

THE EFFECT OF CONFLICTS ON INTERNATIONAL TRADE TRAFFIC (THE CASE OF MERCHANDISE TRADE BETWEEN SYRIA AND LEBANON)

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Abstract. *The devastating civil war in Syria is arguably one of the major civil conflicts in recent times. The economic effects of the war extend beyond the country's borders affecting also the neighbouring countries. In particular, international trade traffic is one of the main channels through which the effects of the crisis are transmitted to neighbouring countries.*

This paper examines the effects of the Syrian war on the Lebanese economy via one of the most important channels through which the economic impact of the war occurs, i.e. the trade channel.

This paper surprisingly points out that the Syrian war has so far had a mixed impact on Lebanese trade.

Key words: conflicts, trade traffic, merchandise.

1. Introduction:

The civil conflict in Syria started with protests in March 2011 and soon after escalated to a violent internal war, with no end in sight to this date. By the end of 2019 this conflict has caused well in excess of 500,000 fatalities, and 6 million internally displaced people, and led 8 million refugees to move out of the country. Beyond the human tragedy, the conflict has disrupted the functioning of the economy in many ways. It has destroyed infrastructure, prevented children from going to school, closed factories and deterred investments and trade.¹

¹ World Bank (2019a). Lebanon Economic Monitor: Growing Tensions in a Resilient Economy,

Neighboring countries have been economically affected by the war in Syria. For example, the demand for goods and services in Syria is likely to have fallen thus affecting the many exporters to Syria in neighboring countries. Moreover, to the extent that Syria has become harder to cross, the war may have made trade through Syria more difficult. At the same time producers in neighboring countries may have replaced Syrian producers in Syria and in other markets as their productive assets in Syria were destroyed.²

Probably the neighbouring country with strongest links to Syria is Lebanon. Indeed, Syria forms Lebanon's largest border and a main economic conduit to the outside world (figure 1). Organic social and political ties further elevate the relationship between the two countries. Moreover, a Syrian military presence and penetrating political influence over Lebanon lasted about 30 years until 2005, 15 years of which Syria had the dominant say in its neighbour's domestic and foreign affairs. More recently, Lebanon has been experiencing perturbing security and political spillovers from its neighbour's turmoil.

Figure 1: Lebanon and Syria: a close link



2. Literature Review:

The relationship between war and international trade has been investigated from various angles. Glick and Taylor (2010) show that war has a persistent and strong negative effect on

Washington and Beirut: The World Bank.

² International Monetary Fund IMF (2014). Lebanon: Article IV consultation – Staff Report. IMF Country Report No. 14/237.

international trade volumes and that commercial losses affect also neutral countries, suggesting that war generate negative externalities on trade.³

Martin (2008) looks at the effect of trade on the probability of engaging in war. They find that bilateral trade decreases the probability of war between a pair of countries, but that multilateral trade increases the probability of bilateral war because globalization reduces the bilateral dependence for any given country, reducing the cost of a bilateral war.⁴

However, this paper is more concerned with the effects of civil conflicts rather than of war between countries. Bayer and Rupert (2004) show that there is a significant negative impact of civil war on the international bilateral trade between the afflicted county and trading partners.⁵

Ades and Chua (1997) move the focus on neighbouring countries and find evidence that coups and revolutions in a neighbour has a strong negative effect on a country's steady state per-capita income. They identify the disruption of trade flows as one of the main channels of this effect.⁶

More recently, Qureshi (2013), by looking at a panel of 145 countries over 58 years, estimates that bilateral trade between neighbouring countries decreases by 12% if one of the countries is involved in an intrastate conflict; whereas bilateral trade decreases by 4% if the conflict involves one of the neighbours of a trading country (without the trading partners being involved). These penalties are even higher for landlocked countries, who rely on countries in conflict for access to global markets.⁷

3. Merchandise Trade:

Merchandise exports have declined markedly since 2012, arresting the robust growth of the previous decade, especially during the 2000-2010 period. Overall, exports represent a small portion of GDP (~10%), and this share has been declining since 2008. While remaining positive, growth in goods' export dropped in 2011, following a similar drop during the 2008-09 global financial crisis. Since 2012, however, the growth has become negative. To

³ Glick, R. and A. M. Taylor (2010). Collateral damage: Trade disruption and the economic impact of war. *The Review of Economics and Statistics*, 92(1):102–127.

⁴ Martin, P., T. Mayer, and M. Thoenig (2008). Civil wars and international trade. *Journal of the European Economic Association*, 6(2-3):541–550.

⁵ Bayer, R. and M. C. Rupert (2004). Effects of civil wars on international trade, 1950-92. *Journal of Peace Research*, 41(6):699–713.

⁶ Ades, A. and H. Chua (1997). Thy neighbour's curse: Regional instability and economic growth. *Journal of Economic Growth*, 2(3): 279–304.

⁷ Qureshi, M.S. (2013). Trade and thy neighbour's war. *Journal of Development Economics*, 105: 178-195.

what extent is this trend driven by the role of Syria as an important trading partner for Lebanon? In 2011, Syria was the fifth largest export destination, accounting for 5.4% of total exports.

While the timing of the change in export growth coincided with the Syrian war, a closer look at the export data suggests that the swings in exports of the recent years have been mainly driven by pearls and precious stones and other metals.

The Syrian war does not seem to be the main cause behind the changes in exports of the last years. The drop in exports in 2012-13 is almost entirely explained by the drop in exports of precious stones to South Africa and Switzerland. Exports to South Africa were also the main driver behind the growth in exports in 2010-11 and 2011-12. These changes in precious stones' exports are driven mainly by gold, the largest Lebanese export, whose international demand has fluctuated greatly over the past years. Both the international price of gold and the quantity exported by Lebanon have dropped between 2012 and 2014.

The Lebanese exports may have bottomed out around January-February 2014 and have since experienced a timid recovery. Indeed, the (non-fuel) export value in the period August-October 2014 was slightly above that of the previous years.

Lebanese merchandise imports experienced a slowdown in growth after 2011 vis-à-vis the previous decade. However, unlike exports imports continued to grow through 2013 with a small expected drop in 2014, while the merchandise imports-GDP ratio (which is 4 times as high as the merchandise export-GDP ratio) decreased after 2011. The relative stability of import values over time is likely to be the product of two competing forces related to the war. On one hand, the refugee inflow into Lebanon has pushed imports upwards due to increased demand for consumption and capital goods (as also shown below). On the other hand, the increased trade costs due to the war have hampered the ability of Lebanese traders to import via land, thus decreasing the import propensity of the economy.

Syria is also important for Lebanese trade as a transit country since a sizable share of Lebanese trade travels through Syria. For example, a third of the non-fuel Lebanese exports went to neighbouring countries in the Middle East, which would be ideally reached overland, and thus, transiting through Syria. The most important export destinations among those countries are United Arab Emirates, Saudi Arabia, Jordan, Iraq, Iran, Kuwait, Oman, Qatar, Bahrain and Turkey, hereafter referred to as the "affected countries".

Despite Lebanon's export and import bundles being relatively diversified given its level of GDP (e.g., exporters reach 110 destinations, well above the average for countries of similar size), more than 20% of total exports and about 6% of total imports transit by land through Syria, mainly to and from the Arab markets. These trade flows clear customs in the border cities of Masnaa, by far the most important border for trade through Syria, Abboudieh, Arida, or Kaa.

Both exports and imports away from Masnaa and Abboudieh especially between 2012 and 2013 were redirected. On the other hand, Arida and Kaa have been marginal border-posts even before the Syrian war. The main beneficiary of this re-direction has been Port of Beirut (PoB), whose share in total export value jumped to 44% in 2013 (from 28% in 2012), while its share in imports rose to 71% (from 66% in 2012). However, it seems that this trend away from Syrian border-posts has been partly reversed in the first 10 months of 2014, particularly for exports, which reports the overall share of merchandise imports and exports going through Syrian border-posts.

While the share of exports via Syria has started to bounce back in 2014, reaching a similar share to the pre-war period, the level of exports via Syria are still well below 2010-11, as the total export value in 2014 is much lower than before the war. This is clear when looking at the monthly figures for exports and imports, which show for instance that imports through Syria in October 2014 were a third of the value in October 2010 and less than half than in October 2011. The figures also show that monthly exports and imports through Syria have been increasing since the huge dip in May 2013. This pattern is consistent with interviews with Lebanese firms trading with and through Syria, which suggest a rapid deterioration of the security conditions in Syria in May 2013, followed by slight and relatively steady improvement in the conditions as for instance the road to Damascus – the main trading link to Syria - became more secure.

The data suggest that overland trade (both imports and exports) has been severely disrupted by the Syrian war. However, the trend in Lebanese exports to both Syria and the affected countries remained the same as the pre-war period. For imports, the trend to the affected countries was also the same, while imports from Syria dropped dramatically. Taken together, these figures suggest a number of interesting findings. First, Syria has continued to be a destination market for Lebanon throughout the war. As we will see below, there has been

lot of churning in the Syrian demand for Lebanese products with the demand dropping for certain goods but picking up for others as Syrian production was undermined. Overall, Syrian demand for Lebanese products seems to have withstood the crisis. And that seems to have been the case also for the other countries in the region. The fall in overland exports post-2011 suggests that these markets have been served increasingly via air and more importantly via sea. As we explained above, the drop in the Lebanese exports to the rest of the world seems to be related to the Syrian war.

On the other hand, the collapse in Syrian production has led to a dramatic decline in Lebanese imports from Syria, which almost halved between 2010 and 2013. Other Syrian neighbouring countries, Jordan and Turkey experienced also a reduction in imports from Syria although to different degrees. Turkish imports almost came to a halt (from close to US\$ 700 million in 2011 to less than US\$ 100 million in 2012), while Jordanian imports fell by 30%. Anecdotal evidence gathered through our interviews suggests that the Turkish import collapse may have also been a by-product of the fact that some Syrian firms managed to relocate to Turkey during the war to serve its market and Syria itself.

Jordan and Turkey, like Lebanon, saw a significant reduction in exports to Syria following the war. This suggests a different ability to replace Syrian production vis-à-vis Lebanese exports and perhaps a larger drop in the demand for Jordanian and Turkish products, for example, due to the higher incidence of the war on areas close to Jordan and Turkey vis-à-vis Damascus, the main Syrian market for Lebanese products. Exports to the region have not been affected for Jordan as Syria is not a necessary transit between Jordan and most of the region, while Turkish exports to the Middle East experienced a drop in 2012-13, similar in magnitude to that of the global financial crisis of 2008-09. That is unsurprising given that Syria is a key transit for Turkish exporters trying to reach the rest of the Middle East.

In sum, Lebanese exporters appear to have been more effective in withstanding the fallout of the crisis than other neighbouring countries' exporters.

4. Conclusion

This paper has analysed one of the main channels through which the Syrian civil war has affected the Lebanese economy, i.e. the trade channel. It finds out that perhaps surprisingly – that the Syrian war has so far had a mixed impact on Lebanese trade. It shows that the fall in

Lebanese merchandise exports recorded in the period 2011-19 seems to have been caused by factors related to the Syrian war.

The war has reduced the Syrian demand for goods and services, including those of Lebanese origin. Using custom transaction data this paper found that, on average, an exporter of goods to Syria before the war lost US\$ 90,000 in exports to Syria by 2019, around a quarter of the average pre-crisis export level to Syria. While this effect is significant, it is much smaller than the effect for Jordanian exporters.

This effect of the Syrian conflict has been heterogeneous across exporters. It has mainly affected exporters highly exposed to the Syrian market, while it has not had a significant impact on relatively marginal exporters. The heterogeneity is also across sectors. Lebanese exports to Syria in the beverages and tobacco sector, and to some extent food, benefited from the war as they replaced some of the lost production in Syria. For example, exports of wheat to Syria increased 14-fold between 2011 and 2019. On the other hand the crisis had a particularly negative impact on exporters of manufactured goods, a result common to Jordanian exporters as well, and of mineral fuels.

The war has also increased the cost of trading through Syria, which is the only overland connection with the rest of the world for Lebanon. This effect has caused the re-direction of much of the trade through Syria towards sea trade mainly through the Port of Beirut, containing the effect of the increased trade costs. The existing spare capacity of the port has allowed to avoid delays from the additional traffic.

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