

# The Case for Economic Reform in Syria

*Victoria Gilbert*

Syria was once at the crossroads of a global network of trade where goods on camels came from the east to be traded in Damascene markets for goods brought from across the Mediterranean. It is said that the Prophet Mohammed even brought a caravan to the lands of Syria before he heard the call to spread the message of God. Cities once thrived on the taxes placed on ancient traders, and crusaders built fortresses in order to watch over the trade routes below. Now goods pass from east to west by plane or ship, and the overland trade routes have been abandoned. While Syria is still at this geographical crossroads, the importance of those crossroads has waned, leaving it in an economic lurch. The nation utilized its oil wealth as a means of ensuring prosperity during the second half of the twentieth century, but Syria can no longer depend on the rapidly dwindling supplies available. The nation must now put its heart into the goal of reform or be left behind by the burgeoning global economy.

The current economic situation in Syria is not conducive to optimism. Syria faces high unemployment, especially among the young and the urban populations.<sup>1</sup> The growth rate of the Syrian population has put increasing pressure on the job market and will continue to do so for years to come.<sup>2</sup> A high population growth rate slows the expansion of the economy, dilutes any benefits of growth, and only increases the number of the poor in society, which exacerbates present inequalities. Not only does it increase concerns about poverty, but the so-called “youth bulges” have historically been associated with increased levels of violence. In nations struggling to expand their economies to accommodate a growing number of young people, internal strife is a very real concern as disenchanting young people find violent means to express their displeasure with their situation.<sup>3</sup> With a growing number of radical groups moving into neighboring Iraq, the government must be aware of the danger of leaving its young people without employment. This only exaggerates how imperative it is for Syria to focus on the growth of its economy.

The labor force is generally unskilled, yet some improvements have been made in recent times. Under the reign of Bashar al-Assad, the son of Syria’s previous dictator, President Hafez al-Assad, a number of private universities

have been permitted to open, offering new educational opportunities to the Syrian people. Non-governmental organizations have also begun to take route in Syria, offering young people greater opportunities to obtain experience in a working environment.<sup>4</sup> While austerity measures put into place under the reign of Hafez al-Assad reduced spending on public education, the younger Assad has made efforts to put greater funds into Syria's educational system.<sup>5</sup>

Investment, especially foreign direct investment, has also proven problematic for Syria over the last several decades. The economy has been intensely regulated, making investment complicated and slow because of the choking bureaucracy. Political unrest within the country and uneasy relations between Syria and its neighbors have also discouraged potential investors. However, this climate of unrest cannot be changed quickly; therefore, other means will have to be considered for financing Syrian development in the immediate future.<sup>6</sup> Recently there has been an increase in investments in Syria from other nations in the Arab world, yet these investments have generally been in the real estate sector. As such, these investments neither strengthen the development of the Syrian economy nor enhance its GDP.<sup>7</sup>

Another noteworthy dynamic from a policy perspective is that of American sanctions. There are specific items which America allows to be traded with Syria. The list includes medical supplies and equipment, spare parts and safety components for planes, infrastructure for information technology, and agricultural goods. However, any other goods made in the United States or comprised of components that are more than 10% American cannot be traded with Syria. Investments and money transfers cannot be made to Syria, and the United States has also placed sanctions upon a group of six Syrian residents and citizens. Largely, these sanctions have proven to have very little effect on Syrian life and have certainly not succeeded in their aims of changing Syrian political behavior. In the modern global economy, one nation's sanctions have only a limited impact, as any goods obtained from one country can almost certainly be acquired from another nation that is willing to trade. Many goods can also be smuggled or bootlegged. Yet sanctions have had effects on companies like Syrian Air. The nation's main commercial air carrier currently flies a fleet of antiquated Russian airplanes which are in need of replacement for safety reasons. However, replacing commercial airplanes today generally means buying jets from Airbus or Boeing. Boeing is an American company, while Airbus planes consist of approximately 40% American components.<sup>8</sup> Besides affecting air carriers, the main impact of American sanctions has been on Syria's reputation. Putting Syria on America's "will not buy" list has not only prevented foreign direct investment coming from the US but also has deterred states friendly to the United States from

investing. Overall, the impacts of US sanctions are limited in scope but are still problematic for the Syrian economy and could be ameliorated with a rapprochement with the United States.<sup>9</sup>

From the perspective of natural resources, Syria currently faces a number of constraints which will probably not ease in the near future. Water is a precious commodity in the area, and water supply is going under ever greater stress as the demands of growing local populations increase. Syria is a downriver riparian of the Euphrates River, upon which it is very dependent. Water projects built by Turkey on the Euphrates have had an impact on the availability of water in Syria, which has no means of coercing Turkey into any kind of water agreement. When tensions with Turkey were high, there were concerns that Turkey would cut off the water supply to Syria, yet Turkey never adopted this tactic and tensions between the two states have now eased. In the southern part of the country, much of the regional water supply is controlled by Israeli-occupied Mount Hermon.<sup>10</sup> While renowned Syrian economist Nabil Sukkar is faithful that the Golan Heights and the mountain will one day be returned, he also believes such a return will probably have to contain a water agreement which guarantees the Israeli territories with a portion of the water from the mountain. The Golan itself is a valuable resource, particularly from a farming perspective. Not only does it contain the wealth in water from Mount Hermon, but the land in the area is volcanic and has always been conducive to farming.<sup>11</sup> Therefore, in Syria's dealings with Turkey as well as future agreements with Israel, Syria will need to be prepared to share access to water.

Another resource that has a profound influence on Syria's current economic condition is oil. This rapidly vanishing resource has kept Syria's economy healthy on a macroeconomic level since the 1990s.<sup>12</sup> Revenue from non-oil sources have not been able to cover the level of government expenditures, showing that the government has been dependent on oil money as a source of public spending.<sup>13</sup> This is no longer an option for Syria and therefore it must attempt to restructure its economy without oil revenue available as a buffer to assist Syria's citizens during the restructuring process. Not only will oil money be unavailable as a social spending buffer, but it will also not be available for use on development projects in Syria. Therefore, to assist development and restructure the economy, Syria will probably have to borrow large quantities of money.<sup>14</sup>

Another recent development in the Syrian economy has been the arrival of thousands of Iraqi refugees in two waves. The first wave generally consisted of individuals who were better off financially. In some ways, this first group of arrivals helped boost the Syrian economy as refugees spent their savings

on Syrian goods and services. The second wave has proven to be much more of a burden. Members of the second wave of immigrants came in 2006 as a result of increasing sectarian violence in Iraq. Many left their homes under duress and brought little, if anything, with them. Generally, they were poorer than the first wave, and they have been willing to take lower-paying jobs. This is problematic for Syrians trying to compete for jobs with these refugees in a labor market stricken by unemployment. The lack of employment has made it impossible for some refugee families to make ends meet, while others have run out of the savings they were living on; many families have returned to Iraq.<sup>15</sup> Yet many have stayed, pressuring the Syrian economy. The influx of capital brought in by the acquisition of a new population has led to inflation in Syria, particularly in the costs of food and housing. The price of an apartment is four times as high as the level prior to the refugee influx, and food prices have risen approximately 40%. Another concern is the strain the refugees have placed on the public services offered by the Syrian government. Elementary school class sizes have increased drastically as refugee families enroll their children in the local public schools.<sup>16</sup>

Some attempts at reform have been made by the government as it tries to gradually shift from a planned economy to more of a free-market economy. One aspect of reforms has been granting greater freedoms to the fledgling private sector of Syria. The wife of Bashar al-Assad recognized Syria's need for entrepreneurs and assisted in the establishment of Syria's first NGO, the Syrian Young Entrepreneurs Association (SYEA). SYEA provides programs for young people, assisting them in finding employment, enhancing their employability, providing education and creating opportunities for young people to create jobs. The association also provides loans, including microloans, and training on entrepreneurship to encourage young Syrians to start their own businesses in Syria. By starting businesses, Syrians not only provide jobs for themselves but also can create jobs and be part of the solution to Syria's unemployment problems.<sup>17</sup> Presently, those Syrian businesses that do exist tend to be in low-risk sectors as there is a lack of incentives in the Syrian economy for the creation of businesses in more high-risk sectors that produce valuable goods.<sup>18</sup> Many factors continue to inhibit the creation of a stronger private sector through entrepreneurship. Starting a private enterprise requires a large amount of start-up capital, which is difficult to obtain in an economy with a dearth of investment. Many also feel that the playing field is far from equal and that there is unequal access to information, opportunities, financing and expertise. There is also a general lack of information, especially in the realm of statistics. As such, there is a lack of reliable information upon which Syrians can make business

decisions.<sup>19</sup>

There are many ways in which Syria could attempt to improve its economy, and by strengthening its economy, the nation could engage in greater economic interactions with other states and take advantage of the global economy. Some Syrians are hopeful about the nation's ability to attract investors in the future. Some believe that national promotion will help, while Bouthaina Shaaban, the Minister of Expatriate Affairs, believes increased investment in Syrian development by expatriates as a possible harbinger of future trends.<sup>20</sup> A key part of developing a more efficient economic system is the removal of subsidies and a greater reduction in the guidelines that currently inhibit economic transactions. While progress has been made in reducing the level of restrictions onto the Syrian economy, these reforms are not enough to inspire the economic efficiency which could make Syrian businesses competitive globally.<sup>21</sup> However, any economic reforms, according to economist Nabil Sukkar, will have to be accompanied by reforms within the government. Otherwise, attempts at establishing a freer economy and privatizing sectors of the economy that are currently public will only lead to more corruption.<sup>22</sup> It has been witnessed in many countries switching from a planned to a market economy that public businesses which are transferred to private hands are often given to those who are in some way tied to the government, and in the end, benefit those already in power. Many problems with previous attempts at reforms have involved the reforms' slow rate of implementation as the new codes are slowly enacted by the state bureaucracy.<sup>23</sup> The state suffers from an immense bureaucracy which is overstaffed and inefficient.<sup>24</sup>

However, in taking steps to amend the current bureaucracy and make the economy more efficient, the government must remove the high subsidies put into place by the government. Subsidies in general create inefficiencies within the economy, yet removing them must be done cautiously. Removing the subsidies will not be a popular move for the government to enact. After many years, the people of Syria have come to expect the government to provide housing loans, put subsidies on basic commodities, and maintain low gas prices.<sup>25</sup> It is possible that their removal would be so unpopular as to lead to domestic instability.<sup>26</sup> It is therefore likely that Bashar al-Assad will maintain many of these staple subsidies for that reason. For example, the removal of subsidies on agricultural goods would probably kill the livelihood of small farmers and seriously hurt large-scale farmers.<sup>27</sup> As such, a gradual approach to their removal must be taken. While Syria's lack of revenues may inhibit the nation's ability to make changes gradually, as it could have done while still taking in oil revenues, it may be forced to borrow

money or cut other government expenditures. Greater political reform will be needed before greater economic liberalization can take place. Historically, security threats (or claims of existing threats) have been employed as a pretext to discontinue reforms on the part of the government. Especially considering the US invasion of Iraq, the government has an even greater pretext for claiming that there are threats to Syria's security.<sup>28</sup> Other obstacles which stand between the current president and economic reform exist in the old guard of the Syrian government. Many of the top officials in the Syrian government have retained their positions since the regime of Hafez al-Assad and are opposed to drastic economic changes in the country, as they retain the more socialist elements of the Ba'athist ideology. Not only are they resistant to changes in the system, but there is also concern over how the Syrian people would handle changes to the current system.<sup>29</sup>

Syria's plans for reform could exacerbate current problems and lead to social unrest. The government's attempts to reduce its size during the 1990s led to an increase in the number of poor people in Syria and widened the existing gap between rich and poor. Public spending on education has decreased with government cutbacks, and the combination of greater poverty with a decrease in the level of education has led many young people to drop out of school to support their families. Others who live on the brink of poverty are often provided for by family members or by privately run welfare programs. While this reduces the level of severe poverty in the nation, the growing inequalities and cutbacks in government services make the Ba'athist regime seem socialist only in ideology and not in practice. Fear that this situation will drive away supporters of the Ba'athists or lead to social unrest has been the reasoning for many Syrian leaders to resist economic change or endorse its slow implementation.<sup>30</sup> While Syria may be in need of economic reform in order to attract investment and spur growth, reform cannot happen overnight. Should policy changes be made too quickly, any attempts at encouraging investment will be made pointless by social unrest which will drive away potential investors.

It is important to realize that the current administration has not been idling away the last eight years. Bashar al-Assad has frequently talked of his commitment to economic reform, and many attempts at reform have been made, including the privatization of the banking system. Yet there are areas in which the state has resisted making any changes. One of these areas of resistance has been the privatization of many parts of the public sector, a move strongly opposed in general by the ruling elite of Syria. While some cited a fear of social unrest as a pretext for maintaining the inefficient dinosaurs of public production, others have cited security concerns. As long

as Israel remains a potential opponent to Syria, the government, it is argued, must maintain the ability to provide for basic goods during a war. While the threat of Israel may be a popular excuse for resisting change, a more primary concern would be the loss of the public sector as a tool for advancing those who support the Ba'athist leadership. Not only has privatization been resisted, but there are still no means in Syria for preventing the exploitation of power or for making sure jobs are done well within the Syrian government. A prime example of this is the cousin of Bashar al-Assad, Rami Makhlouf, a business mogul in the Syrian economy. While his businesses may seem well-run and modern, he has been allowed to hold a number of monopolies and has historically taken advantage of his ties with the Syrian government in his business transactions.<sup>31</sup>

Some Syrians making their way in the nation's small private sector believe tourism is the business which Syria should look to for prosperity in the future. They believe Syria's wealth of history and culture could potentially draw millions of visitors, provided the government makes efforts to promote Syria abroad as a destination worth seeing. It could also provide job opportunities for Syria's small skilled workforce as well as its larger unskilled labor force.<sup>32</sup> But while promotion is necessary for enticing visitors, it seems doubtful that tourists will come to Syria in droves until greater political stability is achieved.<sup>33</sup> Syria should consider its image abroad if it wishes to cultivate a tourism industry, as many visitors will be deterred by the image of Syria as an authoritarian state which provides refuge to terrorists.

Syria could also take advantage of its abundance of unskilled labor by forming greater economic partnerships with nations that are more abundant in capital. Historically, Iraq has fit this description, and, should stability return to that state, Syria and Iraq could take advantage of each other's strengths.<sup>34</sup> This situation highlights the necessity of peace for economic cooperation and prosperity. Without stability, internally or externally, Syria will be unable to take advantage of the comparative advantage of its neighbors. Its economic well-being over the last fifty years has been closely tied to its political relations with its neighboring states. Good relations with the other Arab states as well as Turkey have led to periods where many Syrians have worked abroad, items have been traded, and aid has been received by Syria. Bashar al-Assad has made concerted efforts to improve regional relations, and this should prove beneficial for the Syrian economy.<sup>35</sup> The ongoing war in Iraq, however, will prevent Syria from taking advantage of that potential partner and will probably be an impediment to the Syrian economy for years to come.

Peace and regional cooperation will be important for Syria as it attempts to

move forward with its economic reforms. The prosperity of the state depends on it as it looks to its neighbors as trading partners and as potential sources of investment. Syria has much to offer its capital-abundant neighbors as it has an abundance of labor. It is not a nation faced with overwhelming poverty or a dearth of opportunities. It is a middle-income country about half of the way on the road to development, and is one that has a lot of potential. Changes will have to be made for the nation to avoid falling into the tier of poorer states and also to prevent civil unrest at the hands of the jobless, young masses. The Syrian government will have to pay now by making reforms, or pay later when the nation's economic situation sours. It is in the interest of the regime and Syria as a whole for the choice to be changing now.

---

1 Khalid Abu-Ismaïl, *Macroeconomic Challenges and Framework for Reducing Income Poverty to Half in Syria by 2015* (Brazil: United Nations Development Programme, 2006), <http://www.surfas.org/RegionalWorkshop/CoP%20Sharm%20El-Sheikh/BACKGROUND%20MATERIAL/Poverty%20Background%20Material/Khalid%20Abu%20Ismail/syriamdgfinal.pdf> (accessed February 20, 2008).

2 Nabil Sukkar, in discussion with the author, January 2008.

3 Susan E. Rice, Corinne Graff and Janet Lewis, "Poverty and Civil War: What Policymakers Need to Know" (Working Paper, Brookings, Global Economy and Development, The Brookings Institution, 2006), [http://www.brookings.edu/papers/2006/1219globaleconomics\\_rice.aspx](http://www.brookings.edu/papers/2006/1219globaleconomics_rice.aspx) (accessed March, 12 2008).

4 Abdulsalam Haykel (SYEA), in discussion with the author, January 2008.

5 Volker Perthes, "Economic Challenges and Policy Responses," *Adelphi Papers* 44, no. 366 (2004), 27, <http://www.informaworld.com/10.1080/05679320412331340217> (accessed March 13, 2008).

6 Ibid.

7 Andrew Abel (U.S. Department of State - Syrian Embassy), in discussion with the author, January 2008.

8 "How Airbus Gambled and Won a Huge U.S. Military Contract - International Herald Tribune," <http://www.ihf.com/articles/2008/03/09/business/eads.php> (accessed 4/3/2008, 2008).

9 Andrew Abel (U.S. Department of State - Syrian Embassy), in discussion with the author, January 2008.

10 Nabil Sukkar, in discussion with the author, January 2008.

11 Major Stefan Eder, in discussion with the author, January 2008.

12 Nabil Sukkar, "Pitfalls Along Reform Road," *Emerging Syria* 2006, ed. Andrew Jeffreys (Lebanon: Oxford Business Group, 2006): 38.

13 Abu-Ismaïl, *Macroeconomic Challenges and Framework for Reducing Income Poverty to Half in Syria by 2015* 1

14 Sukkar, "Pitfalls Along Reform Road:" 38

15 Nabil Sukkar, in discussion with the author, January 2008.

16 Waddah Abd-Rabbo (editor-in-chief, *Al-Watan*), in discussion with the author, January 2008.

17 Abdulsalam Haykel (SYEA), in discussion with the author, January 2008.

18 Abu-Ismaïl, *Macroeconomic Challenges and Framework for Reducing Income Poverty to Half in Syria by 2015* 1

19 Abdulsalam Haykel (SYEA) in discussion with the author, January 2008.

20 Buthaina Shaaban, Syrian Minister of Expatriat Affairs, in discussion with the author, January 2008.

21 Nabil sukkar, in discussion with the author, January 2008.

22 Sukkar, "Pitfalls Along Reform Road:"38

23 Abdulsalam Haykel (SYEA), in discussion with the author, January 2008.

24 Abu-Ismaïl, *Macroeconomic Challenges and Framework for Reducing Income Poverty to Half in Syria by 2015*, 1

25 Sami Moubayed, in discusswion with the author, January 2008.

26 Abdulsalam Haykel (SYEA) in discussion with the author, January 2008.

27 Andrew Abel (U.S. State Department - Syrian Embassy) in discussion with the author, January 2008.

28 Waddah Abd-Rabbo (editor-in-Chief, *Al-Watan*), in discussion with the author, January 2008.

29 Nabil sukkar, in discussion with the author, January 2008.

30 Perthes, *Economic Challenges and Policy Responses*: 31-32

31 Ibid.

32 Abdulsalam Haykel (SYEA), in discussion with the author, January 2008.

33 Abu-Ismaïl, *Macroeconomic Challenges and Framework for Reducing Income Poverty to Half in Syria by 2015* 1

34 Nabil Sukkar, in discussion with the author, January 2008.

35 Perthes, *Economic Challenges and Policy Responses*: 27