Article

Genesis and evolution of parallel economies during the Syrian crisis: A political economy view

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Abstract: A highly internationalized domestic armed conflict in Syria, active since 2011, has caused deep territorial fragmentation, accompanied by the genesis of numerous parallel economies. Those include the economy of the self-proclaimed “Kurdish autonomy” encompassing the northeast, partially the north and the east of the country, as well as the historical transboundary criminal-terrorist economy of the “Islamic State of Syria and the Levant” (ISIL or ISIS) (this organization is banned in the Russian Federation), which existed during 2014–2019 in Iraq and Syria, the economy of “the Turkish occupation zone” in the north, and finally the economy of the part of the north-western Idlib province, remaining under control of the radical Syrian opposition. Unlike the previous materials on the Syrian conflict published in Russia and abroad, the author analyzes parallel economies from the angle of political economy, i.e., the “state-economy-individual” trichotomy, using current and retrospective lenses. In addition to a scope of Russian, English, and Arabic resources and literature, he uses the data obtained empirically during his previous stint as a senior diplomat at the Russian Embassy in Damascus. In certain cases the reviews are illustrated by the statistics. The article covers the genesis and evolution of parallel economies, including the phenomena of divided cities and siege economies, highlighting the restrictions on the access of the central authorities to the state borders and the dissolution of transport and communications. Besides, it analyses the external orientations of parallel economies, in many cases being tied more to the neighbor states (Türkiye, Iraq) than the rest of Syria. In conclusion, the author compares the levels of sustainability of the parallel economies in Syria in the light of perspectives for national economic reintegration. Which could be important not in scientific terms only but as a practical imperative for seeking the modalities of a peaceful settlement of the Syrian crisis as well.

Keywords: political economy; armed conflict in Syria; parallel economy; economy of divided cities; siege economy; autonomous administration of North and East Syria; ISIL/ISIS; Syrian Interim Government; Syrian Salvation Government; Idlib

1. Introduction

The Author’s experience, accumulated while working as the head of the trade and economic section of the Russian Embassy in Syria at the peak of the Syrian crisis in 2014–2017 enabled him of making the following acknowledgment. In order to understand the logic of a country’s socio-economic development under the emergency conditions, the methodology of political economy appears to be the best in terms of studying the interlinks between the politics and economics [1–3]. The fact that the political economy covers the relationships between the market and the state, including the role of the economics in the formation of political processes, i.e., the economic interaction between an individual and the society, is fully consistent with the political studies of conflicts. Hence, the Syria country case being analyzed in this article,
enables us to assess events and processes, predicting possible scenarios for the future developments.

Thus, the novelty of this study lies in the use of the political economy approach in relation to Syria, which, in our opinion, complements the content of the series of works previously published on the topic of local wartime economies. Those include the collection of articles published under the title “The local economies in Syria: Divisions and dependencies” in Lebanon (edited by Salame Said, a graduate of the Universities of Damascus and Bremen) [2,4,5], along with the report, “The political economic context of Syria’s reconstruction: A perspective in light of a legacy of unequal development,” produced by Joseph Daher, a lecturer at the University of Lausanne [3,13], and the “War economy, governance, and security in Syria’s opposition-controlled areas,” an article written by the experts of the London School of Economics and Political Science Vesna Bojčić-Dzelilovic and Rim Turkmani [4].

At the same time, the detailization of the theoretical apparatus enables us to systemize some data from a few works containing the political economy analysis of the economic activities in the certain parts of Syria. Those include, for instance, the studies by Sinan Hatahet, a Turkish economist on the economy of the Kurdish territories in the northeast [5] or the Turkish-controlled zone in the north [6]. Here, we can also remember the studies scrutinizing the specific aspects of the development of the Syrian economy in various areas. The subjects of research imply the shadow route to Türkiye through Idlib, oil production in the Kurdish areas, analyzed by Nicolay Sukhov [7], as well as the role of local councils reviewed by Marina Sapronova [8], the role of non-state actors (NSAs), analyzed by Alexander Filonik [9], and the negative impact of the parallel processes of reconstruction in Syria on the west/east of the Euphrates area studied by Vladimir Bartenev [10]. Sometimes, the scholars scrutinize selective socio-economic parameters, like a French-Syrian expert Samir Aita, assessing the situations in the Syrian cities of Tartus, Qamishli, and Aazaz, located in different zones of territorial control [11], or Khairallah al-Hilu, a Syrian expert living in Italy, who examines Türkiye’s economic policy in northern Syria [12].

In sum, the author of the article proceeds from the fact that the “political economy vs. economic policy” anagram implies the progress from a mere justification, i.e., the theory to the implementation in real life, allowing to carry out an expert work on the basis of the principle of unity of theory and practice, thus, ensuring an adequate understanding and identification of the logic of conflicts. In the Syrian case, for example, it is important to understand whether a nation-wide reintegration of economic ties could serve as a driver for restoring the territorial integrity of the country and further on the key to a political settlement of the Syrian crisis. No less significant is the scientific inauguration of the relevant theoretical notions, namely, the concepts of parallel economy [13] and economy of intra-state armed conflict (EISAC) [14].

2. Genesis of parallel economies in Syria

2.1. Economic impact of territorial fragmentation

Since 1961, when Syria acquired the modern name of the Syrian Arab Republic (S.A.R.), the country has been experiencing many events, significantly affecting the national economy. Those include the signs of territorial fragmentation or, more
precisely the alienation of territories. Thus, the second painful event after the loss of the Iskenderun region (former Alexandretta sanjak) for Türkiye, which happened in 1939, i.e., the mandate period under the French-Turkish agreement, was related to the capture by Israel of the Golan Heights in 1967 during the Six-Day War. Eventually, the Syrians failed to completely liberate them during the October War of 1973. In 1981, the Golan Heights Law, adopted by the Knesset, extended the Israeli legislation to this territory [15], formalizing the inclusion of the Golan in the orbit of the Israeli economy, despite the protests of official Damascus and a significant part of the world community. As a result, one of 14 muhafaz (governorates in Arabic) of the S.A.R., namely, Al-Quneitra, is still not fully controlled by the Syrian authorities.

During the current crisis, a new wave of territorial fragmentation occurred across the country. In 2011–2012, the temporary successes of the armed opposition violated the territorial integrity of Syria and eventually the unity of economic ties. Less than a year after the start of the fighting, the rapid process of genesis of a parallel/autonomous economy encompassed vast areas in the north and north-west under control of the Kurdish People’s self-defense units, which included the Hasekeh governorate together with certain parts of the provinces of Aleppo and Raqqa. Here, in January 2014, the cantons of Afrin, Kobane, and Jizre were proclaimed, named by analogy with the administrative parts of the Swiss Confederation. Following the leftist discourse of “people’s self-government,” a network of local councils of various levels was formed, with Sinan Hatahet reasonably mentioning in this respect the dualistic approach in managing the Kurdish “autonomy” both “from above” and “from below” [5].

In March 2016, the individual cantons were replaced by the united “Democratic federation of Rojava—Northern Syria.” Further on in December 2016, the Kurdish word “Rojava” disappeared from the “official” name on the eve of the expansion of Kurdish control over the areas with predominantly Arab populations. Finally, September 2018 witnessed the creation of the “Autonomous Administration of Northern and Eastern Syria” (AANES) with the local economy (EAANES) based primarily on agriculture, whereas Hasekeh had been known as the “wheat basket” of Syria, along with the oil production in the newly controlled areas of the eastern governorate of Deir ez-Zor.

After the June 2014 declaration by the ISIS of the “Islamic State” (“caliphate) in Raqqa, encompassing the parts of the Aleppo, Deir ez-Zor, Raqqa, and Homs muhafazas, the second parallel economy of the ISIS (EISIS) emerged (the zones of control in other governorates were too small to organize full-fledged economic activities). The dynamics of the ISIS’s territorial gains and losses is shown in Figure 1 [16]:
Although often called by the media a “terrorist corporation”[17] or “quasi-economy,” [18] the EISIS, in our view could be characterized as a purely criminal-terrorist economy with its hierarchy of management, “laws,” budget, own tax system based on the artificial archaization of Islam (an Islamic tax of zakat, etc.) and even the money (such as gold dinars, silver dirhams, and copper fils [19]).

The main sources of income for the EISIS’s budget included the artisanal oil production and exports, sales of artifacts abroad, slave trade and kidnapping for ransom, fees for the transit of goods, illegal arms and drug trafficking, along with the racketeering [20]. The fall of the “caliphate” under the military attacks of the Syrian government forces together with the allies (Iran, Russia, and Hezbollah) in parallel with the strikes of the multinational coalition led by the USA (which included the Kurdish units of the Syrian Democratic Forces) seriously undermined but did not completely destroy the EISIS, just ousting it from Syria. Hence, one should agree with the RAND corporation expert assessments about the history of EISIS not beginning or ending with the emergence or collapse of the “caliphate” [21]. Moreover, it has demonstrated the abilities to transfer liquid assets across the borders, legalizing businesses and incomes in third countries.

In 2016, the third parallel economy started taking shape in northern Syria, encompassing a part of the Aleppo muhafaza, although some of its elements had already existed since 2013 under declarative control of the so-called “The Syrian Interim Government” (SIG). This body was established by the Syrian opposition in Istanbul in March 2013 with the Turkish assistance, eventually moving to the Turkish city of Gaziantep, bordering Syria and then across the border to the Syrian town of Aazaz. De-facto, the local system of power and economic management within the economy of the SIG (ESIG) appeared to be “decentralized” under the protection of Ankara, which had been advocating the “divide and conquer” principle (not by chance, Hatahet calls such system “disorganized,”[6] while al-Hilu underlines the “inconsistency” of the Turkish economic policies in the SIG’s zone [12]).

Facing the above-mentioned circumstance, the main impetus for the process of the genesis and formation of the ESIG, in contrast to the EAANES, was quite logically
given not by the internal processes, but the external actor of Türkiye. Here, one should remember numerous transborder operations of the Turkish Armed Forces in Syria (the “Euphrates Shield” in 2016–2017, the “Olive Branch” in 2018, and the “Spring of Peace” in 2019), each time leading to the expansion of the ESIG’s territorial scope. As a result, significant parts of the Aleppo muhafaza (the Afrin region) and the north of the governorates of Raqqa and Hasekeh (the Ras Al-Ain—Al-Tell Al-Abyad sector) found themselves in the zone of de-facto Turkish protectorate, with agriculture remaining the basic industry here, as before the crisis. The relevant division of territorial control over the Syrian national borders is shown in Figure 2 [22].

Figure 2. Map of zones of territorial control and control over the Syrian national borders as of February 2021.

In March 2015, after the capture by the Syrian opposition of the northwestern Idlib muhafaza, including the provincial administrative center, followed by conquering the adjacent areas of the Aleppo, Latakia, and Hama governorates, along with the proclamation of the “Syrian Salvation Government” (SSG) in November 2017, the fourth parallel economy (ESSG) emerged. The specific character of the situation was constituted by the deployment of the military observers from Türkiye to monitor the internal perimeter of the local “de-escalation zone,” created in Astana in May 2017 by the joint decision of Russia, Iran, and Türkiye [23]. By 2018, the ESSG zone has already been hosting the Islamic radicals of the Hayat Tahrir al-Sham (HTS), together with the militants from other areas of the country previously liberated by the authorities and the Turkish-friendly rebel fighters (of Failaq al-Sham, etc.).

The intra-opposition strife between the SIG and SSG inevitably affected the ESSG, making it acquire a significant degree of autonomy. Unlike the ESIG, the ESSG became based not only and not so much on agriculture and retail trade, but rather on income from the transit of goods and UN humanitarian aid through the Bab Al-Hawa border checkpoint with Türkiye, as well as the transactions via the local financial “hub” located in the city of Sarmada, mostly, hawala money transfers (hawala – transfer in Arabic, is an informal system of transfers of money and liquid assets
between brokers (hawaladars), commonly used in the Middle East, Africa, and Asia). Under the Turkish military presence, both parallel economies, despite the intra-elite tensions SPS have been sharing energy supplies from Türkiye. Due to the successful operations of the Syrian government forces in 2019–2020 (the “Dawn over Idlib” and the “Dawn over Idlib 2”), the ESSG’s orbit shrunk to a part of the Idlib muhafaza with the very small adjacent areas of the Latakia province (often called the “Small Idlib”).

Finally, since April–May 2017, a US military base has been operating in the “55-mile security zone,” self-claimed by Pentagon in the Syrian Desert (Badia). It is located near the At-Tanf checkpoint on the Syrian-Iraqi border in the muhafaza of Homs, also hosting the Al-Rukban refugee camp near the Syrian-Jordanian border. However, a parallel economy has not emerged here due to the compactness of the territory and the unfavorable climatic conditions.

In a nutshell, as of September 2023, three parallel economies existed in Syria (EAANES, ESIG, and ESSG), not mentioning the At-Tanf enclave and the Israeli-occupied part of the Golan Heights. Those economies covered 6 of 14 provinces of the S.A.R., making 36.62% of the country’s territory in early 2021 [14]. Since then, the situation has not changed dramatically.

2.2. Divided cities and siege economies

The Syrian crisis has acquired such distinctive feature as the genesis of numerous, more or less isolated pockets of economic activity, some of which had been existing for a long time (many months, and sometimes years). Although none of those pockets, due to the military successes of the Syrian authorities and the limited size of the territory, developed into a full-fledged economy, they all accumulated a rather unique experience of economic activities under emergency circumstances. From the political economy point of view, they directly influenced the modalities of the state—economy—people trichotomy, giving rise to nouveau riche and even local business elite groups. More precisely, we are talking about the phenomena of divided cities and siege economies.

In the first case, the front lines ran inside the cities. For instance, at the beginning of the crisis, in Syria’s third-largest city of Homs, the opposition-sympathizing Sunni neighborhood of Al-Waer was at odds with the loyalist Alawite neighborhood of Akram. In 2013–2018, the Damascene districts of Jobar, Qaboun, Barzeh, and Yarmouk under the armed opposition’s control managed to maintain rather stable communications with the adjacent rebel Eastern Ghouta in Rural Damascus. In other words, the blockades in divided cities have never been total.

In the case of siege economies, all economic activities were carried out under complete or almost complete encirclement. Here, we can provide two plain examples. Firstly, it is worth mentioning the long siege of the Aleppo City (2012–2016), which before the conflict was considered the “economic capital” of the country. During the early stages of the crisis, this metropolis became divided into the western part run by the government and the eastern districts controlled by the opposition. After the full encirclement of the rebels in 2016, this divided city automatically became a zone of siege economy.

The second example relates to the blockade by the ISIS of the Deir ez-Zor City
in eastern Syria (2014–2017), whereas the siege economy existed only in the government-run districts, since they were supplied by an air bridge, using of the local military airport, which remained under control of the 137th brigade of the Syrian Armed Forces [24]. Besides, several pockets of siege economies (not full-fledged economies due to the small size of land) existed in Zabadani, a opposition-run city in Rural Damascus, the southern Damascene district of Yarmouk, hosting a Palestinian refugee camp, as well as in the Shiite villages of Al-Fu’ah and Kefraya encircled by the Sunni rebels in the Idlib governorate. The deliveries of goods to all of the above mentioned pockets were ensured through the front lines by the intermediary entrepreneurs using informal schemes.

2.3. Limited governmental control over the national borders and the disruption of ties in transport and communications. The foreign orientation of the parallel economies in Syria

Despite controlling almost two-thirds of the S.A.R.’s territory, all airports (including the enclave with the Al-Qamishli International Airport in the AANES-run zone), all Mediterranean ports, checkpoints with Jordan and Lebanon, and the largest Abu Kamal checkpoint at the Iraqi border, official Damascus’s access to the longest national border with Türkiye in the north stays limited. According to the data provided by the UN Office for the Coordination of Humanitarian Affairs (OCHA) for 18 April 2023, out of 20 active and closed checkpoints, only one in Kasab (i.e., 5% of the Syrian-Turkish border) was run by the Syrian authorities. Meanwhile, the HTS was controlling 7 points (35%), the SIG, including the affiliated Syrian National Army—also 7 (35%), with the AANES running the rest of 4 (20%); the local self-government bodies of the SSG in the “Small Idlib” kept control over the Bab Al-Hawa checkpoint (5% of the border) [25]. Such difficult circumstances essentially reduced the size of revenues and customs duties coming to the S.A.R.’s state budget. De-facto, this status-quo remains, regardless of the formal access to the state border, which was provided to Syrian border guards outside the Turkish former “Source of peace” military operation zone under the Russian-Turkish Memorandum, which was signed in Sochi on 23 October 2019 [26].

In contrast with the 100% control executed by the Syrian government over aviation and maritime transport throughout the armed conflict, a really difficult situation emerged with the pipelines. Thus, the A37 pipeline, connecting the Karachok oil field in the Hasakah muhafaza (in the AANES zone) to the Mediterranean port of Tartus [27], has turned out to be divided by the share of 50/50 between the authorities and the opposition, which paralyzed its work, within the “zero-sum game” paradigm, eventually, depriving both Damascus and the AANES of the oil revenues. A map depicting the energy infrastructure in Syria is shown by Figure 3 [28].
At long last, the disruption of economic ties together with the intervention of the external forces represented by several states and NSAs has strengthened the links of the parallel economies with the neighboring states (the EAANES to the Kurdistan region of Iraq, both the ESIF and ESSG to Türkiye), making them even more strong in comparison with the ties with the government-run zone. The Turkish military operations, especially the “Olive Branch” enhanced even more the SIG’s overall dependence on Türkiye in the fields of finance (banking services), logistics, mobile communications, and postal services [29]. Since the summer of 2020, the Syrian pound has been actively being replaced by the Turkish lira; from 2021, the Turkish power plants have been delivering electricity for the consumers in the SIG zone using the unified grids [30]. The ESSG zone also uses the Turkish lira [31], while in the EAANES zone one can make payments in US dollars, Iraqi dinars, and Syrian pounds [32].

3. Conclusion

In a nutshell, the future of parallel economies in Syria depends on a number of factors. Those include the degree of resilience, the size of resource potentials, and, surely, the modalities of the dynamics of the external environment. All above mentioned refers to the ongoing processes in the regional system of international relations in the Middle East, which includes the rapprochement between official Damascus and the Arab family after the May 2023 decisions of the Arab League to restore Syria’s full membership in this organization, as well as possible actions undertaken by Russia, the USA, Iran, and Türkiye.

Among the parallel economies of Syria, the AANES occupies the strongest position, thanks to the possession by large reserves of natural resources, historical agricultural production [33], and the existence of significant infrastructure facilities (in the mining industry, the electric power generation, and the agroindustry). Yet, there are also visible disadvantages resulting from the remoteness of the Kurdish-controlled...
zone from the main flows of international humanitarian relief (transiting through the Bab al-Hawa) and the next to zero absence of direct trade with Türkiye due to the Kurdish-Turkish armed confrontation (whereas export-import flows are carried out mainly through Iraq and the SIG zone [11]).

At the same time, one can’t exclude a possibility of creating a broad regional platform for Syria’s economic reconstruction, launching large-scale projects in the north-east and other parts of the country. Such step could match the imperative of ensuring the leading Arab role in resolving the Syrian crisis, following the relevant “road map” [34].

The ESIG occupies the intermediate position: If before the crisis these agricultural areas used to be linked with the businesses in Aleppo, nowadays they are much more affiliated with Turkey than the rest of Syria. Meanwhile, it is not easy to guess the prospects of the ESSG because of the staying uncertainty of the future of the “Small Idlib” as such. One can’t rule out the scenario of restoring full government’s control over this zone, meaning the disappearance of the local parallel economy as a part of a possible Ankara—Damascus rapprochement, or another scenario of a merger of the ESSG with the ESIG.

In any case, the improvement of economic ties between the parallel economies and the rest of the country under the paradigm of “decentralization,” whereas Arab political scientists have been already using a rather ambiguous term of allya-markaziyya [35] (decentralization in Arabic), could benefit both elites and the “Syrian street,” stimulating the process of political reintegration, along with the restoration of sovereignty and territorial integrity of long-suffering Syria.

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