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The Unintended Consequences of U.S. and European Unilateral Measures on Syria's Economy and Its Small and Medium Enterprises

About the Report

The devastating explosion at the Port of Beirut on Aug. 4, 2020, and its drastic humanitarian consequences have shed light on the deteriorating social and economic situation in Lebanon, and its impact on Syria.

Even before the explosion, Lebanon, which hosts around 1.5 million Syrian refugees, was suffering from a major financial crisis that depleted the savings of many Lebanese and Syrians who trusted the Lebanese banking system with their assets. Because of the unilateral economic sanctions imposed on Syria by the United States and the European Union, Beirut's port became the lungs of Damascus. It was the main point of entry for humanitarian aid provided by UN agencies and INGOs, as well as the aid needed to sustain a minimally functioning Syrian economy. The Port of Beirut was essential to the livelihood of Syrians living in government-controlled areas in Syria.

Non-UN sanctions have been imposed on Syria since the 1970s and increased in 2003 following the invasion of Iraq through the "SALSA Act" and intensified during the 2011 uprising. Most of the sanctions targeted individuals accused of committing human rights violations and were not intended to target supplies of food and medicine.

A report by Syrian economist Samir Aita for The Carter Center — "The Unintended Consequences of the Unilateral Measures on the Syrian Economy and its Small and Medium Enterprises" — shows how these unilateral measures have had a severe impact on Syria's economy and population, in addition to the impact of the ongoing conflict. It introduces technical elements to the controversial debate between those praising sanctions as a tool to weaken the government of Syria on one side and those criticizing them as a weapon of "war on Syria" on the other side.

Based on statistics and interviews, the study examines the ways in which unilateral measures exacerbate economic problems in Syria and inflict suffering on common citizens, in addition to the impact on the leadership. The study looks at the direct impact unilateral measures have had on Syria's foreign trade, mainly with the U.S. and Turkey, and on imports and exports. It also highlights the indirect impact of these measures on Syrian political economy during the conflict and the "de-risking" and overcompliance measures foreign partners have taken to avoid being sanctioned as a result of covert pressure, even before the Caesar Act. These indirect effects go far beyond the text of the sanctions.

The report highlights how crucial economic sectors have suffered under the unilateral sanctions, and how their mechanisms were disrupted. Sectors covered include agriculture, internal trade and food security; micro, small and medium enterprises (MSMEs); and the banking and financial sector. It outlines further how the unilateral measures affected the response to the COVID-19 pandemic beyond the destroyed and under-resourced health-sector infrastructure. The report concludes with policy recommendations.

Despite its deeply entrenched corruption, mismanagement and favoritism, Syria had long enjoyed food security and medicine sufficiency prior to 2011, with no need for imports except for specialties. The unilateral measures made the Syrian population deeply dependent on trade with Turkey and Lebanon, on substantial foreign aid and on rainfall, putting them at risk in the event of a prolonged drought.

As for the energy sector, Syrian oil production was already declining significantly prior to the conflict. The balance of trade in oil and oil derivatives plunged from a US$1.2 billion surplus in 2011 to a $4.4 billion deficit in 2012. The scarcity and high prices of fuel affected small and medium enterprises, as well as the general population, by curtailing electricity generation, tap water production, and farm irrigation. The U.S. ban on Syrian imports of oil and its derivatives left the country fully dependent on Iranian and eventually Russian supplies. Out of necessity, all actors, including the predominantly Kurdish Syrian Democratic Forces (SDF) and opposition armed groups, smuggled oil out of ISIS-controlled territory.

The unilateral sanctions halted the growth of the private banks leading the Syrian banking sector. Even when the private banks were not specifically listed in the sanctions, most of those linked to Lebanese and Jordanian banks lost their Western correspondent relations due to de-risking and overcompliance. During this time, traditional and Islamic Persian Gulf banks took the lead in the sector, despite their recent arrival in the market and the sanctions imposed on some of their shareholders or associated exchanges.

The unilateral measures on the Central Bank of Syria and the Commercial Bank of Syria led INGOs to channel foreign funds through the informal "hawala" money transfer system; at the same time, sanctions fueled the uncontrolled financing of combatant and extremist groups through the same system.

The sanctions also led to the development of illegal trade networks controlled by Syria's security services responsible for the repression. The deteriorating livelihood of the population in the early stages of the conflict resulted in an increased reliance on external financing through remittances from Syrians abroad, funding of armed groups, looting, or international aid.

During the later stages of the conflict, the unilateral measures played a significant role in fueling the war by indirectly generating, through informal war economics, significant financial resources to armed groups on all sides; as one example, extremist groups wound up controlling more than $1.5 billion in yearly imports from Turkey to the whole of Syria.

In 2019, the financial crisis in Lebanon increased these effects by blocking around $30 billion of Syrians' savings and working capital for small and medium enterprises. This led to the collapse of the Syrian pound's value. The Covid-19 crisis and lockdown measures further fueled this crisis. The meager revenues of the population and the weakened capacity of local productions led to an even worse humanitarian crisis.

The report argues that the Caesar Act does not add any substantial tools to existing US executive orders combined with the overcompliance measures taken by third parties. It is mainly a public policy tool.

The report concludes with recommendations for adding mechanisms that can tackle the direct and indirect effects brought by broadly applied de-risking practices and overcompliance.

The mechanisms to be implemented, most preferably under UN auspices, must target agricultural production and food security, MSME activities, and the involvement of the banking sector in financing rather than “hawala” and other informal systems. The implementation of such mechanisms is of most importance today given the current Lebanese and Covid-19 crises, and before Syria experiences a drought with lasting and devastating consequences.

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