

March 16, 2020

Renewed Fighting in Idlib

When financial markets get caught up in a crisis like the ongoing coronavirus panic, one underappreciated risk for investors is that they can get too distracted to notice other, longer-term problems that might be brewing. That's why we take such a disciplined approach to monitoring geopolitical, economic, social and market events all around the world. While we continue working hard to understand the coronavirus epidemic and anticipate its trajectory, we're also paying close attention to the latest flare up in the Syrian civil war.

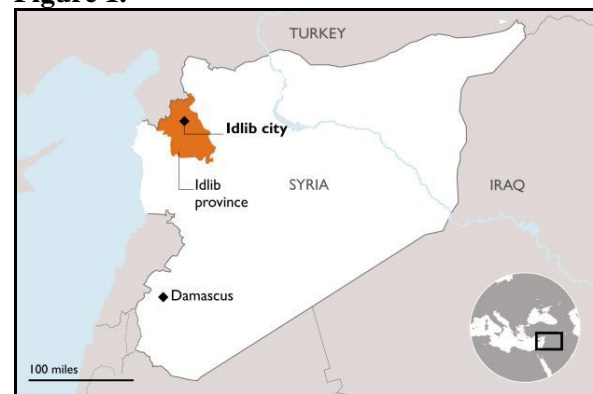
In this week's report, we discuss the Syrian government's effort to finish off the last remaining rebels in the northwest part of the country, and we show why Turkey recently launched a counteroffensive against that effort. We explain what the various players in the drama are hoping to achieve and how their actions could draw in outside forces like Russia and the U.S. Importantly, we also discuss how the situation could produce another destabilizing migrant crisis for the Europeans. As always, we conclude with investment implications.

Idlib Caught in the Middle

First, it may help to review how the Syrian civil war has evolved over time. When the war broke out after the "Arab Spring" of 2011, Syrian President Bashar al-Assad quickly lost control over most of Syria's territory. By 2015, rebel forces had gained so much territory that Assad was on the verge of being ousted. He was only saved

when his ally, Russian President Vladimir Putin, agreed to provide him with military support to supplement the paramilitary assistance being provided by Iran. With Russian and Iranian assistance, Assad began steadily winning back territory from various rebel groups. By late 2018, Assad's forces had pushed most of the rebels into Idlib province in northwestern Syria, along with millions of civilian refugees (see Figure 1).

Figure 1.



(Source: *The London Times*)

As Syrian government forces prepared for a final assault on Idlib in late 2018, it appeared that a major geopolitical and humanitarian disaster would ensue. Besides Assad, foreign governments with an interest in the fighting include Russia, Iran, Turkey and the U.S. In addition, the rebel groups bottled up in Idlib are far from a unified movement. Rather, they encompass a number of rival groups split by religion, ethnicity and political aspiration. (For a detailed discussion of the various players in Idlib, see our WGR from [September 10, 2018](#).) Any battle to snuff out the last remaining rebels threatened to produce a chaotic, multidimensional free-for-all, and millions of civilian refugees caught between

the Syrian forces and the Turkish border would have been sure to flee into Turkey.

The threat of a massive new refugee flow into Turkey was especially important. At the time, Idlib province was populated by about three million people, half of whom were refugees from elsewhere in Syria. In addition, earlier fighting had already driven millions of refugees into Turkey. Many of those refugees had been able to enter the European Union in the middle of the decade, causing a migrant crisis and generating strong, populist pushback that has weakened traditionalist political parties all over the continent. In 2016, the EU and Turkey had reached a deal under which Turkey would stop the refugees from entering the EU in return for massive EU financial assistance. The refugees remaining in Turkey were still itching to enter the EU in 2018.

The threat of a catastrophic final assault on Idlib [prompted Russia and Turkey to create a “de-escalation zone” in late 2018](#). Under the deal, rebel forces and their weapons were withdrawn from a zone along the government-rebel front. “Radical” rebels were to be expelled from the area entirely. Turkey sent a modest number of troops into Idlib to enforce the de-escalation deal, while Russia promised to ensure the zone was not attacked. The problem with the de-escalation plan was that President Assad probably wasn’t totally on board with the idea, and his Russian allies aren’t always able to control him. Because of Assad’s insistence on eliminating the rebels in Idlib, the Russian commitment to keep it safe from attack was always questionable.

The Renewed Threat of War

Assad’s overriding goal in the war is to regain complete control over all Syrian territory again, and with the military momentum swinging his way recently, he

has little incentive to pull his punches. Seeking to finish off the rebellion, Assad’s forces ramped up their attacks on the rebels in Idlib late last year. To reinforce the rebels, forestall a new wave of refugees fleeing across the border and maintain a credible opposition to Assad in the event of peace talks, Turkey deployed an additional 7,000 troops into northern Syria in February.

[The real crisis was touched off by several attacks on Turkey’s forces in late February.](#)

The attacks began with Russian artillery strikes on Turkish troops, but the tipping point came when a Turkish mechanized infantry battalion with some 400 soldiers came under attack by Syrian fighter jets. Some Turks believe at least two Russian jets were also involved. At the very least, it appears the Russians were slow to rein in the Syrian attack after being alerted by the Turks. Once the convoy was halted, the Turkish soldiers took cover in several roadside buildings, only to be hit by the jets’ bunker-buster bombs. At least 36 and perhaps as many as 100 of the Turkish soldiers were killed. The number of wounded was probably similar, and Turkish officials say even the ambulances sent to transport them were attacked.

In response to the air strikes and Turkey’s heavy losses, President Erdogan openly declared war on the Syrian government and launched a major counteroffensive against the Syrian forces. According to Defense Minister Hulusi Akar, Turkey’s war aims were “to ensure a ceasefire, to prevent migration and to stop the flow of blood.” Turkey also called on the Russians to take responsibility for the attacks on Turkish forces, but the Russians refused to do so.

[Turkey’s forces soon proved to be devastatingly effective against the Syrians.](#)

Turkish sources say the country’s high-tech

F-16 fighter jets and its sophisticated drones quickly destroyed some 135 tanks, 77 armored personnel carriers, eight helicopters and two jet fighters, not to mention killing 2,500 Syrian troops (see Figures 2 and 3). Those successes apparently helped convince the Russians not to support their Syrian allies. After all, President Putin and President Assad are often at odds over strategy, and Russia does not have the resources to get dragged into a major conflict with an adversary backed by NATO. Although Russia warned it couldn't guarantee Turkish planes wouldn't be shot down over Idlib, it appears that statement was merely bluster. There have been no reports of Turkish planes being attacked.

Figure 2.



Turkish F-16s on patrol over northern Syria.
(Source: Anadolu Agency)

Turkey's New Migrant Threat

Despite Turkey's success in pushing the Syrians back and forestalling any Russian involvement, President Erdogan's frustration at having to act alone has generated a broader political dimension to the crisis. Erdogan demanded military aid from the U.S. and NATO but was refused. Therefore, to gain leverage over the Europeans, in particular, [Erdogan declared that Turkey's border with Greece was open again to refugees seeking to escape to the EU](#). Thousands of the refugees in Turkey immediately set out for the border seeking to cross. Indeed, [reports indicate the Turkish](#)

[government actually bused many refugees to the border in order to instigate a crisis.](#)

Figure 3.



Turkish tanks on the attack.
(Source: NationalInterest.org)

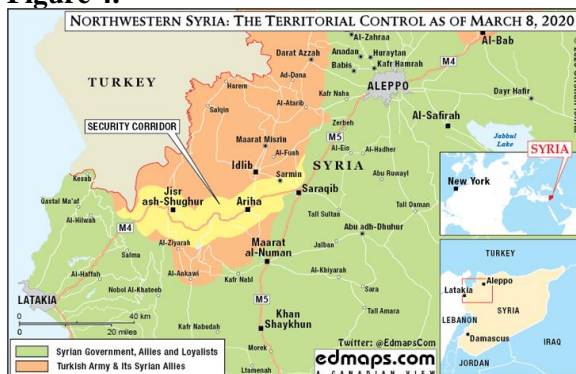
Erdogan's opening of the border creates a critical, if underappreciated, risk for Europe. If large numbers of migrants were able to enter the EU, it would probably create a new migrant crisis like the one in 2015, which has undermined Europe's traditional political parties and spawned destabilizing, right-wing populism in the region ever since. European citizens and politicians still have painful memories of the 2015 crisis, so it should be no surprise that [they have responded forcefully to Erdogan's threat](#). For example, the Greek government said it would temporarily stop processing asylum applications. Greek police massed at the border to block refugees from entering.

Encouraged by their success in blocking most of the new migrants so far, European leaders have refused to budge from their position. In the words of Dutch Prime Minister Mark Rutte, the EU would not renegotiate the 2016 refugee deal while "having a knife at its throat." To date, [European Commission President Ursula von der Leyen has promised nothing more than a review of the 2016 migration deal](#) and an attempt to "fill in the missing pieces."

The Ceasefire

Fortunately, the hostilities in Idlib only lasted for a few days. At a meeting in Moscow on March 5, [Presidents Putin and Erdogan agreed to a ceasefire for the province](#). According to the agreement, Russia and Turkey agreed to begin joint patrols and establish security corridors along a key highway in the province (see Figure 4), although it didn't mention other important areas. The agreement would leave the rebels with only about half the territory they controlled at the time of the de-escalation deal in late 2018, suggesting it may not be stable.

Figure 4.



(Source: [Edmaps.com](#))

Meanwhile, President Erdogan continues to allow Syrian refugees to move toward the Greek border, where they are often bottled up by Greek police and civilians refusing to let them enter. The resulting stalemate is a second unstable “loose end” that could cause problems in the future.

Ramifications

For financial markets, a hot conflict in a sensitive area like the Persian Gulf would likely lead to some flight-to-safety buying of crude oil. However, given that the Idlib region isn't a critical producing area, we don't expect any major oil market reaction from the renewed instability. We have two longer-term concerns involving Turkey's financial markets and the potential impact on the Eurozone. Regarding the first concern, Turkey is already suffering from a major financial crisis. Its currency has significantly depreciated, and it isn't clear that it can service its debts without outside support. A conflict in Syria that requires war spending and could trigger a refugee influx would add to an already difficult situation and likely lead to further currency weakness and higher interest rates.

Our second concern is that a new refugee crisis in Turkey would be difficult to contain. If Turkey decides it can no longer manage the situation, it may completely end its 2016 agreement with the EU and allow large numbers of Syrian refugees to flee to Europe. Given rising populism in Europe and growing dissension from some countries regarding the burdens of migrants, a broader conflict in Syria could be negative for the euro and southern Eurozone financial assets.

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