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The Political Economy of Syria: Realities and Challenges

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The turmoil that has overtaken Syria since March 15, 2011, will likely have a lasting effect on both state-society relations and the country's developmental trajectory. As this document was completed just before the eruption of the cycle of protest and repression — which is continuing at the time of publication — I have opted to avoid drawing conclusions based on an anticipated outcome. Rather, with minor adjustments, this research will address the structural aspects of the *status quo ante*, assuming that, whatever the outcome of the current uprisings, Syria's fundamental political-economic problems will be in need of attention.

Despite modest reforms and moderate growth, Syria's political economy confronts a unique set of interconnected problems that cannot be solved simply by prescribing traditional textbook economic policies. Key to resolving Syria's economic dilemmas is the political will to address problems of institutional, legal and administrative reform.

Over the past decade, until the end of 2010, the Syrian economy made some progress, but the regime struggled with a number of interrelated political and economic challenges. Chief among these were a protracted political succession and consolidation crisis that ended in 2005; a bout of regional and international isolation that, for the most part, ended in 2008; and an impending decrease in oil reserves. While the first two challenges have largely been overcome, the third persists. Complicating these challenges and threats is an ongoing drought and a mismanaged water-supply system that has led to the dislocation and migration of hundreds of thousands of people from the countryside to over-populated and under-serviced cities.

Although the Syrian economy weathered the global economic crisis of 2008, it has become clear that, if Syria is to withstand future shocks while maintaining the social and political stability the government desires, it must radically overhaul its economic and administrative structures. The Syrian leadership can no longer rely on the dysfunctional socioeconomic trade-off of reducing state subsidies while encouraging unaccountable big-business endeavors. While this trade-off put a gloss on the Syrian economy after the adoption of the Social Market Economy at the tenth

Baath Regional Command Conference in 2005, it has harmed the middle and lower classes and threatens the stability that the regime so values. However, to undertake an overhaul of the country's economic and administrative institutions requires more than the conventional prescriptions for economic-policy adjustments, most of which clash with an administrative and investment environment that misallocates resources and often makes counterproductive investments.

Moreover, existing economic institutions and agencies lack the capacity, authority or will to implement policies, whether or not they are sound. There is a marked dearth of elite consensus and willingness to change the rules of the game. And in the continued absence of any consistent application of the rule of law in the economic sphere, it will be difficult to make solid progress. Hence, economic progress will require not only policy change, but political will and administrative reform as well.

In the sections below are an exposition of the conditions of the Syrian economy (up to December 2010) and its main sectors, an examination of the principal areas of opportunity and growth, a review of the limits of recent reforms, an examination of the political context that limits and shapes change, and a set of recommendations for moving forward.

GLOBAL CRISIS

Although some of its sectors were affected as a result of integration with European and Gulf markets, Syria avoided the worst effects of the 2008 global economic crisis. Sectors most affected include manufacturing, industry and services. However, tourism, a growing source of revenue for the Syrian economy, picked up in volume despite world decreases in that sector, keeping the Syrian economic heart beating.[1] Through the end of 2010, Syria seemed relatively stable both politically and economically as other countries in the region experienced turbulence in either or both areas. Nonetheless, despite the relatively optimistic outlook, *sustainable* economic growth, key to political stability in Syria, still appears elusive.

Most 2010 reports on existing opportunities for the Syrian economy were cautiously encouraging. According to the *Economist Intelligence Unit*, Syria's real GDP growth is expected to rise to 3.9 percent in 2010 and then 4.2 percent in 2011, after experiencing a dip in 2009. Inflation will reach 6.2 percent in 2010-11, as global

Figure 1.1

Main Economic Indicators	2005	2006	2007	2008	2009	2010	2011
Nominal GDP (US $ m)	28,210	32,786	40,376	49,193	49,442	56,180	63,072
Real GDP growth (%)	6.2	5	5.7	4.3	3	3.9	4.2
Consumer price inflation (avg. %)	7.2	10	3.9	15.7	2.6	7.1	6.2
Current-account bal. (US $ m)	295	890	459	-687	-1,269	-1,139	-972
External debt (US $ m)	6,508	6,502	6,732	6,899	6,992	7,206	7,389
Population (millions)	19.1	19.8	20.5	21.2	21.9	22.5	23.1
GDP per head (US $ at PPP)	3,999	4,191	4,398	4,524	4,574	4,701	4,816
Unemployment (avg. %)	8.0	8.3	8.4	8.6	9.2	9.7	9.4

Source: Economist Intelligence Unit

commodity prices increase and the long-awaited value-added tax (VAT) goes into effect. Current-account deficits will narrow to around 1.3 percent of GDP, mainly due to increased revenues from tourism (see Figures 1.1 and 1.2). A series of economic reforms, in addition to various trade and infrastructural agreements with Turkey and the European Union, and relatively improved U.S.-Syrian relations, should buttress Syria's role in the MENA region.[2]

A more balanced budget is another cause for optimism. The 2010 budget saw a moderate tightening of the fiscal position.[3] Syria's fiscal deficit is projected to contract to $3.2 billion, or 6.4 percent of GDP, in 2010, due to an increase in world oil prices and added revenues from its extraction.[4] This revenue increase, however, is counterbalanced by increases in public investment and public wages. Fuel subsidies have been reduced and reformed, but they tax the Syrian budget as most refined oil products for domestic consumption are still imported. The VAT, expected to be introduced in 2011, possibly at a rate of roughly 10 percent,[5] will boost government income and partially compensate for losses in decreasing oil revenues in the long run. The government's plans to convert the existing mobile-phone contracts into long-term licenses in 2010 should bring additional revenue to the budget.

Monetary policy has followed suit, evinced by attempts to guarantee the autonomy of the Central Bank of Syria (CBS). There are plans to increase the number and sophistication of monetary tools available to the CBS, which may mean that the bank will reduce the restrictions on foreign-currency transactions, a process that began to facilitate investment in 2008. Recent changes in banking regulations required private banks to increase their minimum capital from $33 million to $220 million,[6] which should augment banks' ability to finance large-scale infrastructural projects. With the waning effects of the financial crisis, the Syrian government should now focus on properly implementing agreed-upon reforms, attracting outside investors, and diversifying the economy.

ECONOMIC OPPORTUNITIES

Syria is well positioned to attract significant investments to develop and promote high-growth industries such as tourism, finance, insurance and retail to offset reduction in oil revenues. The government is also poised to turn its attention to its public economic sector for both political and economic reasons (see below) — and even more so if the government survives the uprisings. Based on opinion among some Damascus elites as well as leaks from the drafts of the government's eleventh Five-Year Plan (due within a year), it appears that the Syrian government will renew its commitment to investment in the public sector.[7] According to Abdullah al-Dardari, Syria's (former) deputy prime minister for economic affairs, the new plan would focus primarily on investments in infrastructure, energy security and high-growth industries.[8]

Although Syria's access to the Greater Arab Free Trade Agreement (GAFTA) has opened new and lucrative markets for Syrian exports, intra-Arab trading remains disappointingly low. However, a significant increase in trade with Iran, Turkey and the EU indicates a promising prospect — all of which depends on the ability of Syrian firms to compete. So far Syrian products have remained uncompetitive, both regionally and internationally, despite low labor and other input costs.

Figure 1.2

Public Financial Indicator (US$ bn)	2003	2004	2005	2006	2007	2008	2009e	2010f	2011f
Central government revenues/GDP	28.80%	27.20%	23.70%	25.50%	22.70%	22%	18.20%	19%	20%
Central government expenditures/GDP	31.40%	31.40%	28.60%	29%	25.80%	23.90%	25.10%	25.30%	24.40%
Central government fiscal balance/GDP	-2.60%	-4.20%	-5%	-3.50%	-3.10%	-1.90%	-7%	-6.40%	-4.30%

Source: Bank Audi Research Department and EIU Country Report

Figure 1.3

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Natural gas production (Billion cubic meters)	5.3	5.4	5.5	5	6.1	6.2	6.4	5.5	5.7	5.6	5.5
Oil production (Thousand barrels daily)	576	579	548	581	548	527	495	450	435	415	398

*Excluding gas flared or recycled.

**Includes crude oil, shale oil, oil sands and NGLs. Excludes liquid fuels from other sources such as biomass and coal derivatives.

Source: BP's Statistical Review of World Energy, Full Report 2009.

Benefiting fully from this array of economic opportunities requires a much more competitive Syrian economy. Economic calculations need to take more prominence alongside political concerns, but without shifting costs onto the public. Though this is beginning to take place in some subsectors, it is still an exception and, in many such cases, the winners are usually regime insiders or associates.

Syria's energy and services (mainly tourism) sectors continue to be primary venues for economic growth. However, they are yielding little long-term added value to the economy or significant forms of equitable distribution to a rapidly growing population. Nevertheless, foreign investments could ultimately rise due to some economic reforms. Improvement in international diplomatic relations would have boosted this possibility absent the recent outcry against the regime's use of violence to crush the protests. By the end of 2010, Syria was hoping to attract more than $55 billion in foreign investment in the next few years.[9] Saudi Arabia also plans to design, and provide special loans to help the Syrian government implement, its development plans and projects.[10] Much of this planning hinges on both regional stability and the Syrian government's ability to attract the kind of investment that enhances Syria's comparative advantage by increasing benefits to the overall economy and reducing unemployment. Both prospects seem uncertain, considering the current turmoil in the country and the persistent regional tensions.

Energy

Syria's energy sector remains a key asset. The government is seeking to increase foreign investment in the oil fields. The Indian Company ONGC Videsh and the UK-based IPR Mediterranean Exploration announced in mid-March three new oil discoveries in the Euphrates Basin. These are likely to increase crude-oil production by about 10,000 barrels per day, offsetting a portion of the decline of bigger wells. Four new gas-processing plants have entered service this year, with a capacity of 16 million cubic meters of gas per day, bringing the overall gas production to 28 million m^3/day. This number is likely to increase to 36 million by 2011.[11] Most of this production (around 20 million cubic meters) is being channeled to the Ministry of Electricity to be used in electricity production,[12] enabling the government to keep more hard currency inside Syria.

Syria should be able to produce on average 377,000 b/d in 2010-11,[13] but, absent further finds, it is not likely ever to recover its oil-production rates from the late 1990s and early 2000s. It is important to note, however, that the fear of an impending dry-up of oil has given way to a more confident outlook based on continuing oil finds and increased gas production for at least another decade, if not more. This news might bode well for the Syrian government, but not necessarily for reform.

Minister of Petroleum and Mineral Resources Sufyan al-Allaw has stressed the need to undertake steps towards more efficient use of power and to introduce alternative sources of energy to the Syrian power grid.[14] In addition, one of the main reform challenges is Syria's fuel subsidies; each year the Syrian government has spent over $1.5 billion on subsidies for diesel. Interventions in diesel prices have encouraged smuggling to countries like Lebanon and Turkey. According to (former) Prime Minister Naji al-Otri, around 25 percent of the subsidized diesel is being smuggled out of the country.[15] Reducing fuel subsidies is

Figure 1.4

Origin of GDP (% real change)	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Agriculture	7.8	10.2	-13.5	-8.7	5.4	2.2	2.8
Industry	-3	0.6	3.8	5.5	-0.9	5.3	5
Services	13.3	3.4	16.6	8.3	3.8	3.9	4.2

Source: Economist Intelligence Unit

a tricky business, however, and will likely take place only gradually.

Another important card that Syria holds is its increasingly vital role as a transit country for energy products. The Arab Gas Pipeline that connects Egypt, Jordan, Syria and Lebanon is one such route. There is also the possibility of connecting the Arab gas network to the Turkish pipeline, which would enable Syria to export Arab gas to Turkey and import gas from Turkey, Iran and Azerbaijan.[16] Though such a prospect relieves the state's budget deficit, it does not necessarily bode well for governmental efforts to streamline and rationalize the economy by dismantling patronage networks, and this is crucial to structural reform.

Tourism, Services, Construction

In 2009, Syria received around 6.1 million tourists, whose spending contributed to around 11 percent of GDP,[17] giving a substantial boost to the services sector. The construction sector is also expected to grow in the coming years alongside the expansion of reforms related to tourism and finance.[18] However, there is a danger of overheating in areas like Damascus, where office space is already in eighth place for the most expensive real estate worldwide.[19] Recent years have seen the entry of several Gulf construction companies, which has led to a leap in both size and quality of the projects. Such attention to, and investment in, these sectors is likely to come at the expense of agriculture and industry, a prospect that bodes ill for the long-term health of the Syrian economy (see figure 1.4) and the rural-to-urban migration trends mentioned above. Though construction can provide a short-term jolt to the economy, the expansion of tourism and services would have few direct positive effects on the overall economic situation of Syrian citizens, since tourism does not increase fixed-capital accumulation or enhance human capital or redistribution.

Agriculture

The agricultural sector has been the gravest casualty of both economic policy and drought. After a prolonged dry spell and a corresponding drop in production during the middle of this decade, the agricultural sector will grow timidly if at all in 2010-11, but the scarcity of water poses a greater long-term risk to the entire Syrian (and perhaps regional) economy.[20] In the usually fertile area of Salamiyyeh, around 60 percent of the wells have dried up, and Syria is already counted as a "water-scarce" country.[21] Recent reports speak of a migration epidemic; entire villages are being abandoned by their residents.[22] It is nearly impossible for the value-added provided by the agricultural sector to revert to the 2001 figure of 27 percent. It now stands at slightly over 20 percent and is poised to decline. Government intervention to allocate resources to the right sectors/ventures and away from less-productive ones remains both a necessity and a political challenge, given the nature of collusive state-business relations.

Industry

Most reports forecast that this sector will be sustained by investments in the new oil and gas projects, but such investments do not have a long-lasting effect, considering the projected depletion of oil reserves. Moreover, even though Syria was able to ride out the global financial crisis, domestic demand for most industrial products has crashed (falling 80 percent between October 2008 and March 2009). The textile industry was hit the hardest, and imports from China are making it very difficult for Syrian firms to recover and compete.[23] Limited investments have been directed to heavy industry — cars, televisions and concrete products. According to the 2009 MENA Development Report, FDI inflows towards manufacturing did not exceed 10 percent of overall inflows. Nonetheless, a success story continues in pharmaceuticals, where firms produce 95 percent of domestic demand (second in the Arab world), and export pharmaceuticals to 55 countries while employing 14,000 workers.[24]

Public-Private Partnerships

In 2010, the government rejuvenated the drive, pursued only sporadically over the last two decades, to create public-private partnerships. Such ventures, while economically appealing, pose threats to the regime's ability to retain its social and political power. The public sector remains the largest single employer in Syria. Despite cuts, it continues to provide welfare privileges and additional subsidies to its members. What is distinct about the public-private partnerships being advocated is that they are often a mask for privatization. Firms are owned jointly and frequently end up being privatized after a process of effective control by private elements under the "joint sector" rubric.[25] Far more promising is an effort to refurbish existing public-sector firms, a move that is desperately needed in order to maintain the provision of public goods in a manner that can also strengthen the government's hand in limiting privileges for rent-seeking private businesses that rely on public-sector contracts, and privileges that are available only to regime associates and insiders.

The government's plans to reform the public sector include converting state-owned enterprises into corporate-like companies with independent budgets, something that could potentially relieve public coffers from having to support inefficient public enterprises. By the summer of 2010, fewer than 10 percent of the 260 public enterprises were profitable.[26] The reform of public enterprises, though potentially mutually beneficial for both state and society in Syria, is not appealing to foreign-state donors or to the International Financial Institutions (IFIs). Most IFIs would like to see the public sector, particularly its inefficient enterprises, shrink further.

The basic problem, however, is not an opposition between public and private enterprise in terms of efficiency. Decades of developmental successes and failures the world over point to the importance of finding the optimal division of labor between the public and private sectors, based on an interplay of local, regional and global factors, rather than on normative prescriptions delivered in a vacuum.

Shrinking from an overhaul of the economic decision-making process, the Syrian government is planning a less socially costly option involving further investment in the public sector.[27] If such investment occurs in the current organizational and legal environment — without some restructuring — its fate will be little different than previous attempts to increase public-sector investment. This would leave Syria with a private sector that is encouraged internationally while ensuring and protecting the interests of big political and economic brokers domestically.

Despite obstacles at nearly all administrative and operational levels, the private sector was able to gain an additional piece of the Syrian economic pie following the enactment of recent reforms. In 2007, the private sector's contribution reached around 60.5 percent of GDP, compared with 52.3 percent in 2000.[28] Sectors such as chemicals, metallurgy and textiles are now mostly in private hands. Critics charge that "the state has in practice withdrawn from its obligation to provide acceptable conditions of life for broad sections of the population"[29] and that the economy is increasingly in private hands.

Unsurprisingly, new entrepreneurial opportunities are not equally available to everyone. The Syrian banking system is still risk-averse, making access to credit difficult, especially for big projects. When a proposed project is sizable, ordinary investors cannot hope to compete with business moguls like Rami Makhluf, one of the richest businessmen in Syria and a focus of public discontent during the ongoing uprisings. Most of Makhluf's commercial empire was built upon his strong connections to the regime and the president's family, in particular. Indeed, well-connected business people face no obstacles, either legal or financial, in implementing their projects. This is not new in Syria. What *is* new, though, is the fast pace at which change is taking place in a context that has yet to overcome such favoritism and patronage networks. With minor exceptions, the private sector's march in Syria is undermining both state and market.

LIMITS OF REFORMS

Notwithstanding the current turmoil, the prospect of serious reform in Syria is conditionally promising under the rubric of the Social Market Economy announced by President Bashar Al-Asad at the tenth Baath Regional Command Conference in 2005. Decreasing oil reserves have convinced the political elite that economic reform is inescapable.[30] A Syrian Investment Agency (SIA) was established under the direct supervision of the prime minister,[31] and a new investment law was passed in 2007.[32] Additionally, a number of other laws, decrees and new financial institutions have since facilitated doing business in Syria. The establishment of the Damascus Stock Exchange two years ago, and its continuing development; the introduction of a significant number of private banks with increasingly flexible ownership rules since 2004; and the slow but steady improvement of the regulatory environment on nearly all fronts are evidence of dramatic developments previously unseen in Syria.

However, without a fundamental overhaul of manufacturing's incentive structure and regulatory environment, further trade liberalization will continue to burden the industrial sector and employment. Any cursory glance at new businesses/enterprises reveals the slide of industry and the rise of services. For instance, within a period of two months in 2010, 28 new tourist projects were initiated.[33] During roughly the same period, 48 textile firms were shut down.[34] Clearly, most of these firms were shut down because of their inefficiency, and most of the new tourist projects are likely to be lucrative.

But this is precisely what is wrong with a narrow reading of numbers: the investment environment is stacked against projects that might bring future stability and added value, while welcoming big spending on services that neither benefit most Syrians nor encourage the development of a skilled labor force. Within such an environment — egged on by well-to-do investors and entrepreneurs close to decision makers — the problem does not lie with investors who would like to turn quick profit. Rather, regime decision makers perpetuate such an environment by neglecting to set an industrial policy (or other sectoral policies) and by not imposing reciprocity for the generation of added value in the form of employment, exports and public goods.

The social effects of reform, coupled with demographic trends and the depletion of natural resources, provide a compelling argument for fundamental change. Syria is experiencing a rapid population growth of 2.5 percent, an unemployment rate exceeding 10 percent, declining oil production, some of the highest bureaucratic hurdles to doing business, a cumbersome public sector, and an under-banked financial sector. The challenges ahead are immense, even if political stability is maintained after the protests — one can argue that even with regime change, the structural challenges will remain. Before addressing the political context of calculations for change, it is crucial to identify the depth of the social/developmental challenges facing Syria.

Social Indicators

Social indicators have not been improving, and most Syrians have not been able to partake in the macroeconomic gains the country has witnessed during the past five years. This fact can be documented through numbers, but it could also be observed on the streets of Syrian cities and towns in March and April of 2011. GDP per capita at purchasing-power parity (PPP) has increased to $4,574, compared to $3,999 just four years ago, but the distribution of this growth was not reflected across the population. Syria has seen a 10 percent increase in poverty since 2005, concentrated mostly in the northeast and south.[35] Unemployment tops 10 percent, while entrants into the labor market are increasing by 230,000 per year. By 2030, the Syrian population is slated to increase from 22 million to 30 million. Perhaps the most pressing issue is the widening gap between inflation and government salaries. In a courageous economic report, the General Federation of Trade Unions lamented that the 65 percent increase in public-sector salaries in recent years was outstripped by inflation,[36] placing unprecedented burdens on workers and their families, many of whom are approaching or sinking below the poverty line.

The water crisis continues to loom large over the economy. Even though Syria is still better off than some other MENA countries, poor planning and mismanagement of its water resources means that the average Syrian citizen has been able to consume only around 300 cubic meters of water per year, while the global water scarcity mark is 1000 m^3 per capita.[37] Drought has caused thousands of families to migrate from the countryside to the cities, where they inevitably join the ranks of the unemployed. Given the gathering water shortage crisis in the region, droughts could well become another spark for social unrest in the coming years. In fact, analysts are calling for the abandonment of the irrational and wasteful agricultural self-sufficiency policy that is draining Syria's water supply, but to no avail.[38] During the past decade, drought has affected 2-3 million people in Syria, dramatically increasing the number living at or below the poverty line.[39]

Literacy rates are improving, reaching 83.6 percent in 2008. Health spending as a percentage of public expenditures held steady at around 6 percent in 2007. Births attended by skilled health staff as a percentage of total births reached 93 percent in 2006, compared to just 70 percent in 2002.[40] These numbers indicate that Syria will face a rapidly growing young and literate population, straining an already overburdened and in some cases decrepit administrative, services and economic infrastructure.

Creation of more job opportunities should be the government's leading priority for the coming 5-year plan. Already there is increasing pressure on the labor force; the percentage of armed-forces personnel fell to under 6 percent in 2008, compared to 12 percent in 1990.[41] Moreover, the arrival of Iraqi refugees in 2006 made the competition for low-paying jobs even sharper for ordinary Syrian workers.

Many Syrians suffered through a "social gap" under Baathist socialism, but the introduction of liberal reforms led to a significant deepening of this gap[42] with little to no positive trickle-down effect. The government has tried to invest in rural areas in order to close the gap, between rural and urban regions, but this scheme is not delivering its intended results. Unemployment has been kept in check in recent years thanks to government expansionary policies, but these cannot work forever, as the regime is trying to cut expenditures.

Finally, although most economists agree that the government should reform its inefficient subsidies system, any significant reduction in subsidies will most certainly lead to an immediate increase in the prices of all major goods and services. Moreover, whether or not the subsidies system is equitable, reducing it dramatically would have devastating effects on the poorer strata of society.[43] Plans should take into account that petrodollars will not be available to spend on social schemes or development projects that the Syrian economy desperately needs. Syria will have to find a middle-of-the-road strategy for streamlining its economy without undermining the relative social stability it enjoys — a nearly impossible challenge under current infrastructural and political-economic conditions.

Figure 1.5	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009e**
Remittance to Syria (US $ millions)	889	855	823	795	824	850	827

Source: Bank Audi Research Department

POLITICAL CONTEXT

The Syrian economy today has significant potential, but if there is not a firm political will to launch a new social contract and a more comprehensive institutional reform and to rein in privileged economic players, economic progress will remain limited and will not provide social stability. This challenge has been made all too obvious at the time of writing. Despite advances in economic indicators and Syria's renewed regional influence as an economic transit hub, it still presides over a decrepit institutional and educational infrastructure in dire need of modernization and a judicial system that lacks any semblance of independence. Indeed, the growth we now witness is likely to bring into sharper relief the gap between the haves and have-nots, rather than catapult broad segments of Syrian society upwards.

The wager within the regime, from 1970 until the end of 2010, has been this: The longer you stay in the same place or continue to hold on to particular positions — provided that the "place" or "position" is well-deliberated and domestic power relations remain constant — the more likely that a balance can be struck to accommodate the regime, locally, regionally and internationally. In other words, "Stay standing until the others fall," while maintaining a functioning, even if inefficient, economic and administrative apparatus, and continuing to provide the most basic social services. This strategy partly relied on the follies and adventurism of other players, including the United States, Israel the so-called "moderate" Arab regimes and the Lebanese political chiefs. Syria might not progress rapidly, but its adherence to stability might pay off as other players

Figure 1.6

Social Indicators	1990	1995	2000	2005	2006	2007	2008
Life expectancy at birth	68.2	70.5	72.3	73.6	73.8	74.0	74.2
Telephone lines (per 100 people)	3.9	6.6	10.1	15.2	16.5	17.2	17.7
Personal computers (per 100 people)	..	0.7	1.5	4.2	6.6	9.0	..
Mobile cellular subscriptions (per 100 people)	0.0	0.0	0.2	15.4	23.9	31.0	34.3
Passenger cars (per 1,000 people)	..	..	..	15.3	19.1	22.4	..
Internet users (per 100 people)	0.0	0.0	0.2	5.6	7.9	17.3	17.3
Urban Population (percent of total)	48.9	50.1	51.6	53.2	53.54	53.88	54.22

Source: World Development Indicators, World Bank stumble. The strategy requires that the domestic arena be fully under the regime's control, so much so that even the law of unintended consequences must be reined in by risk-averse economic and political decisions that would otherwise seem irrational. In large measure, this explains the brutal response to the protests of spring 2011. Hence, economic reform proceeds in a manner that strikes a balance between the expansion of economic opportunities, on the one hand, and the maintenance of monopolies by loyal political and economic elites, on the other.

But this strategy has been failing in the face of a rapidly growing population, declining oil rents and increasingly scarce water resources. Even if the Syrian regime weathers the current domestic challenge to its rule, it needs a new approach to socioeconomic management if it hopes to maintain stability henceforth.

Looking forward, there is some movement disturbing the equilibrium, albeit in unpredictable ways: a gradual increase in foreign investment in, and foreign ownership of, economic assets, and the creation of market institutions that are very gradually and carefully increasing the power and autonomy of capital (such that money, not just political power and connections, begins to "talk"). Note that these doors were opened only slightly, and mainly because of the renewed capacity of regime loyalists to capture the majority of the gains. Gradually, this strategy will produce its own unintended consequences that could well spin out of the regime's control.

The manner in which the current "economic opening" has proceeded resembles in form, but not in content, processes under Hafez al-Asad. Whereas the route to broadening the regime's base was through strategically based economic networks (comprising top segments of the political and economic elite), we are now witnessing more organic forms of solidarity. First, these networks are maturing, and their ties to regime strongmen are deepening. More important, solidarity-based economic networks are emerging whose ties to the regime are based on a far more genuine belief in its legitimacy, specifically, its younger leadership.

This is not simply a matter of superficial alliances; two factors undergird this transformation from strategic to solidarity networks. First, by the end of 2010, a cross section of the Syrian population (with the wider Arab population) has come to see Bashar's rule in far more favorable terms than they perceived that of his father. More consequential are the new social formations (new groups or "classes") that have emerged as a social and generational product of economic expansion since 1986. This aggressive and self-aware social stratum is key to understanding the medium- to long-term development of Syria's political economy. Until then, one must not expect much to change beyond the patterns and constraints discussed above. The development that analysts and policy makers should watch in order to know the fate of this new social formation is the increasing polarization of Syrian society, namely the gap between the few winners and the many losers.

Economic-policy recommendations are tricky in Syria, as in many developing countries, largely because the heart of the problem is political. One must take into account three key factors: the vagaries of authoritarian rule, the political reluctance to initiate real and comprehensive reforms, and very limited administrative capacity. Furthermore, analysts often adopt the normative standards of neoliberal economic principles as though they are a panacea, ignoring the politically restrictive domestic, regional and international contexts in which the Syrian economy and any attempted reforms are firmly embedded.

Other observers focus exclusively on authoritarian practices as the principal stumbling block, assuming that "democracy" is a solution to all developmental hardships. Finally, critics from the left often focus exclusively on social justice, as if it were simply a matter of ideology and moral principle. Complicating matters further is the stale assumption of trickle-down economics, still embraced by powerful institutions, states and elites, domestically as well as internationally. This point of view, albeit now falling out of favor, de-prioritizes the needs of the largest segments of society in favor of economic policies that promise plenty from capital concentration. In the context of late-developing countries, in particular, trickle-down claims are giving way to more equity-conscious development economics.

In recommending any policy orientation, one must take into account a crucial piece of the puzzle: institutional capacity and the corollary issue of human resources. No set of recommendations will be implementable if insufficient attention is paid to these issues, both of which are matters of political will but require administrative competence to be seen through to completion.

Finally, realistic recommendations must address questions of political will, considering what incumbent regimes and vested interests might be willing to do. The problem lies not only in policy formulation, but in its implementation. These recommendations were put forth prior to the eruption of protests. Though the stakes are much higher now, requiring a more fundamental overhaul, the task of moving forward nonetheless must include the elements in the following section.

MOVING FORWARD

Based on the foregoing review of Syria's recent political and economic dynamics and current socioeconomic realities, one can put forward the outlines of a set of policy recommendations:

(1) Develop and launch a top-level campaign announcing a new social contract to replace the now-defunct socialist formula and usher in a real transition to a mixed economy. Key to this campaign would be the elimination of the obstructive Article 8 asserting the domination of the Baath party, effectively to the exclusion of truly independent political parties. This campaign should be adopted and led by the president and the top leadership. It should be coupled with the creation of an independent economic *team* (not just one trusted architect) empowered to monitor and execute its various components. Crucial to the effort would be reinforcing the independence of the judicial branch to protect and adjudicate economic contracts and rights that are now subject to arbitrary decisions by strongmen.

(2) Rein in rent seekers who benefit from distinctions and privileges without providing any added value in terms of employment, exports, innovative production, infrastructural renewal or even growth. This is a tricky process, considering how entrenched and intertwined some of these actors have become with the top leadership. This component of reform cannot be executed abruptly and cannot target

everyone at the same time. Therefore, it should provide alternative incentives for especially privileged actors in order to succeed in the long run and gain support among some of the major actors targeted.

(3) Make the economic policy-making process more inclusive, primarily by bringing labor back in: first, by reactivating the GFTU (General Federation of Trade Unions) as an *independent* actor with organically elected representatives and, second, by establishing officially recognized and legally binding channels between business and labor leaders. The reining in of rent seekers and the prevention of "elite capture" of economic policy must be accompanied by an emphasis on the aforementioned broad-ranging campaign to bring together various stakeholders in society, including labor/peasant unions, business associations, professional associations, and even Baath party cadres, including youth groups and provincial leaders.

(4) Transcend the public-private axis of debate and engage in a conversation centered on management, productivity and the public good. Such a debate will emphasize the goal of reaching the optimal division of labor between the two sectors based on their resources and comparative advantage in relation to the enterprise in question. The first step is to end the underhanded practice of piecemeal privatization that robs the public while enriching the few. Piecemeal privatization occurs when the legal ownership of an enterprise remains public while some or most of its component functions are privatized under some abridged rationale of productivity.

(5) Invest in refurbishing the economic institutional structure (not just the personnel) to reduce bureaucratic hurdles to productivity and widen spaces for individual and institutional initiative based on well-crafted, comprehensive economic goals. The first step would have to be a clear and sober articulation of the relationship between government, regime and party in light of the limping, albeit moving, "social market economy" that emerged from the tenth Regional Baath Conference in 2005. The second step would follow from the first in delineating lines of authority, division of labor and coordination among the myriad institutions and agencies within the public/governmental sectors. The third step must be a serious effort at redefining the party's position vis-à-vis its socialist rhetoric, which has become dangerously out of step with reality, serving primarily as a tool for those whose personal interests would be harmed by reforms.

(6) Introduce a legal framework to monitor the revolving door between economic policy makers and those who benefit from them. Policy makers might not be directly involved in business, but their immediate relatives and former (or future) partners often are. Furthermore, this would preempt the situations witnessed in countries such as Egypt, where business interests that are overstepping their bounds increasingly dominate cabinets and parliaments. This legal separation would promote transparency while reducing rent-seeking.

(7) Devise and launch a plan that aims at overhauling the educational system to keep pace with global and local economic change. An increase in human capital is crucial to long-term capacity building. The plan must modernize traditional institutions but also emphasize and create better post-secondary alternative educational routes that provide professional training. Syria, with its remarkable human capital, might be a pioneer in fundamentally redesigning educational structures and opportunities to fit a changing world economy.

Recent developments, in Syria as well as regionally and globally, might actually facilitate reforms and bring about different outcomes than the largely unsuccessful modernization campaign of the early 2000s. First, if the regime survives the current challenge, its leaders will be far more aware of the costs of inaction. Second, there is a new cohort of powerful allies in the army, security services and party; and, though the leadership has been rocked by the current turmoil, it can still rely on various segments of Syrian society, who prefer the status quo to the unknown (though this support has a short shelf life). A plethora of young professionals today surround the president, enabling the leadership to take political risks that would have been unthinkable just a few years ago, when older hawks dominated. Some analysts are already sounding the death-knell of the regime. Though such claims may be pre-mature, Syria is unlikely to be the same again, which is a good thing in most regards.

Finally, whatever the outcome, the status quo is no longer sustainable. As oil returns decline, the Syrian regime faces two stark options: continue to deal violently with impending discontent as social benefits shrink, or begin to reinvigorate economic productivity now in order to maintain a modicum of social legitimacy. As matters stand, Syria needs to create more than 2 million jobs in the next five years to keep its unemployment rate under 15 percent. Considering continued rural-to-urban migration trends, the magnitude of social discontent could well overwhelm even the most entrenched of regimes, once and for all.

* This research was conducted in spring 2010, when I was a visiting scholar at the Carnegie Endowment for International Peace in Beirut. Thanks also to my assistant, Maxim Sraj, for his valuable work.

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