the war economy that thrives in northwestern parts of Syria is the importing 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.⁶⁴

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.⁶⁵ The business has thrived in Atareb, one of the cities where the standard of living has actually risen in the past five years.⁶⁶ Such businesses are also doing well in border towns like ad-Dana, where monthly sales had reached 4 USD million in early 2014.⁶⁷ Sarmada, which is a big hub for all goods imported from or through Turkey, offers a wide range of used and new cars. One car dealer from the city asked a buyer “Here you go Mr ... do you want 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.”⁶⁸

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.⁶⁹ 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.⁷⁰ 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.⁷¹

In comparison to government supplied electricity this is expensive. 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.⁷² With this calculations, for 211 kw/h, the government price in January 2016 was 211SYP or 60 US cents⁷³ while it costed just half of this – 105,5 SYP or 2.4 USD – in 2010.⁷⁴ But during the war, the black market dominated. In most of northwestern Syria the government has not been able to provide reliable electricity.⁷⁵

Both government and rebel held areas of Aleppo depend on the ampere system. Even in western Aleppo, residents have long abandoned the hope that one day the government might resume supplies.⁷⁶ People are now at the mercy of the war profiteers.⁷⁷ Some factories chose to buy their own generators to reduce costs but still have to buy fuel.⁷⁸ 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.”⁷⁹

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 2014.⁸⁰

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.⁸¹ In Azaz, it was 2 million a day.⁸²

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.⁸³ 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.⁸⁴ 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.⁸⁵ Foreign goods were often cheaper and better in quality. It was possible to buy smuggled goods from shops, street vendors, and apartments in all cities but especially in border towns.⁸⁶

Lack of alternative jobs was one of the factors that pushed border residents to take up this work.⁸⁷ 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.”⁸⁸ 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 custom in Homs complained in 2007 that there were laws and regulations that prevented them from fighting smugglers, who were often armed.⁸⁹

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.⁹⁰ On Fridays, many Aleppians could take 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 their smuggled wares.⁹¹ The process of smuggling had clear gender divisions. While smuggling was men’s business, selling almost exclusively was done by women.⁹² 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 smuggler⁹³ turned fighter.⁹⁴ He has been accused by many of being little more than a war profiteer.⁹⁵ He claimed to have received money from Qatar to finance its 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.⁹⁶

Azaz is not an exception, many border towns may have similar story where the locals used already established smuggling networks. A similar development happened in Tal Kalakh, a border city with 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 whereas 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 more than tripled to 16 USD.⁹⁷ The price difference is largely because oil derivatives in Syria were highly subsidized until 2008. Yet even after lifting the state support in 2010, the price of diesel in Turkey remained four times higher than in Syria where 10 liters was 5 USD.⁹⁸ During the conflict the same pattern continued. In 2012, 10 liters of diesel in Syria was 4 USD as oppose to 23 USD in Turkey.⁹⁹ 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 modified vehicle whose capacity to carrying diesel or gasoline would be more than the usual. After crossing the border, the smuggler met his partner in Turkey who would receive the load. Before Turkey prohibited the entrance of vehicles from Syria in May 2015, this was the most common smuggling method.¹⁰⁰

The smugglers who chose the second way, did it with small vehicles or by loading horses or donkeys. Now there are no controls on the Syrian side of the border, the business has flourished.¹⁰¹ Smugglers have even constructed makeshift pipelines to get the products across the border.¹⁰² One of the main new businesses that has emerged since the war started is setting up small refineries and processing crude oil that comes from ISIS areas. This surged especially after the US-led coalition started targeting ISIS oil refineries in the eastern part of the country.¹⁰³ Such businesses are now common in the border towns of ad-Dana, Atareb, Salqin, Sarmada, and Azaz.¹⁰⁴

Smuggling archaeological artefacts is a lucrative business. There are some estimates as to its scale but no accurate data is available on the profits generated by selling antiquities either 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.¹⁰⁵ 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 means that trading with artefacts in opposition held areas is common. Yet the same source finds that ISIS was by far the worst offender when it came to looting whereas in the opposition areas the looting cases were mostly classified as minor.¹⁰⁶

Another source of income is kidnapping. Some estimates suggest that rebels made about 200 million a year in 2013 and 2014.¹⁰⁷ The list goes on to include looting factories and transporting equipment out of the country, kidnapping foreign journalists and sometimes even selling them to other armed groups, smuggling drugs and so on.

The shadow economy in Syria connects "business rebels," criminal gangs, traders and businessmen, warlords, workers and shopkeepers. 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, try to come up with new strategies to survive.¹⁰⁸ 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 forced to join in to survive.¹⁰⁹ This class of people constitute most of the population given the fact the overwhelming majority of Syrians were poor already by the end of 2014.

The poverty rate, based on household income and expenditure surveys, reached 82.5 per cent in late 2014.¹¹⁰ 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.¹¹¹ 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 direct impact on the welfare of about 12 million people.¹¹² This was accompanied with the influx of work force in the growing informal economy that had already passed 80 per cent in 2012.¹¹³ By the end of 2015 the situation has slightly worsened.¹¹⁴

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).¹¹⁵ A person would need 36,000 a month to rise above the poverty line.¹¹⁶ 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 2016.¹¹⁷

In March 2016, the head of the consumer protection committee said that the average salary was 50 USD a month.¹¹⁸ 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.¹¹⁹ 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. Euphrates water gets redistributed through Aleppo city from pumping stations, of which the Suleiman al-Halabi station is the largest. It requires daily 8 mw of power to function at full capacity. Even before the conflict, water was often cut off for 11 hours a day during the summer.¹²⁰

Since the early days of the conflict in Aleppo, water has been a problem. Beside 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 improvised bowsers. Prices vary depending on the situation and the area but can reach 45 USD

for 1,000 liters.¹²¹ Most of the time though the water was 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 capital 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 four to eight hours supply.¹²² 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-Suleiymaneh, 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."¹²³

Civilians on both sides were not just poor but also fleeing the country. Especially young men who left either to escape forced conscription or to seek work. A resident of Bustan al-Qaser in the eastern Aleppo observed that only "the old and the poor" are left in the city.¹²⁴

The east of the city has suffered continuous barrel bomb attacks and airstrikes. In June and July 2016 the 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 much worse socio-economic situation and intensive Russian and Syrian airstrikes.¹²⁵

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.¹²⁶ The term diaspora includes many communities living outside their home country.¹²⁷ 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.¹²⁸ This made up about 1 billion USD in 2007 or 2.5 per cent of GDP.¹²⁹ 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. While in the same year, the diaspora in Jordan, Kuwait and Kuwait sent 518 million, 353 million and 255 million to Syria respectively.¹³⁰

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 the migration of workforce to the Gulf contributed to this increase. All the Syrians working and living in Turkey, Lebanon and United Emirates interviewed for this paper said that they believed remittances had risen significantly.¹³¹

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 was 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.¹³²

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 mix of people in need, criminals and rebels.¹³³

The overwhelming majority, if not all, transfers to relatives from countries around Syria or 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.¹³⁴ At the moment, at least two forms of Hawala networks exist, registered and unregistered.

Fouad is one of the companies with dominates the Syrian market. It receives UAE Dirham and give Syrian pounds to people in the country.¹³⁵ AlHaram, one of the formerly big Hawala companies in Syria, is another example which still operates but only in government and Kurdish controlled areas.¹³⁶ This suggests that the opposition held areas largely depend on informal Hawala networks or they send money with the help of relatives and friends.

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

The Syrian-Turkish borders have been important for sending money to Syria. Cross border shipments of cash have decreased significantly since late 2015 when Turkey closed the borders. This forced people to rely more on Hawala companies.¹³⁸

Humanitarian aid

Humanitarian aid has become the main source of support for millions of Syrians.¹³⁹ According to OCHR, by the end of 2015 there were 13.5 million people inside Syria in need of assistance. Aleppo province has become the biggest host of IDPs with 1.2 million displaced people living there.¹⁴⁰ 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 aid. They made up almost quarter of the population who received aid.¹⁴¹

Other survival strategies

There are many other survival strategies that locals developed in order 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.¹⁴² Many end up selling this fuel in the local markets, which are frequently targeted by Syrian or Russian air strikes.¹⁴³

Another important employment sector for the desperate is fighting. Men who do not have the chance to leave the country, find a job or get enough 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.¹⁴⁴

Another important source of income for civilians in rebel-held Aleppo is the government, which still pays salaries to most of the civil servants even outside the areas it controls.¹⁴⁵ In this way, the government supports both the coping and shadow economies. Some reports even claim that some of the recipients have become rebel commanders yet still received their salaries.¹⁴⁶

Northwestern Syria is mostly fertile agricultural land.¹⁴⁷ 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 the GDP in 2007.¹⁴⁸ The conflict has destroyed agriculture and the country now faces immense food insecurity. The harvest of wheat and barley in 2015, which was considered as the best war-time harvest, was lower than amounts grown in the 1960s.¹⁴⁹

Nevertheless, this sector remains active in some cities like ad-Dana, Atareb, Armanaz, Afrin, Salqin, Idlib and Azaz. Farm workers, who are typical example of coping economy, work for daily pay that ranges between 500 and 1,500 Syrian pounds in late 2014.¹⁵⁰

B. 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 mostly based on coercion, physical and structural violence. ISIS has been able to sustain its state as of May 2016 and it is unlikely to disappear in the near future. The predecessors of ISIS never achieved this level of organization but they paved the way. The Islamic State of Iraq, the predecessor of ISIS, had started organizing on a large scale since 2004. It emerged as a sustainable, self-financing terrorist group with minimal dependency on foreign financial support.¹⁵¹ According to some estimates ISIS may have already made up to 2 USD billion between 2006 and 2009 in the black market.¹⁵² Networks for smuggling oil, human trafficking, trading artefacts, and looting were already in place when ISIS declared its existence in 2013.

In 2014 it took in 360 USD million dollars in tax revenue.¹⁵³ In 2015, revenue from taxation and property confiscation rivalled revenues generated by oil, which was estimated to be about 450 million USD.¹⁵⁴

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.¹⁵⁵

Based on his experience of jihad in Afghanistan in 1980s and 1990s, the jihadi conflict theoretician Abu Musab as-Suri noticed 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.¹⁵⁶ There is no way to confirm that ISIS leadership follow as-Suri’s advice in Syria. But what is crucial here is that jihadi circles, in addition to their practical experience have a body of literature that they can rely on to build a multi-sector economy.

ISIS mostly sells oil from Der az-Zor to Aleppo and Idlib. Some donors have restrictions on purchasing outside countries 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 had 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 in the

country.¹⁵⁷

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.¹⁵⁸ 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, it was estimated that about 40 per cent of ISIS revenues came from extracting oil. In the autumn of that year, the organization produced somewhere between 80,000 to 120,000 barrels per day (bpd), earning between 2 and 4 million USD per day.¹⁵⁹ Even after the US-led coalition started targeting ISIS oil infrastructure, it was still producing between 34,000 and 40,000 bpd in Syria and 8,000 in Iraq in October 2015. The revenue was estimated somewhere between 1 to 1.5 million USD a day.¹⁶⁰

Oil production has generated jobs for war profiteers as well as for the poor. The extraction of oil happens under the supervision of ISIS, which takes some for military use and the rest enters the market within the territory of ISIS, where the prices are fairly regulated. Whatever is left is trucked to Syria and Iraq.¹⁶¹ ISIS has no access to the two major government held refineries in Syria: Banias which has a capacity of 130,000 bpd and Homs with a 110,000 bpd capacity.¹⁶² ISIS and private companies have set up mobile refineries near well heads¹⁶³

Truckers are an important 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.”¹⁶⁴

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.”¹⁶⁵ 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?”¹⁶⁶

The impact of oil on rebel military actions is only the small part of the story. What the June embargo did to the civilians in Aleppo is of a 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.¹⁶⁷ 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.¹⁶⁸

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

When it comes to business all sides are pragmatic because of their mutual dependency. A truck driver explained: “whether it’s Assad, PYD or [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.”¹⁷¹ US-led coalition and Russian airstrikes on ISIS oil infrastructure have also contributed to increases in fuel prices. 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, the oil production decreased to 34,000 to 40,000 bpd.¹⁷² As of December 2015, the coalition said it had destroyed 30 per cent of ISIS production capacity.¹⁷³

Within a year, the coalition had destroyed 283 oil tanker trucks, 120 storage tanks, and facilities in Syrian oil fields.¹⁷⁴ 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.¹⁷⁵

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 one of the main sources that sustains 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.

C. 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 its all forms will likely continue in a different way.

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 its power, authority and privileges, which it gained during the conflict. The new economic players who dominate the shadow economy will not easily give up businesses acquired during the war. The poor and vulnerable lack skills and resources amidst mass exodus of educated or skilled workers from the country. Any transformation from war to peace economy must consider these factors. Among the recommendations that policymakers should consider are:

- *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 agreement 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.”¹⁷⁶
- *Foreign military support:* the most important resource that sustains 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 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.
- *Reviving the Aleppian 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 mass 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 the 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 Syrians have left the country and 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.

In the post conflict reconstruction period, there will need to be significant investment in education and training as well as effort to support 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 and so a great many organizations, including the government and foreign aid donors end up buying petroleum derivatives sourced from their area of control. Breaking the monopoly would severely limit their income and power.

With the authorization of UNSC, the International Syria Support Group, headed by US and Russia and including by 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 affect 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 provide samples to the customs in order to test that it meets national quality standards. 3) once the product lands at the custom, it is the broker's duty to complete all the clearance papers as quick as possible because every day the merchandise stays in the port, or the with customs, the trader has to pay fees. Thus the process could become very expensive. Here the role of the custom broker is to use his influence to make things go smoothly. 4) practically, custom 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 clientelism, reputation and influence.

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