



Rojava's Economic Viability

Bilal Wahab

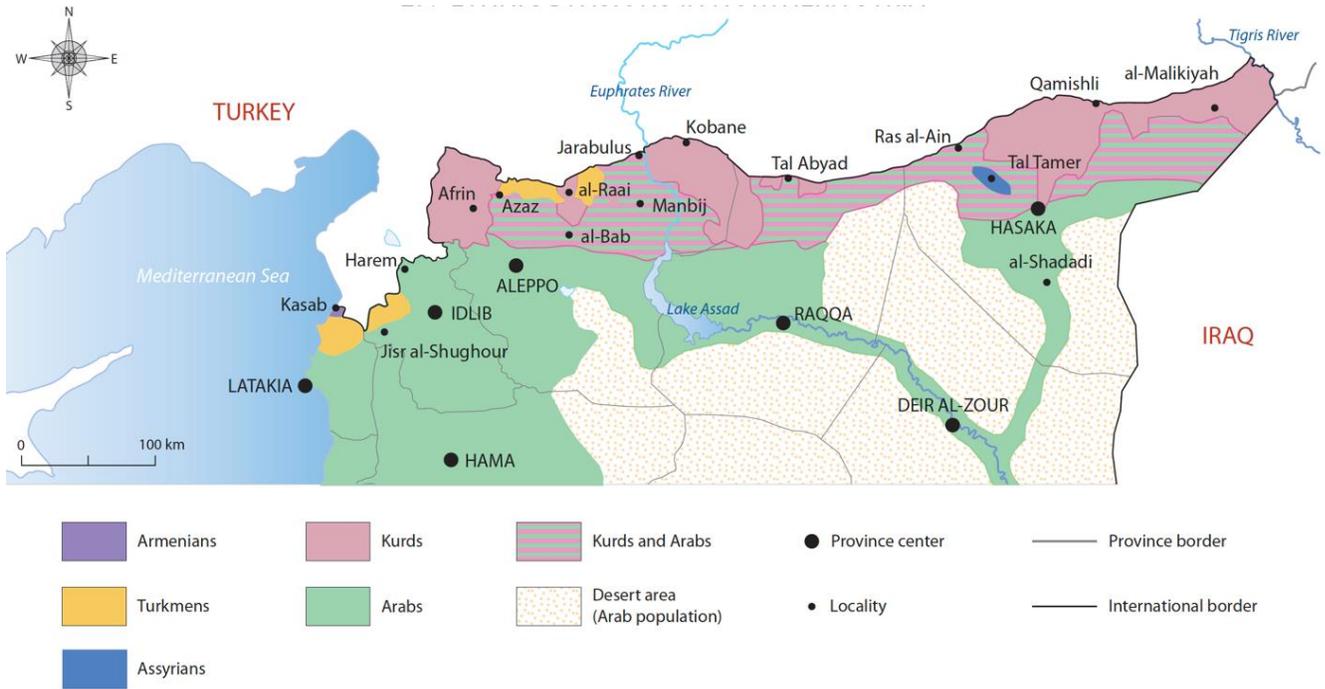
Policy Paper

August 2019

Executive Summary

The Syrian Democratic Forces (SDF) have played a crucial role in defeating ISIS in Syria, which has come at grave human cost. In effect, Syria's northeast, which is far from ethnically homogeneous (see map below), has come under Kurdish rule. Although the SDF and the Autonomous Administration of North and East Syria (Rojava) is quite inclusive of ethnic and religious minorities, both are led by Kurdish YPG and PYD party. With the liberation of eastern Syria from ISIS, Rojava's administration cannot solely count on military legitimacy to rule over expansive swathes of land and diverse peoples. Legitimate governance would increasingly depend on delivering economic opportunity. Henceforth, economic inclusion would take premium over physical security.

Moreover, geopolitics has defined Rojava and its complex web of relations with the Assad regime in Damascus, Turkey, the United States, the Iraqi government, and the Kurdistan Regional Government (KRG). With the uncertainty about its foreign relations, the PYD has maintained relations with the regime, on which it depends economically. Such complexities hinder economic activity. Rather than be the victim, often trade and commerce bridge geopolitical gulfs. Rojava is rich in natural resources such as water, arable land and petroleum. However, to transition from substance to growth, it would need to develop industry and trade.



Ethnic Divisions in Northern Syria (Source: Fabrice Balanche, p. 52)

Rojava: Syria's Breadbasket

The three cantons of Kobane, Afrin and Jazira that make up Rojava are often referred to as Syria's breadbasket. Yet, due to decades-long policy by the Syrian regime, the region lacks basic industries such as oil refineries, petrochemical or food processing plants, or manufacturing industries. Hasaka in Jazira canton is a case in point, whose oil accounted for a third of the country's production, 80% of the overall cotton harvest, and half of the country's cereal production. Yet, the regime treated Hasaka like an "internal colony," where its raw materials were manufactured into end user

products in Damascus and Aleppo, and its proximity to Turkey and Iraq was ignored as a potential trade hub.¹

Rojava inherited this legacy, which in turn has necessitated trade of raw materials with its oft-difficult neighbors. Such trade meant the export of cotton and crude oil and the import of necessary products such as fuel and fertilizers. This is a structural constraint and addressing it has forced the Rojava administration to deploy their political pragmatism to keep open trading doors with neighboring countries and regions. This has meant navigating the different embargos imposed on Syria and the PYD's fraught relations with Turkey, Iraq and the KRG, and the regime. Ultimately, however, Rojava's economic self-sufficiency requires investing in building local manufacturing capacity and industries.

Rojava's three cantons present different economic comparative advantages. Agriculture remains the main economic output in Rojava. As mentioned above, agriculture in Jazira alone can ensure Syria's food security. Moreover, the eastern canton is home to Rojava's largest oil and gas fields [see below]. Seventy percent of the Kobane's economic activity is also agriculture-based, producing cereals such as rye and wheat, but also olive. Similarly, Afrin canton farmers grow grains, fruits, olive, and tobacco.² Farmers also sell their livestock in Iraqi Kurdistan markets. Inside Syria, the raw materials from Rojava, including grains, cotton, crude oil are exported to regime-controlled areas. Internal imports include medicine and electronics from Damascus via the Qamishlo airport. Fuels and construction materials get in from other parts of Syria.³ Banking sector remains severely weak in Syria, including Rojava. In Jazira, there is a budding small factory

¹ Fabrice Balanche, "Sectarianism in Syria's Civil War A Geopolitical Study," the Washington Institute for Near East Policy, February 2018.

<https://www.washingtoninstitute.org/uploads/Documents/pubs/SyriaAtlasCOMPLETE-3.pdf>

² "The Economy of Rojava," March 17, 2016, <https://mesopotamia.coop/the-economy-of-rojava/>

³ Salvador Zana, "Rojava's Economics and the Future of the Revolution," July 1, 2017, <https://mesopotamia.coop/rojavas-economics-and-the-future-of-the-revolution/>

industry that seeks to capitalize the availability of local raw materials and boost exports.⁴ Cross border trade is mainly with Iraq and its Kurdistan region. As customary in this part of the world, there is active smuggling in fuels and tobacco.⁵

Water

Even without oil, Rojava's economy can be potentially viable and independent thanks to abundance of water and arable land. As mentioned above, the Jazira canton is Syria's largest producer of wheat and cotton. However, if agriculture were to remain Rojava's principal economic activity, water shortages would pose the most significant challenge. Hence, the need to modernize agricultural irrigation systems. According to Fabrice Balanche, Rojava has two options to stymie a potential water scarcity. One would be building a Tigris pump station, a project already set as a priority by the Jazira authorities. It is uncertain if Turkey and PYD can honor a deal made in 2008 between Ankara and Damascus where by the latter got permission to access to the transnational river. The flow of the twin rivers are subject to numerous treaties among Turkey, Syria and Iraq over the past half century; whether the Rojava administration can inherit them or whether Turkey and Iraq are willing to accept to deal with Rojava in leu of Damascus remains in question.⁶ Another option for Rojava would be to develop irrigation plans that tap into Al-Thawra dam on the Euphrates river. This would require the acquiescence of Arab farmers downstream, however.⁷

Oil

A potential asset for economic growth in Rojava is the its significant petroleum reserves. Syrian Kurdistan is perhaps the second wealthiest of the Kurdish regions after that of Iraq in energy resources⁸. Syria has proven crude reserves of 2.5 billion barrels of oil and 9.1 trillion cubic feet

⁴ AN OVERVIEW OF LOCAL INDUSTRY IN ROJAVA'S JAZIRA REGION, <http://www.aboriyacivaki.com/المحة-عن-واقع-الصناعة-المحلية-في-اقليم-ا/>. The report refers to 450 new small factories that produce olive oil, clothing items, processed foods, and cleaners.

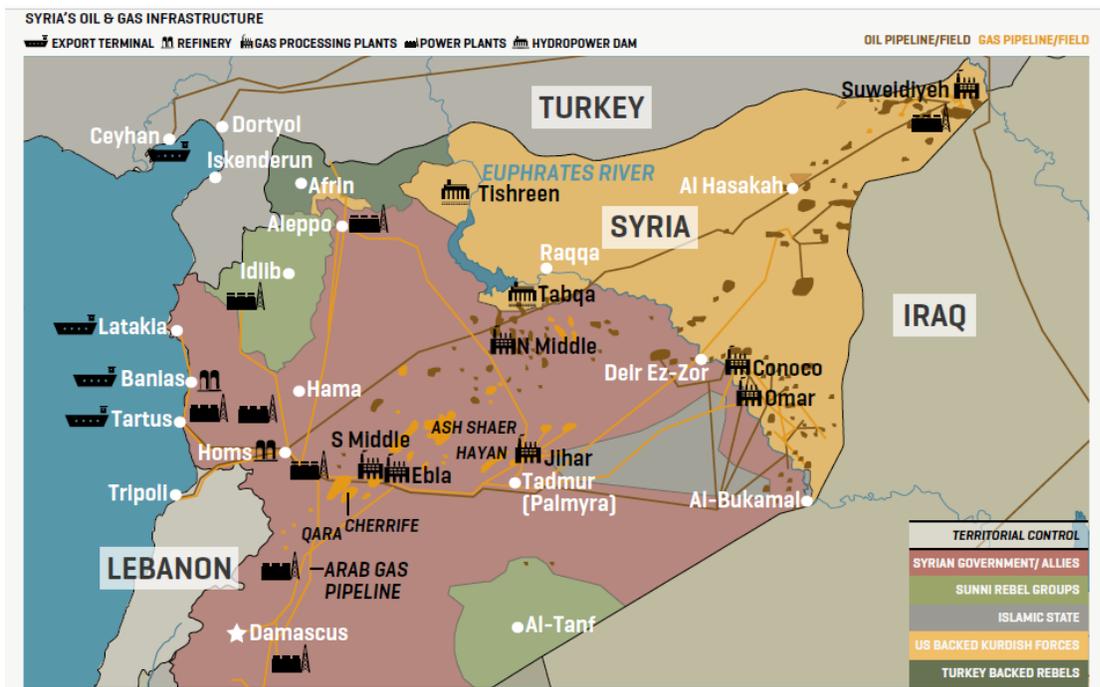
⁵ تجارة التبغ في الجزيرة السورية.. المخاطرة لسدّ الرمق <https://geiroon.net/archives/68759>

⁶ Michael Rubin, *Kurdistan Rising*, American Enterprise Institute, 2016, pp. 75-77

⁷ Balanche.

⁸ Rubin, p. 71.

of natural gas according to the BP Statistical Review of World Energy. Much of Syria’s reserves is concentrated in Rojava. Before the Syrian civil war, the al-Malikiyah and al-Shadadi oilfields in northeast Syria accounted for a third of country’s oil output of 383,000 barrels per day.⁹ Al-Omar, the largest of Syrian oilfields produced 30,000 barrels per day.¹⁰ As for Deir al-Zor oilfield, production estimated at below 30,000 barrels per day.”¹¹ The SDF also controls smaller fields east of the Euphrates.¹² However, the war, lack of maintenance and pipelines have taken their toll on the industry as well as mismanagement by the regime before.



Syria’s oil and gas infrastructure (source: Middle East Economic Survey, p. 9, January 4, 2019)

⁹ Balanche 58

¹⁰ US-backed SDF captures Syria's largest oil field from Islamic State, DW, December 23, 2017 <https://www.dw.com/en/us-backed-sdf-captures-syrias-largest-oil-field-from-islamic-state/a-41066879>

¹¹ “The Push and Pull of Oil Between the SDF and the Regime,” The Syrian Observer, July 25, 2018 https://syrianobserver.com/EN/features/19837/the_push_pull_oil_between_sdf_the_regime.html. These fields include Tanak, Ward, Kewari, Jafra, Jarnuf, Azrak, Kahar, Afra, Sueyat, and Galban.

¹² “Syria’s Second-Biggest Oil Field Is Operational Again,” Oil Price, August 24, 2018 <https://oilprice.com/Latest-Energy-News/World-News/Syrias-Second-Biggest-Oil-Field-Is-Operational-Again.html>

The main hurdles facing Rojava's ability to economically benefit from the petroleum resources under their feet consist of exporting what is produced and boosting the output. Increasing oil production requires financial investment and the deployment of technology and infrastructure. Both would need come from outside Syria. However, Rojava's ability to attract the technology and investment of international oil companies are not in sight given the country's precarious situation, international sanctions and the PYD's attitude toward international business (see section below). Rojava's ability to export its oil would pave the way for monetizing the resource and potentially attracting greater domestic and foreign investment into the sector. This would require building new pipelines into Iraq or Turkey, given the likelihood that instability will prevail in the rest of Syria for years to come. For the time being, however, PYD's relations with Turkey are one of hostility especially since the latter's takeover of Afrin. KRG's dependence on Turkey for its oil export as well as longstanding rivalry of the KDP with PKK¹³ would undercut any meaningful KRG-Rojava energy cooperation.

In the meantime, however, the Rojava administration has sells the bulk of its oil to the Syrian regime to be processed in its Baniyas and Homs refineries. Some finds its way into the Iraqi Kurdistan region, where it is either refined or mixed with KRG's own oil and exported by pipeline via Turkey. In the absence of pipelines, authorities have to revert to trucking the crude. The trade in oil has been the main linkage between the PYD and the Syrian regime. The latter needs the crude to supply fuel for transportation and power generation. The regime's dependence on Rojava's oil shipments has deepened since the United States reimposed sanctions on Iran, the

¹³ See Bilal Wahab, "Iraqi Kurds and Syrian Kurds," in *Syrian Kurds as U.S. Ally*, Patrick Clawson, editor, the Washington Institute for Near East Policy, November 2016, <https://www.washingtoninstitute.org/policy-analysis/view/syrian-kurds-as-a-u.s.-ally-cooperation-and-complications>

regime's principal financial supporter. Such trade has engendered domestic grievance¹⁴ and US misgivings. The SDF delivered to the Qatirji Group, a Syrian broker beset by both U.S. and European sanctions for supplying fuel to the Syrian regime.¹⁵ To be sure, the Rojava administration sells its crude much below the market price to the regime, which would not pay international prices for what it considers its own oil,¹⁶ nor to the KRG which itself sells oil at a discount. In effect, Rojava remains economically dependent on the Syrian regime.¹⁷

Taxes

Taxes make an important source of revenue for the state as well as a channel for public accountability. The cantons of the Autonomous Administration of Rojava lack a well-established taxing system. Jazira Canton became the first to enact tax collections in October 2017. Many residents reacted negatively towards the new tax regime, which spurred the government into a public defense of the program. Perhaps it is not the tax rates but its wide inclusion that upset the citizenry—according to the new system, any person with income of more than 100,000 Syria Pounds (200 USD) would have to pay taxes, that is 75% of the canton's population.¹⁸

¹⁴ "Arabs in Syria's Deir al-Zor protest against ruling Kurdish militia: residents," April 28, 2019, <https://www.reuters.com/article/us-syria-kurds-protests/arabs-in-syrias-deir-al-zor-protest-against-ruling-kurdish-militia-residents-idUSKCN1S40RD>

¹⁵ <https://www.wsj.com/articles/u-s-syria-ally-supplies-oil-to-assads-brokers-11549645073>

¹⁶ Balanche

¹⁷ Balanche

¹⁸ Admunistry. "Rojava Administration to Impose Tax System in Northern Syria." ARA News. July 10, 2017. <https://mesopotamia.coop/rojava-administration-to-impose-tax-system-in-northern-syria/>.

Military and Humanitarian Aid

Military and humanitarian aid to Rojava constitute an additional source of revenue. The SDF is the near-exclusive recipient of United States and European military assistance. For US fiscal year 2019, the SDF is slated to receive the bulk of \$300 million earmarked for the Counter-IS Train and Equip Fund in Syria, which the Pentagon dispenses to Vetted Syrian Opposition.¹⁹ Both directly and through the United Nations agencies, the United States has spent \$4.7 billion since 2012 in humanitarian assistance inside Syria.²⁰ UN's The Syrian Humanitarian Fund disbursed some \$4.3 million to those displaced by the war against IS, including in Hasakeh.²¹ France allocated €50 million in emergency response.²² Although it remains uncertain what percentage of such funds, or those of the European countries, was spent in Rojava, but it certainly benefits from the flow of aid directly and the pressures such aid alleviates.

Should peace reach Syria and international aid flow, SDF would benefit from having a system in place to receive aid and expend it in best practices.

The Economic Imperative

Employment

¹⁹ Saving Northeastern Syria “How Washington Can Help Strike a Deal Between Turkey and the Kurds,” By Merve Tahiroglu And Andrew Gabel April 9, 2019
<https://www.foreignaffairs.com/articles/turkey/2019-04-09/saving-northeastern-syria>

²⁰ U.S. Humanitarian Assistance in Response to the Syria Crisis, Factsheet, March 14, 2019, US Department of States, <https://www.state.gov/u-s-humanitarian-assistance-in-response-to-the-syria-crisis/>

²¹ See Statement by the UN Office of the Coordination of Humanitarian Affairs,
https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/documents/files/final_press_release_en.pdf

²² French response to emergency needs in Al Hol – Statement by Jean-Yves Le Drian, Minister for Europe and Foreign Affairs, April 1, 2019
<https://www.diplomatie.gouv.fr/en/country-files/syria/events/article/syria-french-response-to-emergency-needs-in-al-hol-statement-by-jean-yves-le>

Understandably, accurate economic metrics on Rojava's economy are hard to come by. Hence the challenge of elucidating an accurate account, such as unemployment rates, income and economic activity. A USAID report in April 2019 state that around 50% of those surveyed reported not having adequate access to food.²³ The Rojava public offices are attracting a greater number of employees, even if the wages are not high enough to pursue a high quality of life. In 2017, the basic salary of those employed by the government rose by 30%, and those working in civil or military function earns a minimum of 39,200 Syrian Pounds a month.²⁴ Via Qamishli airport, the regime has kept sending, albeit interruptedly, salaries and pensions from Damascus.²⁵ Economic need has pushed some families to send their children to the bazar instead of school. UNICEF and Save the Children report that hundreds of children below the age of 15 work across the Autonomous Administration for as long as 12 hours a day for a meager pay of \$30 a month.²⁶

Given the security focus of Rojava Administration, the SDF remains its largest public employer where most of international aid also flows. Soon after its creation in 2005, the force soon grew to 45,000 fighters, of which 13,000 were Arabs.²⁷ Because the Administration is resource-poor, for lack of access to abundant economic rents such as oil revenues, the bureaucracy remains relatively small. This necessitates relying on the private sector as the main vehicle for job creation. Although labor intensive agriculture remains the main economic activity in Rojava, transitioning beyond sustenance would require tapping into the energy the young employment pool by promoting the entrepreneurship, industry and reconstruction.

²³ "Syria Complex Emergency - Fact Sheet #5 FY19: April 17, 2019." U.S. Agency for International Development. April 19, 2019. <https://www.usaid.gov/crisis/syria/fy19/fs5>.

²⁴ "اقتصاد الإدارة الذاتية بين ازدواجية القوانين والضرائب." Suwar Magazine. April 20, 2017. [https://suwar-magazine.org/details/959/اقتصاد الإدارة الذاتية بين ازدواجية القوانين والضرائب/ar](https://suwar-magazine.org/details/959/اقتصاد%20الإدارة%20الذاتية%20بين%20ازدواجية%20القوانين%20والضرائب/ar).

²⁵ Balanche 58

²⁶ "Poor Economy in Syrian Kurdistan Leads to Rise in Underage Workers." Kurdistan24. July 01, 2019. <https://www.kurdistan24.net/en/news/9ae065dd-4177-45f8-992c-135fdb70345d>.

²⁷ According to Colonel John Dorrian, the Operation Inherent Resolve spokesman "Department of Defense Press Briefing by Col. Dorrian via teleconference from Baghdad, Iraq". *US Department of Defense*. December 8, 2016.

Legitimacy

The non-Kurdish communities have accepted or tolerated Kurdish rule over the ongoing civil war in the rest of Syria and, until recently, life under ISIS. Indeed, the SDF was received as a liberating force by many Arab communities tired of life under ISIS rule. However, public memory is short. Hence, for Rojava to remain safe and stable, its administration needs to get governance right, especially the economy.

Indeed, 2019 witnessed small scale protests and discontent amongst the Arab-Sunni communities in the SDF-controlled region. The majority of the protests occurred in SDF-controlled chain of villages along the Euphrates River, an Arab Sunni area and a strategic oil belt. In March, such protests escalated after the transfer of oil to regime-controlled areas became more apparent. International media reported on predominantly Arab communities protesting poor living conditions, lack of adequate infrastructure, conscriptions,²⁸ and at times “Kurdish occupation.”²⁹ Naturally, public discord is source of headache for the Rojava administration, not least because the regime exploits them to delegitimize Kurdish dominated rule in north eastern Syria.³⁰

Obstacles to Economic Viability

As highlighted above, Rojava’s economic viability hinges on its ability to sustain the agriculture sector which employs the majority of workers outside the security and public sectors.

²⁸ May 7, 2019 Anti-Kurdish protests grow in Syria's Deir al-Zor: residents, locals, <https://www.reuters.com/article/us-syria-security-deir-al-zor/anti-kurdish-protests-grow-in-syrias-deir-al-zor-residents-locals-idUSKCN1SE039>

²⁹ Arabs in Syria's Deir al-Zor protest against ruling Kurdish militia: residents April 28, 2019 <https://www.reuters.com/article/us-syria-kurds-protests/arabs-in-syrias-deir-al-zor-protest-against-ruling-kurdish-militia-residents-idUSKCN1S40RD>

³⁰ See for example, Kurdish-led authority: Damascus stirring tensions in east Syria, May 14, 2019 <https://www.middleeastmonitor.com/20190514-kurdish-led-authority-damascus-stirring-tensions-in-east-syria/> Syria's foreign ministry sent a letter to the UN calling for the halt of “attacks and treasons of the SDF militias.” On May 8, 2019, Mazloun Kobani indirectly referred to the protests and claimed that the SDF was the only “institution that had steered away from any form of racism.”

Sustainability and added value require establishing industries around the agriculture sector. Second, to tap into the region's petroleum wealth, Rojava needs to attract foreign capital and technology to boost oil production and find a way to export the output. The export of oil³¹ and agriculture products require trade relations, which has so far meant the rest of Syria and Iraq. Trade with Syria is marred with uncertainty, and with Iraq and its Kurdish region by regional geopolitics. Internally, however, Rojava's leadership has an opportunity to capitalize on the public resilience as well the equalizing role of military conscription to promote a healthy and vibrant private sector by creating an even business playing field. Crucial for the incubation of entrepreneurs is a financial infrastructure and capital generation.

As the circumstances on the ground changed, the PYD has demonstrated significant political and administrative agility such as incorporating non-Kurds into its forces and renaming it the Syrian Democratic Forces. Such pragmatism is yet to be tested in the economic realm. It is rather unlikely, especially if the PYD proved to diligently adhere to Ocalan's teachings, which espouses tenets of socialism such as state control of the economy and suspicion of the free market.³² The application of such doctrine is echoed in the early approaches to economic management in Rojava and the public statements of its leaders. "Notion of the common good, environmental justice, or other rationalizations to regulate commodities and large businesses is paradoxical [to] Öcalan's embrace of grassroots-level democratization," writes Michael Rubin, a scholar on the Kurds. Such an economic worldview would be unattractive to international donors and foreign capital, both of which Rojava's administration needs to garner in order to spur reconstruction and growth. Communal and socialist approaches to the economy might win hearts and minds of farmers and

³¹ The Syrian Kurdish attitude toward the management of their oil reserves is evolving. While some of it finds its way out, PYD leaders are hesitant to claim ownership of it. For example, Akram Hesso, Head of Jazeera canton reportedly said, "Cizîrê's oil is a strategic resource of Syria; we believe in the unity of Syria and so we don't have the right to export oil, to sell it outside Syria by ourselves. We will not export this oil before we have a new and democratic government in Syria. And it will be up to the new Syrian constitution to decide what we can do with this oil, because it is not only for us, the Cizîrê region, but for the wellbeing of all the Syrian people." "The Economy of Rojava," March 17, 2016, <https://mesopotamia.coop/the-economy-of-rojava/>

³² Michael Rubin, *Kurdistan Rising*, pp. 64-65.

boost local agriculture, but without a law-based and market-friendly economic policy, Rojava would find it hard to attract the capital and technology needed to spur a diversified industry.

Moreover, as the SDF has become battle tested with the war against ISIS, the Rojava Administration has had an opportunity to practice self-governance and reality-check some of the theories and notions it started with. As the war against ISIS has concluded, Rojava will increasingly be judged by its ability to govern. Hence, the more they invest in management skills and best practices as well as legal traditions that protect property rights and stymies corruption.