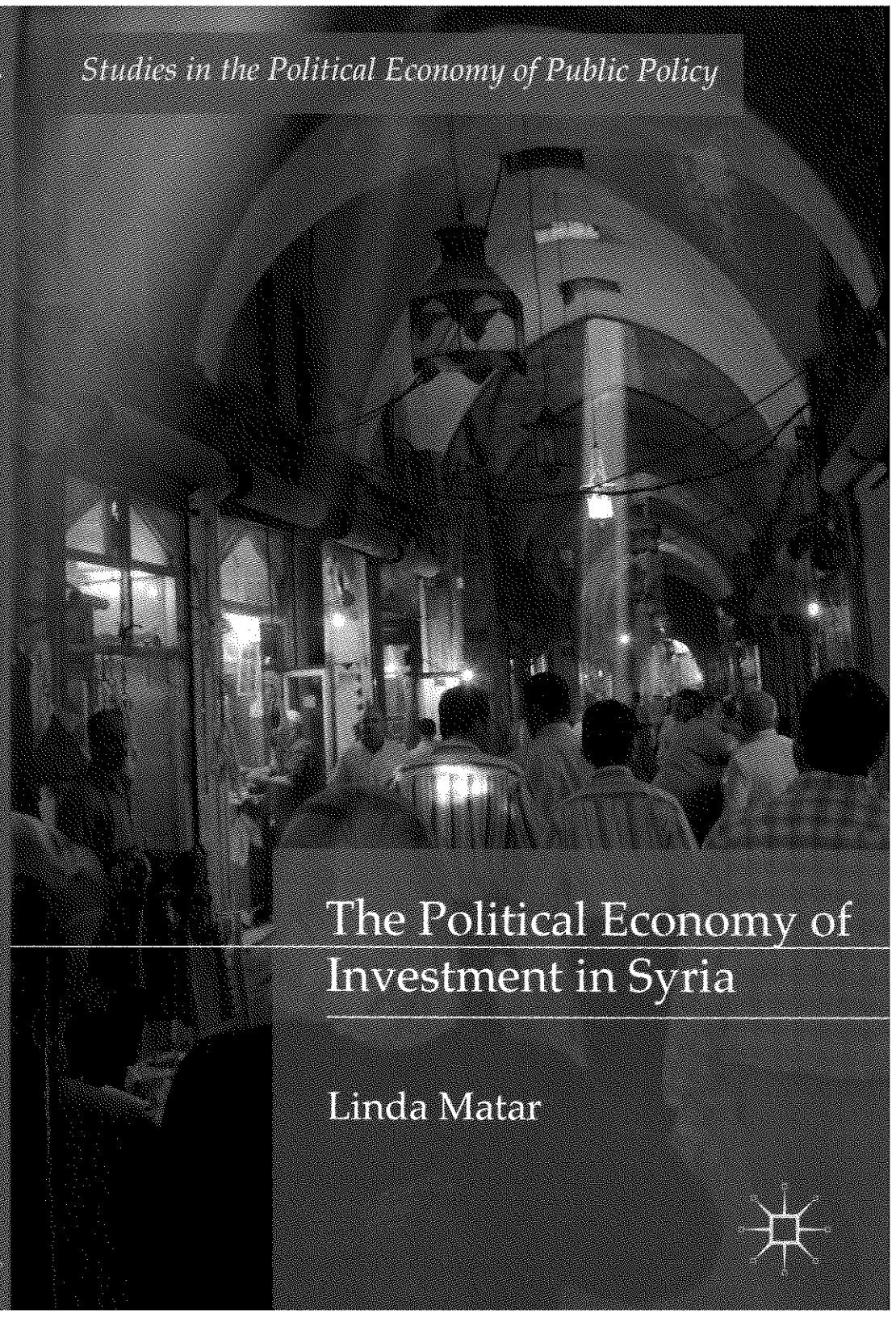


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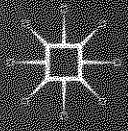
The Political Economy of Investment in Syria

Linda  
Matar



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THE POLITICAL ECONOMY OF INVESTMENT IN SYRIA

# The Political Economy of Investment in Syria

Linda Matar  
*Research Fellow, National University of Singapore*

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## Preface

I embarked on this research five years prior to the Syrian uprising. During that time, social and economic conditions in Syria were visibly deteriorating. My observations in fieldwork during interactions with ordinary people and with Syrian experts were ominous. People struggled to earn a living and felt nostalgic about earlier times when necessities were affordable and the quality of public services was acceptable. Syria's journey to neoliberalism was not sustainable. In my discussions with state officials in 2007, I had put forth the obvious questions of rising inflation and income inequality. The standard reply was to confirm that these were problems, but to also add immediately that because Syria enjoys a geostrategic position it would become a pro-equity growth model for the whole region.

The opposite of that has happened. Syria is now a war-torn society. The Syrian state has lost territorial control over some of its geographical areas to the rebels who are fiercely fighting on the ground. The Syrian humanitarian crisis is one of the worst in recent history: more than 220,000 people killed, 7.6 million internally displaced and 4 million refugees in neighbouring countries (Turkey, Lebanon, Jordan and Iraq). Altogether, 12.2 million people, of whom 5.6 million are children, are in need of humanitarian assistance, and four in five Syrians are living in poverty. A rough estimate of the destruction of the infrastructure stands at around US\$202.6 billion (BBC, 2015). There are so few words that could capture the ongoing tragedy. Syria is a model that others must steer away from.

War has its own momentum. What had started as peaceful and secular pro-democracy protests in the southern city of Dera'a has quickly transformed into a brutal proxy war between regional and international powers. During the course of events, the battle descended into a full-scale violent conflict between the Assad regime and its allies on one side, and the militarised opposition on the other. No sooner had the uprising begun than the funding and arming of all sides of the conflict commenced as well. The reason, of course, is straightforward: Syria is geostrategic. For the first time in recent history, China had intervened in the Security Council and vetoed resolutions concerning areas outside its immediate vicinity to block American and NATO intervention. It is not only recently that Syria has become geostrategic; it has been so

historically. When advancing on Damascus in 1920 after the fall of the Ottoman Empire, the French general Henri Gouraud was asked why France was putting so much effort and spending in a place that apparently lacked economic potential. The general's response was: Syria is geostrategic (discussion with prominent historian of the Arab World, Raghid el-Solh). Syria is situated at the intersection of three continents, making a foothold there crucial to the global imperialist balance of forces.

As oil became more vital to the global economy, Syria gained yet more importance; not, however, because it has large oil reserves, but because the control of the huge reserves and flows in the Gulf fall within reach of its territory. There is an international balance of power determined by the degree of imperialist hegemony over a region to which Syria belongs. Apart from the strong economic and military cooperation between Syria and Russia, Syria's port of Tartus hosts the only Russian naval base on the Eastern Mediterranean. A revolt that could potentially swing Syria away from the Russian camp would strengthen the American side.

With such international overdetermination, it was inevitable that Syria's post-Arab Spring trajectory would be different from those of other Arab countries. Of course, there are both commonalities and differences among the Arab uprisings. The main commonality is the degeneration of living conditions that pushed the working classes, especially disenfranchised youth, to break the fear barrier as the image of invincible regimes collapsed when the Tunisian president fled.

Syria, however, differs in the specific way in which power is articulated nationally and internationally. Nationally, the system is army rule *par excellence*, and the structure of the army itself is configured with the purpose of ensuring regime stability at any cost. This means that there are certain army divisions so loyal to the regime that they can accomplish two functions simultaneously: keep dissent within the army at bay and crush popular opposition by brute force. Internationally, weakening Syria's military and social defence structure is the aim of the United States and many of Syria's surrounding neighbours. The destruction of Syria's factories, schools, and hospitals in addition to the weakening of its human capacities weaken its national security and, therefore, its Sino-Russian allies. The rising structural disparity in the regional balance of forces as a result of a weakened Syria would be in the interest of certain US-allied neighbouring and international states. The task of putting Syria back together when the US and its allies benefit from its destruction adds to the insuperable impasse of international powers – Sino-Russian

and American – that are at loggerheads. The Sino-Russian rapport will do all it can to support the regime, as it has done up to the present.

It is simplistic to ascribe the Syrian conflict to sectarianism alone. The actual picture is multi-layered and one in which the currents of sectarian allegiances flow over and through the various internationally tied classes. The substance is class: the actual impoverished people of all sects who neither own enough assets to make their own living or receive enough in wages to survive decently. Much of the Syrian working class has been divided by placing its sectarian identities above its common class interest. Nearly all internal and external political players in the Syrian conflict have placed their own interests of geostrategic positioning in Syria above the interests of ordinary Syrians and have therefore continued to intensify sectarianism via funding and indoctrination.

Classes in Syria, as elsewhere, have both international and regional ties. The class as an active political force extends beyond the Syrian borders. But the conservative Sunni opposition takes up the religious sect as its form of political identity only in relation to its ties to other Sunni funding entities, especially the Gulf. The Free Syrian Army, which adhered to a secular democratic agenda at the beginning of the conflict, lost financial and military support from its external allies and much territory to the so-called Islamic State of Iraq and Syria (ISIS), the extremist Al-Qaeda splinter organisation in Syria and Iraq and the Al-Nusra Front (the Al-Qaeda affiliate that was the strongest Islamic military force in Syria before the rise of ISIS). This happened because the external forces have no interest in promoting a secular democratic transition in Syria. On the regime side, the sensitive and important military units of the army belong to the Alawite sect – the sect of the president – whose support comes from Iran.

The French colonialists attempted to set up several sectarian mini-states within Syria, but their efforts failed. Syrians of all sects were united against French colonials. The French (during the Mandate) also structured the army divisions along sectarian lines, creating Alawite, Druze, and Sunni divisions. During the post-independence development period, these sectarian lines nearly vanished. Following Syria's union with Egypt, it was president Gamal Abdel-Nasser, a Sunnite, who promoted more of the Alawite Pan-Arabist officers, many of whom were from peasant origins, at the expense of the urban Sunni officers. As the social and economic crisis in Syria began to take root during the Assad era and resources started to flow up to the ruling class, endangering regime stability, government services also began to be devolved on the basis of allegiance to the regime, of which sectarian allegiance was one.

Sectarianism began to be elevated to serve the interests of the ruling minority. But the disparities were not only sectarian-based. There were poor people in every sect, especially, farmers in rural areas. The rural-urban divide resulting from the neglect of agriculture mainly affected farmers of the Sunni population, simply because Sunnis were the majority, but farmers of other sects were hurt too. The regime's dependence on sectarianism made it easy for outside funders of and benefactors from the Syrian conflict to position themselves inside Syria via sect linkages.

The snowballing crisis, which began with early neoliberal reforms and is still ongoing in the war that became an aggression against Syria's sovereignty, had, in its interior, created both sectarian and nonsectarian divisions, splitting ordinary working people and turning them against each other. In comparison, the Egyptian and the Tunisian uprisings did not experience significant rifts between sects or ethnic groups. Instead, their identity divisions were social and regional, for example, between peasant and urban worker. Their revolutions splintered society along the lines of Political Islam versus secular nationalism. The much-talked-about sectarian divisions in Syria acquired their notoriety because of the distressed (mainly Sunni) rural areas that were the first to rise against the regime. But there are no definitive sectarian lines that would adequately describe the social divisions in Syria. Many Sunnis side with the regime and key figures in the opposition are Alawites.

Matters became extremely and lethally complicated with the rise of ISIS and its occupation of vast swaths of land between Iraq and Syria. The fanning of the fires of sectarianism across the Muslim world sets the ground for civil wars that may extend across Asia and Africa. There is now a huge war – and war industry – in the making in and around Syria. But the solution to the problem of ISIS and other warring factions is, first of all, political. Political détente at the international level would create the breathing space to curtail the flows of the resources and funding to the various warring factions whose reproduction depends on continuing the war.

On the ground, ruthless fighting continues between the regime's forces and ISIS and other rebel factions, as each side tries to wrest more territorial control. There is no resolution within sight for this conflict. The international players fuelling the conflict with weapons and resources have much more to win than the position the parties they support gain on the ground. The conflict itself has become an economic enterprise funded by internal and external sources. Its output is the destructive process itself, after which the shifting imperialist-power landscape is the

service produced in return for the funding. The service is the power derived from control of Syria. A stronger US position in a strategic country, such as Syria, drives away other imperialist countries that vie for bigger share of global rents. Unless the services that the conflict emits to international players become of no value, the conflict will not abate. That is the historical contingency we must grapple with.

While this book does not deal with the post-uprising period, it does nevertheless provide a factual and theoretical analysis of one of the key components upon which society thrives: investment. Investment, in the right quantity and kind, drives growth, productivity, jobs, and prosperity. Investment in Syria prior to the uprising tottered, and all the other interrelated socio-economic variables followed suit. These deteriorating objective conditions accumulating before the spark of the uprising set the stage for a greater social explosion. The work explores the quality and quantity of investment and the class in charge of investment that short-changed the Syrian working population.

## List of Abbreviations

|           |   |
|-----------|---|
| ACB       | Agricultural Cooperative Bank (Syrian)                |
| ACU       | Agency for Combating Unemployment (Syrian)            |
| AMF       | Arab Monetary Fund                                    |
| ASCTE     | Arab Syrian Company for Touristic Establishments      |
| BSO       | Bank of Syria and Overseas                            |
| CMC       | Credit and Monetary Council                           |
| ECLA      | Economic Commission of Latin America                  |
| EIU       | Economist Intelligence Unit                           |
| FDI       | foreign direct investment                             |
| FIRE      | Finance, Insurance and Real Estate                    |
| GAR       | Global Assessment Report (on Disaster Risk Reduction) |
| GDP       | Gross Domestic Product                                |
| GFCF      | Gross Fixed Capital Formation                         |
| IFI       | International Financial Institutions                  |
| ILO       | International Labour Organization                     |
| IMF       | International Monetary Fund                           |
| IRIN      | Integrated Regional Information Network               |
| ISI       | Import-Substitution Industrialisation                 |
| ISIS      | Islamic State of Iraq and Syria                       |
| LD        | Legislative Degree                                    |
| LDCs      | Least Developing Countries                            |
| LTE       | Long-Term Expectations                                |
| MEED      | Middle East Economic Digest                           |
| MEK       | Marginal Efficiency of Capital                        |
| MPK       | Marginal Productivity of Capital                      |
| NATO      | North Atlantic Treaty Organization                    |
| OPEC      | Organization of the Petroleum Exporting Countries     |
| PNF       | Progressive National Front                            |
| SIA       | Syrian Investment Agency                              |
| SNA       | System of National Accounts (United Nations)          |
| TRANSTOUR | Syrian Transport and Tourism Marketing Company        |
| UAR       | United Arab Republic                                  |
| UNCTAD    | United Nations Conference on Trade and Development    |
| UNDP      | United Nations Development Programme                  |



|       |  |
|-------|--|
| UNIDO | United Nations Industrial Development Organization |
| REDA  | Real Estate Development Authority                  |
| SCPSS | Syrian Centre for Political and Strategic Studies  |
| SNC   | Syrian National Council                            |

# 1

## Introduction

### 1 The political economy of Syria before the uprising

The Syrian uprising began in March 2011, initially as a result of the domino effect of the Arab uprisings that were sweeping the region; later the conflict evolved into full civil war. Nevertheless, the causes of the unrest remain complex and multi-layered. In political-economic terms, the Syrian uprising can be traced back to the Hafiz Assad regime and to Assad's implementation of macroeconomic strategies that gradually phased out the traditional social support systems, particularly in the countryside. More importantly, the class structure that oversaw the allocation of resources during the Hafiz and Bashar Assad regimes underwent a crucial change.<sup>1</sup> It began to allocate resources to the nonproductive sectors that generated wealth for a certain segment of society – the ruling elites, including officers in the army and security forces and their powerful business partners – rather than for the general public. This subsequently intensified social polarisation, the driver of social unrest. These points will be further elaborated throughout the book.

During the 1960s, Syria's state-controlled economic structure took direct responsibility for initiating an autonomous and internally induced path to economic development. The state-led economy was characterised by public-sector dominance, administered prices, a system of multiple exchange rates, and import restrictions. Much effort went into expanding the public sector, amounting to more than 60 per cent of total investment or gross fixed capital formation (GFCF) in the 1960s and early 1970s (Hinnebusch, 2001a). The state's strategy to induce import-substituting investment was aimed at creating a productive and independent national economy so as to avoid any chance of returning to the post-independence *ancien régime*.

At first, the state's way of increasing public investment was to channel resources to sectors that secured social benefits and exhibited high potential for employment creation and growth (al-Hamsh, 2004 and Lawson, 1997). A second aim was to preserve the privileged role of the public sector in the real economy – less for economic than for political reasons – as Syria maintained its regional role as a 'front-line' state with regard to Israel (fieldwork interview with Issam Al-Zaim, 2007). Compared to today's conditions, the Syrian population enjoyed high living standards, as GDP per capita at constant prices grew at an annual rate of 6 per cent during the 1970s (World Bank, 2014). It was also a time when basic necessities and food provision were subsidised by the state. This meant that the majority of Syrians was given access to basic health, education, and other public services.

This trend did not last long. During the Hafiz and Bashar Assad regimes, Syria gradually eased itself away from its state-controlled and state-interventionist past and gradually lifted state controls. In the tourism and agricultural sectors, a new form of private-public partnership or mixed-sector cooperation was initiated in the 1970s, laying the foundation for a piecemeal but tailored expansion of the market-driven economic order. Starting in the late 1980s, the Syrian economy underwent a gradual transformation from a state-controlled to a market-oriented economic structure as the regime cautiously embarked on a package of market-friendly reforms in general, and investment liberalisation in particular. Both were intended to kick-start private investment and boost overall GFCF.

The Hafiz Assad regime of 1970–2000 introduced phases of open-door economic policies known as *infitah*, which focused on investment liberalisation as part of the effort to give a greater role to the private sector and its activities. In 1991, the Assad regime promulgated the new Investment Law No. 10, the first reform measure that revived private-sector activities and permitted Syrian and foreign investors to invest in previously prohibited sectors (including the industrial sector). The main aim was to promote industrial types of investment. The Law was a salient qualitative change, because through it, the authorities were able to reverse the statist policies of the preceding period and reinstate private property ownership. Although the private sector was never abolished during the state-controlled economic period, its activities remained limited to commerce and trade. Nevertheless, it was effectively revived with the introduction of Law No. 10. The Law offered fiscal and financial privileges, which were costly to the Syrian government, in order to promote investment and boost GFCF.

Reform measures did not stop there; rather, they accelerated during the second Assad regime – the Bashar regime – in the post-2000 period. Two amendments to Law No. 10 were introduced in 2000 and 2007 with the aim of removing all state controls that were inhibiting private investment, both domestic and foreign. In 2007, Legislative Decree No. 8 (hereafter LD No. 8) abolished the restriction on land ownership and allowed investors to own the land on which their investment projects were carried out. Moreover, the Bretton Woods institutions – the World Bank and the International Monetary Fund (IMF) – got involved in the Syrian liberalisation process and advised the state on how to develop its economic reforms. Toward the end of 2007, the Syrian authorities, as counselled by the World Bank and the IMF, launched a programme to phase out subsidies on oil products in order to streamline budget expenditure. Fertiliser subsidies were also removed, exposing farmers to sudden increases in the cost of production, which in turn dampened food production and distorted the self-sufficient nature of the Syrian economy (see Section 3). The Syrian policy-makers were convinced of the then widely accepted idea that a free market would drive growth, and that, although there might be a short-term welfare setback, eventually the 'trickle-down' in the form of job creation and other economic opportunities would surely follow. However, as will be demonstrated later in the book, an examination of the social and economic conditions that prevailed during the Hafiz and Bashar Assad regimes reveals that developmental and welfare gains never materialised.

A preliminary examination of investment data, as shown in Section 6, shows that, on average, the investment rate during the 1990s and 2000s remained low and erratic following the spread of investment reforms. The investment rate could not reach the peak that it had attained in late 1970s. Moreover, there was no boost in manufacturing production despite the promulgation of market-friendly reforms (State Planning Commission, 2005). Hence the basic research question arises: Why did manufacturing investment not respond to the liberalisation measures that targeted private investment with attractive fiscal and financial incentives? Robinson (1964) argues that private investment reflects the inherent behaviour or expectations of capitalists, who aspire to accumulate more profit, driven primarily by their 'animal spirits.' However, in the presence of deep-seated institutional rigidities that have been shaped by regional and international changes and developments, how is investment determined in a country like Syria that is geo-strategically important in the Arab Near East?<sup>2</sup> More aptly, what were the basic determinants of investment during the 1960s? and from the 1990s onward, how did subsequent changes affect the investment pattern?

To answer these questions, research must situate the analysis of investment in Syria in its historical context and examine the socioeconomic structure and political preconditions that set the course of capital accumulation.<sup>3</sup> This historical or political-economy approach intertwines the analysis of investment with human agency, identifying the politically empowered social force that pushed for investment liberalisation and took responsibility for the process of capital accumulation. The terms *political economy* and *historical approach* are used synonymously throughout this work. Such a holistic approach provides a more comprehensive analysis of investment throughout Syria's different developmental phases.

Few authors address the study of investment determination in Syria. Each places the study in a certain analytical context. For instance, Bassam Haddad talks about the formal and informal economic networks that emerged following Syria's economic liberalisation (Haddad, 2012). These networks took the form of a state-business coalition and became stronger in the 1980s and 1990s, because private investment activities undertaken within these networks had strong backing from the Syrian regime. Haddad argues that not only had these networks evolved and benefited from Syria's social, economic, and political factors and processes, but that they also played a crucial role in influencing the form and the extent of economic reforms, particularly regulatory and fiscal policy change.

Volker Perthes provides a sectoral analysis of investment in Syria by highlighting both the industrial and commercial subsectors of the private sector. He points out that trade and commercial activities constituted the bulk of private-sector activities following economic liberalisation. Investment in the industrial sector did not improve because industry was 'perceived as the more difficult way to profit' (Perthes, 1992a: 215), especially when investors were facing the possibility of a regime change and confiscation of their resources – as happened during Syria's nationalisation experience of the 1950s and 1960s.

Sylvia Polling talks about the potential private investment that could be kick-started – by local and Gulf investors – following the promulgation of Law No. 10 in 1991 (Polling, 1994). She addresses the Law, focuses on its main provisions and financial privileges, and mentions that the main rationale behind the Law was to attract 'direct inward investment.' However, Polling points out that investors might still be reluctant to undertake long-term commitments given, on the one hand, the political instability to which a country like Syria is subject to, and on the other, the contradictory and even conflicting laws in effect there.

Khalid Abdel-Nour highlights the challenges that domestic investment, especially industrial investment, had faced following the change in the investment climate from protectionism to competition. Abdel-Nour (2000) points out that Syrian industrialists had historically benefited from the Syrian Friendship Pact, the trade agreement between Syria and the USSR during the 1980s. These Syrian industrialists set up factories for the purpose of exporting low-quality goods – which could not compete with their higher-quality European equivalents – to the Soviet market. In this regard, Abdel-Nour (2000) points out that trade liberalisation and the lifting of state protection from local industry had exposed it to serious challenges, especially given that it had been protected from international competition by the Import-Substitution Industrialisation (ISI) policies enacted by the Ba'athist regime. Finally, Joseph Bahout (1994) discusses investment in the context of the Syrian 'business community,' which he defines as a hybrid group whose components had been shaped by various political and economical changes in the country during the past three decades.

The above-mentioned works of Abdel-Nour, Bahout, Perthes, and Polling are one-off article-contributions that analyse the development of the Syrian private sector and its subsectors following market liberalisation in the 1990s. Besides being outdated, they are merely descriptive and lack theoretical grounding in political-economic analysis and investment determination. Haddad's work, however, is recent and examines aspects of the political economy of Syria, but unlike this book, his work is more political than economic.

Haddad's work provides an analysis of relationships between the business community and the state apparatus and their articulation through formal and informal networks. Hence he describes network analysis as his conceptual framework. Haddad's approach is particularly interesting because it 'provides insights into and explanations of behaviour that are not readily available from an analysis of actors' attributes such as class, community, positionality' (Haddad, 2012: 172). Indeed, Haddad rightly observes that his way of approaching the topic enriches the class approach and complements it. Accordingly, this book follows the standard Marxian class approach and does not negate the facts revealed by observations concerning business networks. It does, however, situate theory in terms of its historical context. A class is a social relationship between agents, their forms of social organisation, and modes of appropriation in the process of self-reproduction and social reproduction. As a social relationship, rather than just an ensemble of people with a common relationship to social reproduction, a class is a process developing in real time, retaining or

negating its symbolic characteristics and collective memory, and evolving by meeting the demands of the necessities it faces by making changes in its organisational forms. Hence, the changing business networks are shifts in the forms of organisation of the social classes that align themselves with the material requirements of appropriation. In the case of capitalism, the ruling class, whose purpose is to accumulate profits exponentially, will take whatever measures are necessary to address the changing dynamics of wealth-making under capitalism.

This book equates the dominant social class with the agency of history. But a social class need not necessarily be confined to national borders. Processes of production, exchange, and investment under capitalism cut across borders and so do classes. In this work, I focus mainly on the investment aspect of the class relationship in Syria. The work identifies the social class or class alliances that assumed the agency of investment through control of the means of production; determining the amount and type of investment during a specific historical period. The book also reveals how changes in the agency of investment gave shape to new investment patterns. Situating the study of investment within class-based and historically determined conditions – which incorporate economic, social, and political factors – sheds additional light on the subject matter and on the way investment analysis can be handled and understood in a developing economy like Syria – an economy in dire need of enhancing its economic resources.

The regional and international political conditions prevailing during the 1990s differed sharply from those of the 1960s and early 1970s, which influenced the formation of the different agencies directing investment. From the late 1980s, the fall of the 'Soviet project' and the dictates of the neoliberal paradigm led Syria to reorient itself towards the Western orbit. Such political preconditions encouraged the state capitalists or state bourgeoisie, who aimed to move out of the 'state shell,' to form a new class alliance with the private bourgeoisie. This alliance gave rise to a new agent of investment, which made use of the market-friendly reforms to engage in profitable private-sector investments. This new agent of investment consequently pushed for new patterns of investment activities that served private as opposed to social interests. This process and its consequences are the thrust of analysis in this book.

## 2 Data and methodology

The existing literature on Syria's political economy is driven by ideological positions that sometimes sap the strength of the argument being

posited. Moreover, data on Syria's social and economic conditions is not only inconsistent, and at times, contradictory; but is also typically embellished to improve the regime's image. One can interpret the variances between existing sources by how they assess the relevance of data and statistics regarding Syria's national security. I, therefore, turned to the published and unpublished Arabic-language writings and analyses of Syrian economists and experts to gain greater insight into the local – and sometimes critical – viewpoints and observations of economic developments.

To begin with, data on Syria is not easily accessible. When I started working on the data in 2007, I found out that the official statistical bulletins published by the Central Bureau of Statistics were not available online. Moreover, investment data pertaining to licensed and implemented projects under Law No. 10 was not available. Although some data was eventually published in 2007, it was still unavailable to the general public, remaining accessible only to the local staff at the Syrian Investment Bureau (now known as the Syrian Investment Agency or SIA). The World Bank's *World Development Indicators* was useful, but not nearly enough.

For these reasons, it became essential to go to Syria and visit the Damascus-based Central Bureau of Statistics and the SIA. I was residing in Beirut at that time, so it was quite easy for me to make intermittent visits to Damascus and conduct my research. The process was quite protracted, as I had to rely on both direct and indirect methods to collect information and statistics from national sources. Data used in this study was mainly compiled from the *Syrian Statistical Abstracts* published by the Central Bureau of Statistics, the *Quarterly Bulletins* of the Central Bank of Syria, and the *Annual Investment Reports* published by the Investment Bureau or SIA – which at the time of field work were available only to government technocrats who were kind enough to pass them to me. Indirect methods of data compilation included extracting and piecing together data and information from my interviews, material from an array of Arabic-language writings by Syrian experts that I acquired during my stays in Damascus, and local and non-local newspaper articles.

During my research trips to Syria, I used a qualitative sampling method, or more aptly, a key informant sample. Because my visits were mainly concerned with learning about the process of economic liberalisation in general, and investment reforms in particular, and because I needed to investigate the investment climate in Syria and obtain a copy of Investment Law No. 10, I held interviews with selected subjects – state

officials and policymakers – capable of responding to my queries about the overall investment climate and the investment performance in Syria. I met with officials from the Agency for Combating Unemployment, the Central Bank, the Central Bureau of Statistics, the Chamber of Industry, the Federation of Chambers of Commerce, the Ministry of Economy and Trade, the Ministry of Finance, the Ministry of Industry, the Office of the Prime Minister, and the SIA.

Apart from summarising the history of economic liberalisation in Syria, these officials – who will remain anonymous in this book to ensure their safety given the current state of conflict – mentioned country-specific features under which the investment process took place.

Although these interviews were informative, they were politicised and could not be taken at face value. To compensate, I carried out interviews with Syrian experts, such as the late Issam Al-Zaim, the former Minister of Industry, Nabil Marzouk of the State Planning Commission, Maged Basil of the United Nations, and Ali Al-Za'tari, former Resident Representative of UNDP–Syria. These experts were instrumental in providing a critical assessment of the whole liberalisation process and in decoding national data and statistics. The interviews provided me with a concrete understanding of the economic and social outcomes – and shortcomings – of economic reform measures.

Data and technical information gathered from my research trips serve to justify my contention that the market-driven economic order, as manifested in Investment Law No. 10 and its amendments, promoted merchant-like investment activities of an ephemeral nature, because the new agent of investment carried out short-term, non-manufacturing and speculative ventures during the 1990s and 2000s. This data also validates my argument that the package of neoliberal reforms that accelerated during the Bashar regime was, in fact, anti-developmental. Given that the state bourgeois class was keen on transforming itself from a state-capitalist into a private capitalist class, the rapid pace of neoliberal reforms could not be slowed down, let alone reversed, in the later years before the uprising. These results were verified by some of my interviewees, who pointed out that Syria was transformed from a state-planned economy into a FIRE (Finance, Insurance and Real Estate) economy, as the bulk of investment activities during the last three decades were concentrated on services, telecommunication, real-estate speculation, trade-related activities, and short-term transport projects. Because the investment projects were ephemeral and short-lived endeavours, the process of healthy capital accumulation needed for the production of goods and services for the betterment of society encountered a crisis.

### 3 Syria: a traditionally self-sufficient economy

An analysis of GDP by economic sector shows that agriculture, and mining and manufacturing were foremost – each contributing at least 20 per cent of GDP – during the 1990s and the early 2000s (see Table 1.1). Until the discovery of significant crude oil reserves in the mid-1980s, agriculture was considered the backbone of Syria's economy.

Syria is traditionally an agrarian-based economy. Agricultural production contributed to the country's economic wealth, accounting for 20–25 per cent of GDP before the severe drought of 2006, after which the agriculture share out of GDP fell to 18 per cent in 2008 and then to 16 per cent in 2010 (see Table 1.1). Historically, Syria was economically self-sufficient, especially in basic food commodities, and exported wheat, fruit, and vegetables when favourable weather conditions enabled a surplus production. Approximately half the Syrian population is rural, the majority making a living from farming and livestock breeding. Employment figures in the agricultural sector vary from 19 to 30 or 40 per cent of the workforce.<sup>4</sup> The latter figure makes more sense if we take into account informal employment, which mainly takes place in the agricultural sector, and women's participation.

During the 1960s, the Ba'athist regime supported the agricultural sector. To this end, the Syrian Agricultural Cooperative Bank (ACB) was both a dispenser of interest-free farm loans and a distributor of inputs, including locally produced or imported materials – especially fertilisers – either directly to farmers or indirectly through cooperatives. The quantity of fertilisers and other inputs was pre-determined according to a

*Table 1.1* GDP decomposition by economic sectors, at constant prices 2000, 1963–2010 (%)

|                            | 1963 | 1985 | 1990 | 1995 | 2000 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|----------------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| Agriculture                | 39   | 24   | 25   | 23   | 25   | 23   | 23   | 24   | 21   | 18   | 19   | 16   |
| Mining & Manufacturing     | 19   | 17   | 26   | 28   | 30   | 27   | 25   | 24   | 23   | 23   | 23   | 24   |
| Building & construction    | 4    | 8    | 3    | 3    | 3    | 3    | 3    | 4    | 4    | 4    | 4    | 4    |
| Wholesale & retail trade   | 21   | 23   | 20   | 21   | 15   | 18   | 20   | 18   | 21   | 22   | 21   | 20   |
| Transport & communication  | 8    | 9    | 10   | 11   | 13   | 11   | 11   | 11   | 11   | 12   | 12   | 13   |
| Finance & insurance        | 3    | 3    | 3    | 4    | 4    | 4    | 5    | 5    | 5    | 5    | 5    | 5    |
| Social & personal services | 2    | 3    | 2    | 2    | 2    | 3    | 3    | 3    | 3    | 4    | 3    | 4    |
| Government Services        | 4    | 13   | 11   | 8    | 8    | 11   | 10   | 11   | 12   | 12   | 13   | 14   |

*Source:* Central Bureau of Statistics, *Syrian Statistical Abstract*, 2011 and other issues.

crop plan. The Syrian agricultural sector was traditionally dependent on the government's guidance and protection. Syria, among all major Arab states, invested most heavily in its agricultural sector and prevented losses of valuable agricultural land to residential and commercial construction. It improved the system of agricultural cooperatives and mobilised peasant activity in support of efficiency programmes (Owen, 1981). Cooperatives were turned over to the Peasant Union to ensure peasant participation in corporatisation and acquiescence in the agrarian plans (Hinnebusch, 1989: 41). The government closely intervened in production, pricing, import, and distribution of agricultural products and inputs. It purchased crops at prices that were above market levels and then sold them to farmers at subsidised prices to encourage production. The government established publicly owned industrial enterprises and agricultural cooperatives that promoted agro-business industrial activities and controlled agricultural marketing, thereby preventing middlemen from marketing the products of state farms (Hinnebusch, 1989: 41). Furthermore, it dealt with Syria's arid environment by developing animal husbandry and improving land irrigation and reclamation. The aim of agricultural development during this state-interventionist phase was to ensure self-sufficiency in food staples and agricultural products. This sufficiency would maintain the state's control of agricultural output and eschew any return to the post-independence *ancien régime* and its associated dependent development.

However, the radical agrarian policies did not remain in force after the Hafiz Assad regime promulgated counter-agrarian reforms. These reforms allowed the private sector to take part in agriculture procurement in the form of mixed-sector ventures. Joint ventures with local and foreign contractors or companies were established following the enactment of Law No. 10 of 1986 (Hopfinger and Boeckler, 1996; Polling, 1994). The latter law also allowed the initiation of mixed-sector stock corporations in agriculture and the operation of capitalist farms and complementary agribusiness. However, the mixed-sector agribusiness proved to have limited success (Hopfinger, 1990; Hopfinger and Boeckler, 1996: 187). These agri-corporations did not increase agricultural production, nor did they set new standards of production through the use of modern agricultural techniques.<sup>5</sup>

Counter-reforms did not stop there. Hafiz Assad initiated austerity measures on the agricultural sector starting in the 1980s (Khoury, 1999: 270; Kanaan, 2000: 115). Government expenditure was curtailed, including spending on modern equipment and farming machinery. Moreover, subsidies to the agricultural sector – on fertilisers and

pesticides – were drastically decreased (Hopfinger and Boeckler, 1996: 186–7). The formerly high government spending on agriculture development during the 1960s dropped to 10 per cent of total realised investment in the 1970s and remained slightly above 10 per cent in 1980–85 (Perthes, 1995: 43). Agrarian counter-reforms also continued during the Bashar Assad regime. In 2000, Decision 83 was promulgated, which allowed the privatisation of state farms in the north that were eventually sold to the 'public,' but the main beneficiaries were the state bourgeoisie, the traditional landowners (especially those with ties to the regime), and Gulf investors (Ababsa, 2006).

Figure 1.1 shows that the share of agricultural and forestry expenditure out of total GFCF averaged 20 per cent during 1970–74. This average share then dropped sharply to 6 per cent in the late 1970s and was at 7 per cent during 1980–84, reflecting the Assad regime's austerity measures on the agriculture sector. Although fewer resources were allocated to agriculture out of total government investment, the decline in the sector was not significant so far as its contribution to GDP was concerned. Agriculture's contribution to output remained almost steady – contributing not less than 20 per cent over the prior four decades until the drought in 2006. This steadiness in agricultural production was, in part, maintained by high labour participation in the agricultural sector – fuelled by the informal sector and women's participation. Although farmers migrated from rural to urban areas following economic liberalisation, their migra-

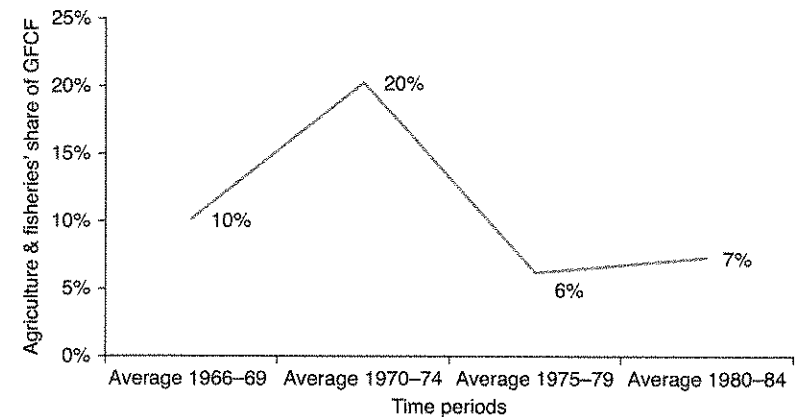


Figure 1.1 Agriculture, forestry and fisheries' average share of total GFCF during different time periods

Source: Central Bureau of Statistics, *Syrian Statistical Abstract*, different issues.

tion remained seasonal; more important, their ties to their rural origins were never loosened, given that market jobs were not secure.<sup>6</sup>

#### 4 Syria's rent-based economic growth during 1990–2010

According to Table 1.1, the mining and manufacturing sector accounted for the lion's share of total output during the 1990s and the early 2000s, which jumped from 17 per cent of GDP in 1985 to 26 per cent in 1990, due to major oil extraction. Mining and manufacturing registered no less than 20 per cent of GDP during 1990–2010. Since the Syrian statistics do not distinguish between mining and manufacturing, it is hard to tell exactly how much manufacturing alone contributed to total GDP. According to Syria's State Planning Commission, mining accounted for approximately 70 per cent of total mining and manufacturing output, implying that oil dominates in national account bookkeeping (State Planning Commission interview, 2007). The United Nations' figures show that manufacturing output did not exceed 5 per cent of total value-added in the later 2000s (UNIDO, 2014). As a percentage of GDP, manufacturing production constituted 4.4 per cent in 2011 – mainly concentrated in textiles, knitwear, processed food, chemicals, and pharmaceutical products (AME, *Joint Arab Economic Report*, 2011).

The economy was therefore relatively underdeveloped. It was also characterised as rent-based, because it was a comparatively minor oil-producing and -exporting economy. Nonetheless it relied on oil revenues and on geopolitical rents, including income remittances sent by Syrian workers abroad. As a result, Syria's economic foundation remained weak and vulnerable to external disturbances. GDP at constant prices witnessed an average growth rate of 8 per cent during 1994–96 (Central Bureau of Statistics, 2010 and other issues), mainly due to the production of light oil, the increased oil revenues and the overall political stability that prevailed in the Arab Near East following the Madrid Conference. One should also take into account the post-Cold War funds that flowed into Syria and the promulgation of investment reform in the early 1990s that revitalised private investment.

New fields of light oil were discovered starting in the mid-1980s, although the origin of oil extraction in Syria dates back to the 1970s. At that time, heavy oil exploration and extraction were conducted with the help of foreign companies on the basis of production and share. In 1984, the US-based Pecten Company discovered major oil fields, after which commercial production started. In the mid-1980s, Shell (along with other US-European companies) also extracted light oil in Palmyra, Deir

Ezzor, and Euphrates. In 1986, oil production was 60,000 barrels per day (bpd). It gradually increased to 200,000 in 1989 and to 300,000 in 1991 (Hawwa, 1993: 93). As production of light oil increased during the 1990s, Syria's export revenues were boosted.<sup>7</sup> It was estimated that an average of 380,000 bpd were extracted during the 1990s, and that as a result, oil export revenues reached USD2 billion in the mid-1990s (Kanovsky, 1997 and Joint Arab Economic Report, 2002).<sup>8</sup> In the early 1990s, oil export revenues accounted for 60 per cent of total export revenues and 50 per cent of government revenues (Kanovsky, 1997: 3 and Perthes 2004a: 99).

The years 1997–99, however, were termed by the State Planning Commission the 'lost years.' Average economic growth dropped to 1 per cent (Central Bureau of Statistics, 2010 and other issues), because Syria witnessed a reduction in geopolitical rents and remittances following a fall in international oil prices. The decline in the economic growth rate to –4 per cent in 1999 (see Figure 1.2) was mainly a reflection of the oil price dropping from USD20 per barrel to USD9.5 per barrel in 1998 (Barout, 2011: 14). Moreover, real per capita income experienced an average growth rate of –1.2 per cent during 1997–99 (Central Bureau of Statistics, 2010 and other issues). A Malthusian-style argument that blames low per capita growth rates on the burden of a growing population is unlikely to apply in Syria's case.<sup>9</sup> In a developing country, economic analysis should be driven simultaneously by demand and supply conditions, because achieving growth favouring the poor that

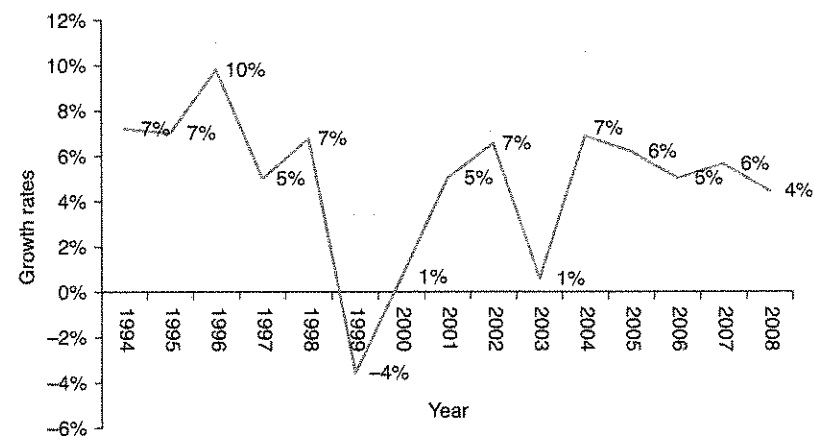


Figure 1.2 GDP growth rates at constant 2000 prices for 1994–2008

Source: Central Bureau of Statistics, *Syrian Statistical Abstract*, 2010 & other issues.

can absorb the excess labour force and improve the overall standard of living is crucial. As will be discussed in Chapter 3, the problem in developing countries is the deficiency in productive capacity.

It follows that, even if all available resources are fully utilised, the available labour force in a developing country like Syria cannot be absorbed because of lack of capital equipment required to enhance the economy's resources. Economic policies that direct resources toward building productive capacity via infrastructure, manufacturing, and industrial plants might lead to an employment-generating economic growth that could absorb the labour force in the market. Nevertheless, as pointed out by the State Planning Commission, state policies were exclusive. The government did not implement the policy recommendations of the five-year economic plans that proposed strategies for improving the public sector and enhancing the economy's productive capacity. In general, state policies promulgated during the 1990s and 2000s did not correspond to the policy recommendations set by the State Planning Commission's developmental plans (State Planning Commission interview, 2007).

The period 2002–08 was the time of the second oil boom, as international oil prices increased from USD24 per barrel in 2000, to USD28.1 in 2002 and then up to USD36 per barrel, following the US invasion of Iraq in 2003 (Barout, 2011: 17). During 2005–08, Syria experienced an average economic growth rate of 5 per cent (see Figure 1.2), mostly attributed to the production and export of high-quality oil.

The decline of economic growth rate to 1 per cent in 2003 was due to the Iraq War and its negative effects on the Syrian economy, especially the demise of transit oil to Syria after the closing of the Iraqi–Syrian oil pipeline (see Figure 1.2). It was estimated that the collapse of the Saddam regime cost Syria USD2 billion, of which half were revenues from the oil pipeline (Spindle, 2005).<sup>10</sup> The high growth rates witnessed during 2005–08 were attributed to the second oil boom. However, this rent-based economic growth was neither developmental nor egalitarian. Following investment liberalisation, economic resources were targeted to the tertiary sector, basically to short-term activities in transport that could not increase job opportunities for the workforce. High unemployment and poverty figures in the years prior to the uprising were attributed to long-term cyclical contraction in the non-oil economy that dates back to the 1980s. In actuality, however, the economy never emerged from the crisis of the mid-1980s. The Hafiz and Bashar Assad regimes adopted policies that diverted more and more resources to the non-productive sectors. Basic infrastructure was not rehabilitated and

productive capacity was not enhanced. The economy relied basically on oil rents, and the agencies backed away from modernising some of the deteriorating state-owned plants (Hawwa, 1993). Different sources reported varying rates for unemployment: the Central Bank stated that 10.9 per cent of the workforce was unemployed in 2008, while Syrian economists estimated the rate to be 16.5 per cent in 2009 (Barout, 2011). Youth unemployment hovered at 25 per cent during the 2000s (interview with Al-Zaim, 2007). Available figures reported a poverty rate of 30.1 per cent in 2003–04 (UNDP, 2005 and Central Bureau of Statistics, 2004).

## 5 Impact of oil revenues on macroeconomic development

Between 1994 and 2000, Syria produced an average of 565,000 bpd (OPEC, various issues). Production level reached a peak of 600,000 bpd in 1994, after which it trended downward. The oil boom in Syria was short-lived; levels of oil production were already in decline during 2001–09 (see Figure 1.3). In the early 1990s, oil export revenue was the main source of government revenues. However, the economy saw a decline in average oil production due to technological problems and depleted reserves. The State Planning Commission pointed out that Syria had, at that time, been exporting heavy fuel and importing oil by-products, including refined fuel (State Planning Commission interview, 2007).

According to the Ministry of Economy and Trade, oil export revenues constituted 45 per cent of total export revenues in 2005 (Ministry of

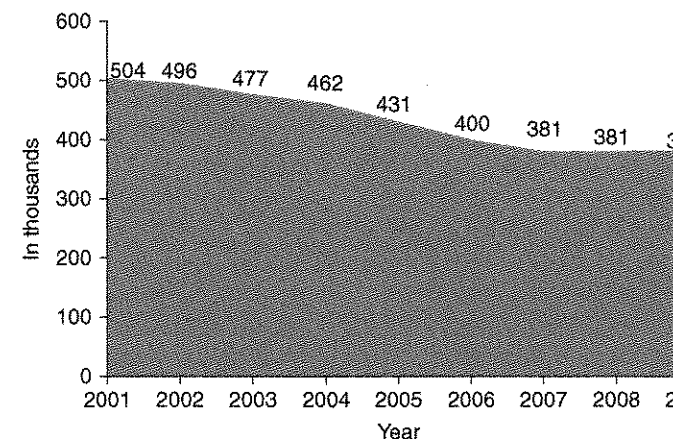


Figure 1.3 Crude oil production in thousands of barrels per day, 2001–09  
Source: Bank Audi's Research Department, *Syria Economic Report*, March 2010.



Economy and Trade, 2005). In absolute figures, total oil export revenues for Syria amounted to 2.9 billion dollars in 2004, which dropped by 14 per cent to 2.5 billion dollars in 2005, then by 52 per cent in 2006, and down a further 25 per cent to 0.9 billion dollars in 2007 (see Figure 1.4). This has led to major losses in government revenues. In 2001, oil-related products constituted 58 per cent of government revenues. They declined to 48 per cent in 2003, to 30 per cent in 2005, and then to 22 per cent in 2007 (Central Bank, *Quarterly Bulletin*, 2006 and 2008). As a percentage of GDP, oil-related revenues in the fiscal accounts likewise decreased. They dropped from 15.1 per cent of GDP in 2003 to 7.5 per cent in 2006, and then down to 4.9 per cent in 2007 (see Figure 1.5).<sup>11</sup>

Although the government has never disclosed any information regarding its crude oil reserves, interviews with state officials revealed

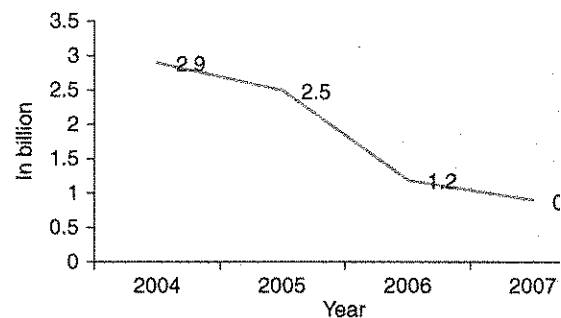


Figure 1.4 Crude oil export revenues in billions of USD, 2004–07

Source: Arab Monetary Fund, *Joint Arab Economic Report*, 2009 and 2010.

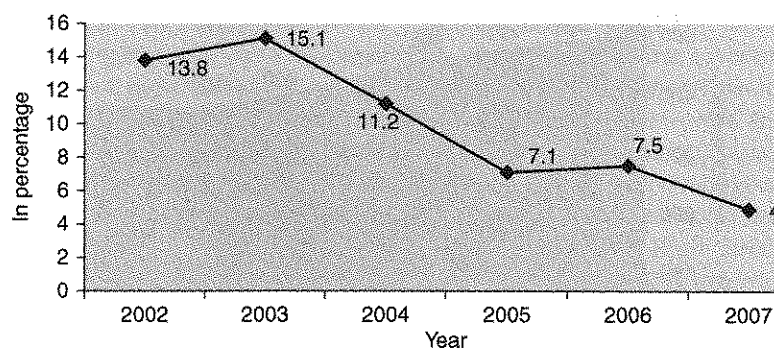


Figure 1.5 Oil-related revenues in the fiscal accounts as a percentage of GDP, 2002–07

Source: The Central Bank of Syria, *Quarterly Bulletin*, 2008.

that reserves were on the decline. BP estimated that, at the end of 2011, the reserves stood at 2,500 million barrels (BP, 2012).<sup>12</sup> As a result, Syria needed to boost its non-oil production and non-oil exports, particularly by expanding its industrial production, and more generally to diversify and expand its economic production and export base in order to generate new sources of government revenue.

The traditional manufacturing sector in Syria has been on the wane since the mid-1980s. The question arises: Did the booming oil sector in the 1990s have a negative impact on Syria's manufacturing sector and macroeconomic stability? Put another way: Did the economy's reliance on exporting the primary commodity lead to deindustrialisation and to a decline in activity in the manufacturing or non-oil-tradable sectors? This analysis hinges on the 'Dutch disease' hypothesis, which is related to the 'resource curse' literature.<sup>13</sup>

Since the 1980s, there has been a plethora of literature on the 'resource curse' that basically postulates that an abundant amount of natural resources can be a curse rather than a blessing for a developing country because of adverse economic outcomes (Bannon and Collier, 2003; Davis et al., 2003; Sachs and Warner, 1995; Wheeler, 1984). One of the most well-known phenomena of the 'resource curse' is the so-called 'Dutch disease.' Briefly, in the paradigm, the 'Dutch disease' is defined as an increase in the export of an abundant natural resource that causes an appreciation in the nominal exchange rate and leads to higher inflation, which is caused by increased domestic spending that follows the increased capital inflow. This process can trigger a real exchange-rate appreciation and put pressure on the manufacturing and other tradable sectors of the economy, which will lose their competitiveness in international markets (Bruno and Sachs, 1982; Corden and Neary, 1982).

However, evidence for this paradigm is not conclusive (McKinley, 2008: 2; Rosser, 2006: 8; United Nations, 2006–07: 50). Despite the prevalence of oil-exporting countries in the developing world afflicted with the symptoms of 'Dutch disease,' other oil-exporting countries have achieved export diversification and broad industrialisation (United Nations, 2006–07: 51).<sup>14</sup> They demonstrate that, when and if, symptoms of 'Dutch disease' do occur, the problem can always be addressed and reversed by appropriate state policies that offer cohesive support to industrial and to other tradable sectors, thereby transforming the resource abundance from a 'curse' to a 'blessing.' More importantly, the literature on the 'resource curse' does not take into account the social and political variables that act as mediating forces in shaping the development outcome in resource-abundant countries (Rosser, 2006: 21–2).

This sociopolitical context should be examined in order to fully understand why a resource-abundant country performs poorly in developmental terms (Rosser, 2006: 21). One therefore needs to discern which macroeconomic strategies – shaped by political and social factors – have helped in promoting growth and development in some resource-abundant countries, while preventing others from doing so (Schrank, 2004; Snyder and Bhavnani, 2005). This approach will enable an analysis of useful policy recommendations for addressing the ‘resource curse’ (Rosser, 2006: 8). The challenge for policy-makers in these countries is to design macroeconomic policies that can push for an internally-induced industrialisation and the diversification of production into non-oil tradable goods.

In the case of Syria, if the presence of oil had tended to overvalue the exchange rate, raise the wage rate – to build domestic political support – and to undermine the production of both agricultural and industrial tradable sectors, it would have had a Gulf-states version of ‘Dutch disease’ (Owen, 2008). But none of these outcomes actually materialised in Syria. Wages and exchange rate over the last two decades were almost steady, and the pressure on the latter was anything but upward. The low share of oil in the economy by comparison with Syria’s Arab neighbours never created balance-of-payment surpluses big enough for the exchange rate to experience upward pressure. In any case, the oil sector in Syria was shrinking during the 2000s.<sup>15</sup>

On the flip side of the exchange-rate story, although some prices rose in response to the rising prices of imports, the escalation in the prices of domestic consumable commodities in the last four years, especially those of basic commodities, was predominantly due to government policies of price liberalisation and the relinquishing of price controls. This opened the door wide for merchants to mark up prices and to squeeze supply. That is to say, the increase in Syria’s inflation rate prior to the uprising was not due to the ‘Dutch disease’ inflow of foreign exchange, but due to the ‘created shortages’ in the supply of goods that followed the free-market measures of the liberalisation. This point will be further elaborated in Chapter 6.

The macroeconomic policies deployed in the early 1980s did not prioritize the promotion of manufacturing. More generally, these policies did not channel resources and geopolitical rents towards the productive sectors but rather towards the tertiary ones. Although the Syrian government received a significant amount of revenues from exporting a high-priced primary commodity during the early 1990s, these resources were not used to finance developmental projects. State resources, including oil

revenues, were used to promote political patronage in order to consolidate the social base of the Assad regime, and to expand the military build-up to serve the regime’s *raison d’être*. These points will be further elaborated in Chapter 5.

On another front, the USSR in the 1980s offered a vast market for the artisanal and low-quality standard of Syrian industrial products. The Syrian industrialists made good business out of the Syrian Friendship Pact with the Soviet Union<sup>16</sup> and set up several factories for the purpose of exporting to the Soviet market. Similar agreements, but on a smaller scale, were conducted with Iran and other East European countries. The Syrian industrialists lined up for Soviet and other East European orders. According to local experts, these agreements partly contributed to the delay in modernising and enhancing Syria’s machinery and productive resources (Reddawi, 2001).

## 6 An overview of the trend in gross fixed capital formation rate and its decomposition since the 1960s<sup>17</sup>

The investment rate, measured as GFCF as a percentage of GDP, generally increased during the 1960s and 1970s, peaking at 38.1 per cent in 1977 (as shown in Figure 1.6). This increasing trend was influenced by increased industrial investment. Between 1961 and 1965, annual industrial investment in absolute value averaged approximately *SE* 113 million. It rose to approximately *SE* 181 million in 1966–67, then to *SE* 252 million in 1968–69 (Kanovsky, 1977: 47).

Not only did public investment contribute to the bulk of total GFCF (more than 60 per cent) each year during 1975–79, but a decomposition of GFCF for these years shows that mining and manufacturing constituted the highest share of GFCF, absorbing 45 per cent of GFCF for the period 1974–79 (Central Bureau of Statistics, 1987). This period was affected by the Import-Substitution Industrialisation (ISI) programme installed by the Ba’athist regime that took serious measures toward building the industrial nucleus. The Ba’athist regime aimed to mitigate foreign political and economic influence and achieve economic independence by enhancing the economy’s productive capacity. External aid and geopolitical rents, which were prominent in the mid-1970s, were channelled to finance productive investment. Some examples are a modern fertiliser factory in Homs and a cotton mill and a steel rolling plant at Hamah (Lawson, 1989: 21). Light industrial projects included textile weaving, food processing, glass and pottery making, whereas heavy manufacturing activities were characterised by electric generation

and the production of cement, refrigerators, electric equipment, and other machinery (Central Bureau of Statistics, 2003). These projects reflected the marked increase in the industrial activity during the 1960s and 1970s.

Industrial output grew at an average rate of 11.6 per cent per annum during 1970–78. This is compared to only 5.6 per cent during 1960–70 (Chatelus and Schemeil, 1984: 254). Ten cement projects, one paper factory, one tyre factory, four sugar factories, a new petroleum refinery at Baniyas and a triple phosphate factory were constructed in the mid-1970s (Hawwa, 1993: 87). Although these projects were non-coordinated and costly, they nevertheless fit the industrial policy at that time that meant to boost import-substituting investment and enhance the economy's industrial core. As already noted, local production not only satisfied local demand but a portion of it also penetrated the former USSR and the East European markets, due to the political relations that Syria had with these countries. But because the ISI programme in Syria started to be prematurely reversed starting in the early 1980s, Syria could not sustain the competition from abroad. Syria lacked the scale industries with which it could have acquired an export platform.

During the 1980s, the investment rate in Syria trended down, falling off sharply to 15 per cent in 1988 as a result of the drop in geopolitical rents following the fall in international oil prices (see Figure 1.6).

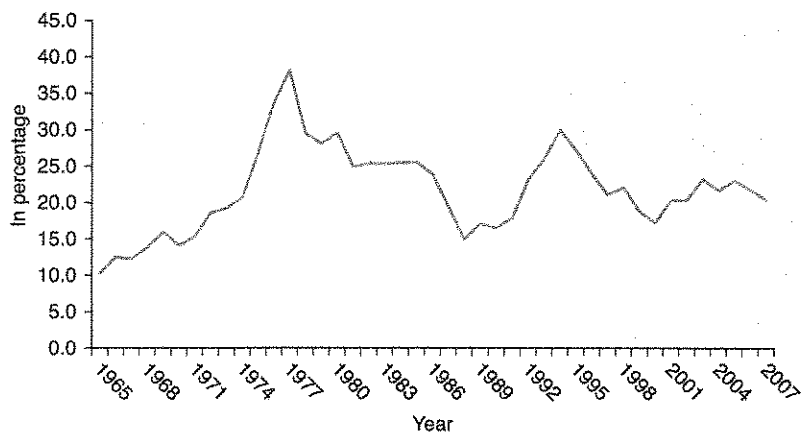


Figure 1.6 Gross fixed capital formation as a percentage of GDP, 1965–2007

Source: World Bank, World Development Indicators, 2014.

The rate drop was also accelerated by fiscal and monetary austerity measures. No major industrial project was undertaken during the 1980s, and industrial investment remained limited to the completion of unfinished projects and the replacement and repair of equipment (Perthes, 1995: 46).

After investment liberalisation Law No. 10 was introduced in 1991, the investment rate increased in the first half of the 1990s, because consumption items (notably imported cars) were recorded as investment goods in the accounting books.<sup>18</sup> The investment rate averaged 23 per cent during 1991–95 before dropping off to 20 per cent during the 'lost years' of the late 1990s. Average investment rate during 2000–07 was not better than the preceding periods, settling at 21 per cent (Central Bureau of Statistics, 2011). This data shows that private investment, revitalised by the investment reform, did not boost the overall investment rate in the 1990s and 2000s, as the average rate remained low and could not reach the peak achieved in 1977 (refer to Figure 1.6). When public investment receded following market liberalisation, private investment could not push overall investment to rates higher than those that were achieved by public investment during the late-1970s.

Figure 1.7 plots private and public investment as percentages of GDP since the 1960s. It shows that as percentage of GDP, public investment exceeded private investment during the 1960s and 1970s. The public investment rate increased and peaked at 22 per cent in the mid-1980s. Starting 1990, private investment regained momentum, especially after Law No. 10 was enacted. Private investment as percentage of GDP exceeded the public investment rate in the early 1990s (1991–96), whereby the average private investment rate was 13 per cent and that of public investment was 9 per cent. Private-sector activities were concentrated on textiles, agriculture-food, chemicals, and pharmaceuticals. State-led investment regained some momentum in the years between 1997 and 2005, as its rate averaged 12 per cent as compared to an average of 8 per cent for the rate of private-sector-led investment (Central Bureau of Statistics, 2011).

Soon after Legislative decree No. 8 – which is covered in more detail in Chapter 6 – was introduced in 2007 to replace investment Law No. 10 and to deepen market liberalisation, private investment managed once again to surpass public investment (see Figure 1.7). The average rate of private investment was 12 per cent in the years 2007–10 while the average for public investment was 10 per cent (Central Bureau of Statistics, 2011).

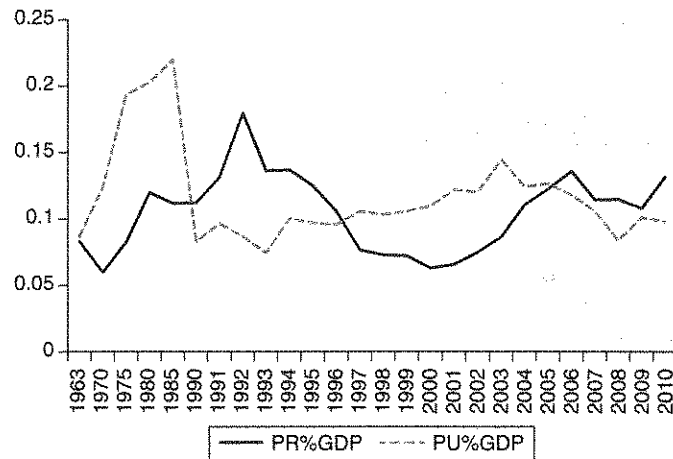


Figure 1.7 Trend in private and public investment as a percentage of GDP, 1963–2010

Source: Central Bureau of Statistics, *Syrian Statistical Abstract*, various issues.

As explained earlier, the Syrian economy had become more dependent on rents. The authorities failed to channel economic resources into the productive sectors. Manufacturing output did not exceed 10 per cent of total value-added in the 1990s and 2000s (UNIDO, 2014) and remained concentrated in light finishing industries that produced consumer goods to meet the changing consumption habits of society (Abdel-Nour, 2000). While this share (manufacturing out of total value-added) stood at 19 per cent in 1970, it dropped to 8 per cent in 1985 and to 6 per cent in 1990 and 1995, then further to 2 per cent in 2000 (UNIDO, 2014), indicating that the bulk of value-added production was concentrated in non-manufacturing and low capital-output ratio types of investment (manufacturing is the modern industry that possesses a scale-enhanced characteristic).<sup>19</sup> This further signifies that private-sector-led investment following market liberalisation by Hafiz Assad did not boost manufacturing production as had the ISI programme enacted by the Ba'athist regime during the 1960s and 1970s. In contrast with the internally induced public investment that concentrated on building the economy's productive capacity during Syria's state-interventionist experience in the 1960s and 1970s, investment activity shifted towards commercial types of investment (interview with State Planning Commission and Chamber of Industry, 2007).

In my research, I have come across flagrant data distortions. In one incident, the Syrian State Planning Commission (SPC) criticised the Syrian

Central Bureau of Statistics for publishing data on the average growth rate of GDP by economic sector at constant 2000 prices, in which they show that manufacturing output increased by an average rate of nearly 20 per cent in the early 1990s and then dropped by 25 per cent during 1997–2003. Obviously such high fluctuation (a band of 45 per cent in total) is implausible. The SPC criticized the Bureau of Statistics for using 2000 as base year – a year characterised by high oil prices – culminating in imprecise data computations. The SPC responded by computing the average growth rates of GDP according to economic sectors at constant 1995 prices (State Planning Commission, 2005: 22, table 1–2). Nearly all economic sectors witnessed higher average growth rates in 1997–2003 as compared to 1990–96, except for processed manufacturing, building, and trade. This data underscores the deterioration in industrial production in the late 1990s. One ought to note, however, that UNIDO estimates of manufacturing capacity in Syria are more reliable.

While industrial output fell, consumption expenditure rose. The resources that might have been directed into industrial expenditure were instead diverted into consumption, especially the luxury consumption of the rich, including the private consumption of highly paid military officers (Hinnebusch, 1995: 311). Luxury items were imported and consumption was geared towards Western styles and standards (Perthes, 1992b: 38 and Hadidi, 2010a). While the average annual growth rate of household consumption was recorded as 3 per cent during 1975–85, it registered a 5 per cent growth rate during the consecutive periods of 1986–96 and 1997–2007 (World Bank, 2010). Recent figures for household consumption as a percentage of disposable income rose from 66.6 per cent in 1995 to 72.7 per cent in 1996, further up to 75.5 per cent in 1999 (Central Bureau of Statistics, 2004).

Moreover, despite the increase in oil revenues in the early 1990s, the increase in imports surpassed that of exports during that period, pushing the trade account into deficit. This trade-account deficit registered about USD1 billion annually for the years 1990–93 (World Bank, 2010). The opening up of the trade sector increased the import of cars, sport utility vehicles and other durable items, which were used for consumption. That said, the conspicuous consumption of the upper 5 per cent, who were estimated to own and control about 50 per cent of national income, increased and became more visible in the market (Perthes 2004b: 31). Previously, the ruling elites and the upper middle class had gone abroad to purchase luxury items – for example, to neighbouring Beirut. Following liberalisation, they consumed internally in the fancy new shops and cafes that opened up.

Meanwhile, the stability in agriculture's share of output, at least up until the drought in 2006 – as mentioned in Section 3 – had partially offset the welfare deterioration driven by the fall in industrial production. Conditions might have been worse had both sectors experienced joint declines, but the continued steadiness of a strong agricultural sector cushioned the welfare fallout that resulted from overreliance on erratic rents.

### **7 A critical examination of the theoretical investment approaches within the context of state-controlled developing economies**

This book critically reviews the neoclassical and the demand-led approach to investment and argues their inapplicability to the Syrian case. The neoclassical approach presents a static mathematical representation of the determinants of investment in fixed capital assets that is constrained by unreal assumptions, one of which is that expectations of profits are considered to be either certain or at least foreseen or computable. Obviously, in the turbulent conditions of Syria, not much is relatively stable enough to be foreseen. The neoclassical approach considers an adjustment approach to investment analysis. It rightly focuses on profit maximisation, the primary determinant of investment decision. However, it meaninglessly assumes that investment moves a certain stock of capital from disequilibrium to the 'equilibrium level' or the 'optimal stock of capital.' More particularly, it considers the cost of capital or supply-side variables as the main determinants of investment, largely overlooking the broader macroeconomic variables, such as the changes in aggregate demand or level of output and its associated change in profit rates. In this regard, this approach shifts the analysis of investment determinants 'from centre to side-stage, if not into the wings' and is subjected to criticism by many economists who adopt the demand-determined system as means for economic analysis (Sawyer, 1985: 44). As such, this approach hardly corresponds to the conditions in the developed world, but is most unfitting to a developing economy, such as Syria.

Another limitation to the neoclassical method is that it considers capital to be homogeneous and justifies the use of the surrogate – homogenous – production function (Samuelson, 1962). This incited a lively debate on capital theory in the 1960s, the Cambridge Capital Controversy, which challenged the assumption of the homogeneity of capital by presenting the measurement problem and concluding that

capital is not homogeneous but is an ensemble of heterogeneously produced goods (Sraffa, 1960).

The demand-determined viewpoint combines a positive macro relationship of growth and investment with a behavioural component to investment decision in fixed capital assets, because private entrepreneurs are mainly influenced by their 'animal spirits' (Robinson, 1964). From a macroeconomic perspective, investment decision is influenced by the change in the level of national income and its associated change in the profit rate. The expected future rate of profit is the principal driver of investment. When expectations for profits are high, investment will take place and the economy will be thrown into an unsustainable boom, after which the profits expected by investors cannot be realised. This will consequently dampen the expectations for profits and investment will simultaneously slow down, pulling the economy into a slump.

It follows that private investment is highly influenced by expectations – that is, by what are known as adaptive expectations: expectations determined by present and past events. Because expectations hold primacy in the determination of investment, private investment becomes volatile and does not settle into a 'state of equilibrium' (Kalecki, 1990; Keynes, 1937; Robinson, 1980 [1964]). There are also times when expectations can transmute into uncertainty or immeasurable risks, such as a war or an unanticipated social unrest or political uprising, which is undoubtedly the Syrian context. When the risk factor is high, adaptive expectations become intractable and as such they are inapplicable to the Syrian case. In this regard, Keynes (2008 [1936]) argues for 'socialisation of investment.' He recommends that the state promotes state-led investment to act as a counterweight to fluctuations in private investment and guarantee an adequate level of effective demand that in turn can secure the continuity of the capitalist system. But, the type of socialisation that Keynes desired, which is demand-management with private sector leadership, is not possible in a state whose productive capacity is wanting and whose private sector is not committed to the national interest.

This book argues that these ahistorical theoretical approaches that study investment are inadequate for examining the trajectory of investment in developing countries like Syria. Investment in state-controlled developing economies obviously does not occur in an explicitly free-market context. The market forces that set prices and shape future expectations do not take account of changes in investment strategies in these economies. More important, developing countries are much more concerned with deficiency of modern capital resources: that is, they need to build their productive capacities (Kalecki, 1976; Nurkse, 1964).

In this case, promoting investment in fixed capital assets becomes more challenging, because the issue lies at the very centre of the development debate in the Third World – that is practically a building capacity debate. Developing countries' problematic is not about macro expansion when at full employment – the fairy tale of mainstream macroeconomics – causing inflationary pressures and backfiring in terms of real demand. Developing countries lack the capacity in which resources could be fully utilised. So, investment in a developing country therefore differs because the state needs to use money expansion to mobilise idle resources, labour, and natural resources, infuse new technology into the production process and create capacity. The state, which is the biggest holder of capital, plays a crucial role by guaranteeing the building of productive capacity, circumventing fluctuations in private investment and the business cycle.

In Syria, the state had governed market performance. Inter-firm exchange and trading were undertaken by a pre-set system of prices; monetary and fiscal policies ran commensurably with one another; and money was rationed and directed by the state and the public sector until liberalisation broke this equilibrium. The interest rate was state-determined and remained fixed for almost 20 years (interview with Al-Zaim, 2007). The market price was not formed by the standard supply-and-demand conditions; nor did it signal how investment demand or any other demand should proceed in the future. Investment in Syria was therefore not related to market-determined changes in interest rate or other prices, but continued to be under the thumb of the state, always until the beginning of liberalisation. Lending to private and public investors by private financiers was negligible or nonexistent; credit was only extended by state banks according to a predetermined credit allocation plan. Because Syria needed to build up its weak productive capacity, it was the state, especially under Ba'athist rule, that determined state-led investment, grew the public sector, and increased credit that financed private and public investment. The process of capital accumulation in Syria therefore remained state-determined for decades.

Against this backdrop, it becomes feasible to study the politically empowered social force that acted behind the state-controlled economy and that was responsible for the amount and types of investment during Syria's successive historical phases. The book situates the analysis of investment within a historical context to analyse the factors that determined long-term or productive types of investment during the Ba'athist regime on the one hand, and the short-term and parasitic types during the Assad regime, on the other. More particularly, the book employs a

class-based political-economy approach to identify the social force or agent of investment that pushed for one type of investment and against another. Several factors compelled this agent to endorse certain types of investment; decisions were shaped by the sociopolitical conditions that prevailed during a specific historical period.

This book therefore looks into investment performance beyond static mathematical functions or the fluctuating nature of investment, which, in turn, translates into either growth or economic downturn – the business cycle. In contrast to the ahistorical micro or macro approach, the book analyses investment from a political-economy viewpoint that understands investment as inextricably intertwined with social forces, thereby identifying the social class or human agent that controlled the means of production and had determinative bearing on investment decisions during a specific historical period. By integrating social, political, historical and economic factors, it offers a fuller and more comprehensive framework for analysing investment in Syria.

## 8 Structure of the book

The book has five core chapters. Chapter 2 provides the theoretical background for the study of investment determinants. The study of investment from the neoclassical perspective, which springs from a price-determined system, is confined within certain limits and assumptions set by the conventional ahistorical approach. This conventional approach has been subject to major criticism in the literature, which is tackled in more details in the chapter. The demand-led approach to investment, however, springs from a demand-determined system. In this approach, investors are primarily driven by their 'animal spirits,' which pushes them to invest for the sole reason of expected future profit-making. Investment herein is conceived as an optimal behaviour rather than an optimal adjustment to an 'optimum level.' Within this context, a synthesis of the Kaleckian and Keynesian approaches to investment analysis is presented. Unlike the conventional neoclassical approach, these approaches do not adhere to the standard equilibrium position. On the contrary, Kalecki views investment as the driving component of aggregate demand and the valve of an economic business cycle. The chapter addresses the limitations of the neoclassical and the demand-led theoretical approaches in handling investment analysis in Syria.

Chapter 3 approaches investment analysis from the experience of the developing world. It summarises how developing states promoted state-led investment in the 1950s and 1960s. The developmental state,

structuralist, and state-capitalist paradigms are presented. There were few postcolonial countries that were described as state capitalist after independence, because not only did they witness heavy-handed state intervention – étatism – but more so far-reaching nationalisation and progressive agrarian reforms. More importantly, the process of capital accumulation was totally managed by the state, meaning that private sector activities were supplanted. The chapter argues how the state capitalist paradigm can be applied to Syria during Ba'athist rule in the 1960s.'

By employing a class-based analysis, Chapter 4 explores, at length, the area of state capitalism and agency of investment in Syria that are incidentally scarcely reviewed in the literature. The class-based inquiry is crucial to exploring Syria's move to the state-interventionist or state-capitalist structure during the 1960s and later to the market economy during the Hafiz and Bashar Assad regimes. The chapter explores how radical factions of the army, composed of Ba'athist military officers, suppressed class conflict and laid the foundation of the state-capitalist structure. The Ba'athist officers secured their hold on the state apparatus and did not 'retreat to the barracks.' They instead transmuted themselves into a bureaucratic state-capitalist or state bourgeois class. The state-capitalist class controlled the means of production and promoted import-substitution investment in order to mitigate foreign influence and situate Syria on an internally-induced path to economic development. However, this did not last for long. The chapter discusses how economic, social and political policies changed profoundly after Hafiz Assad seized power. Hafiz not only side-lined the Ba'athist radical and secularist military officers, but also changed the ideological discourse of the Ba'ath party from revolutionary rhetoric and nationalism to a 'disciplining logic' which stressed on the need for economic production and progress (Sottimano, 2008).

Chapter 5 examines Syria's piecemeal economic liberalisation or *infatih* starting in the 1970s. The Hafiz regime (1970–2000) introduced its own 'home-based' set of market-friendly economic reforms with little, if any, advice or intervention from the international financial institutions (IFIs). All along, economic liberalisation was conducted in a selective and carefully tailored way according to the ruling elite's political calculations. Economic considerations, in short, were always subordinated to political rationality in Syria. After the fall of the 'Soviet project,' the Syrian state bourgeoisie pushed for market-friendly reforms according to the dictates of neoliberalism. Chapter 5 also tackles Investment Law No. 10 of 1991, a salient reform measure that paved the way for Syria's transformation from state capitalism to private capitalism.

Chapter 6 examines the wide-ranging neoliberal reforms that were introduced under the Bashar regime during 2000–10. Data and information compiled from the author's research trips to Syria are presented in the chapter to highlight the economic sectors to which private-sector-led investment went to. The chapter also presents statistics pertaining to licensed and executed investment projects under Law No. 10 of 1991. More importantly, interviews conducted by the author with Syrian experts and state officials are crucial for understanding the investment climate and the reasons behind amending the investment law during the Assad regimes. They also reveal the real macroeconomic story in Syria – rising inflation, dampening purchasing power, and deepening antagonism between industrialists and merchants. The chapter argues that, although Syria's transformation into market-oriented economic structure enabled the state bourgeoisie to transmute from state-capitalist to private capitalist, it generated anti-developmental outcomes. In this regard, the chapter also addresses the economic, social and environmental underpinnings of the social unrest that erupted in 2011.

Apart from summarising the main arguments presented in the chapters, Chapter 7 explains how the crisis of capital accumulation is manifested in Syria. It also critiques the economic plan for post-conflict Syria that is designed by the Syrian opposition in exile and argues that if Syria were to get out of its crisis, it must draw lessons from its historical phases of development and de-development and its leading social forces must learn how not to veer the social and economic structure away from a sound developmental path.

it is bereft of ideas, because it lives to itself and cuts itself off from the people... the national middle class will have nothing better to do than to take on the role of manager for Western enterprise. (Fanon, 1967: 149–50)

The next chapter examines social stratification in Syria. It offers an in-depth analysis of class origins, evolution, and alliances that paved the way for Syria's transitions, first to state capitalism and later to a market-oriented economic structure. This helps to identify the different agents of investment that were responsible for investment decision and pattern during Syria's successive historical phases.

## 4 Class and State Capitalism in Syria

### 1 Introduction

This chapter explores, from a class-based perspective, Syria's journey first to a state-controlled or state-capitalist economic model during the Ba'athist regime of the 1960s, and later, to the market-oriented economic structure during the Hafiz Assad regime, starting in the late 1980s. It traces the origins of various social classes, the Ba'ath political party, and the Muslim Brotherhood.

Because historical conditions did not breed a strong old bourgeois class that could have pulled the economy out of its fragile postcolonial economic condition, the state overwhelmingly intervened in the market and paved the way for the formation of state capitalism during the Ba'athist era. The chapter elucidates how the radical factions of the army, composed of Ba'athist military officers, launched a coup d'état in March 1963, secured their hold on the state apparatus, and took control of the important positions in the government, thereby transmuting themselves and their bureaucratic and professional allies within the state into a bureaucratic state-capitalist class.

The Ba'athist regime introduced radical reforms – far-reaching nationalisation and land reforms that distributed land to the peasants – and endorsed socially-responsible economic measures. The state-capitalist class acted as an agent of investment and promoted Import-Substitution Industrialisation to bootstrap the shaky postcolonial economy. It was a time when the Ba'athist regime, with its secularist and egalitarian orientation, voiced the frustration of the unprivileged workers despite suppressing workers' and peasants' organisations and movements.

However, this did not last for long. Soon after Hafiz Assad assumed power in 1970, he sidelined the radical ideologies of the Ba'ath party



and gradually introduced market-friendly reforms that parted Syria from its state-interventionist past. The gradual transformation of the socioeconomic structure from state capitalism to private capitalism was accompanied by lifting of populist measures with little opposition from the grassroots level. Why there was so little resistance is explored throughout this chapter.

## 2 Definition of social class

Definitions of social classes are historically specific. Broadly, the meaning of class has never escaped the confines set by Marx, where a class or a social entity is defined by the relationship of its members to the means of production and the type of consciousness that pertains to this relationship.<sup>1</sup> Definition of a class in developing oriental formations is even more elusive, diverse, and complex (Hulme and Turner, 1990) especially when one takes into consideration the variegated and fluid nature of class structure (tribal, sectarian, ethnic) (Ayubi, 1995: 175).

In *Capital*, Vol. III, Marx grapples with his theory of class but leaves it open for further development in the last page of the manuscript. The whole system of Marxian analysis is based on the category of class and class struggle. In turn, class emerges from the relationship of its member to the means and process of production: wage workers are defined as a class because it is from their labour that surplus value is extracted by the capitalist class. However, the very concept of class for him is under-researched because it is a living category developing in real time. He sets out from the three big classes of modern society that coexist in a capitalist mode of production: wage workers, capitalists, and landowners. Nonetheless, for analytical purposes, he refines classes in line with the complexities of the social division of labour, using discrete stratification in some instances. But in the Marxian method, it is not the similarities between individuals that form the class structure under capitalism; it is the separation of the direct producers from the means of production by the wage-work relationship. Marx clearly states that apparent 'lines of demarcation' are 'immaterial for our analysis' (Marx, 1962: 862).

We have seen that continual tendency and law of development of the capitalist mode of production is more and more to divorce the means of production from labour, and more and more to concentrate the scattered means of production into large groups, thereby transforming labour into wage labour and the means of production into capital. (Marx, 1962: 862)

The imposition of capitalism in the developing world broke up the precapitalist modes of production and engendered a process of proletarianisation whereby producers were separated from their means of production and a market of wage labour was created (Amin, 1978: 13). Unlike Europe's experience of industrialisation following primary accumulation, the capitalist system reproduced a poorer image of itself in the periphery, where dependency on the market became the rule but was accompanied by rampant poverty, high unemployment, and low productivity. The terrible cost of the periphery's incorporation could be measured in terms of the high level of human suffering, which exceeded that witnessed by the West during its process of industrialisation (Molyneux and Halliday, 1984: 18). It is this total dependency on the market that rendered even the most remote oriental formation into a weak capitalist society by means of the imposition of wage labour but in the absence of rapid industrialisation and rising wages, this deformed modernisation created huge amounts of reserve labour that eventually would create contradictions.

## 3 The Syrian road to state capitalism

### 3.1 Syria's old bourgeois class: was it an agent of investment?

Syria's colonialist-bred bourgeois class, or the old bourgeoisie, can be traced back to the Ottoman period. According to Philip Khoury, the Sunni old bourgeoisie originated from the politically empowered and rural aristocracy of the Ottoman era. The group later became the urban aristocracy under the French Mandate that further legitimised their titled hold on private property.<sup>2</sup> Their investment activities were concentrated in commercial endeavours. 'The major reservoir of entrepreneurship in most [Arab] countries at most times has been the merchant class' [author's emphasis] (Sayigh, 1963: 55). As expressed by Amin (1978: 10): '[t]he Arab world's periods of greatness coincide with the periods of flourishing trade.' Entrepreneurial skill was directed towards trade rather than industry (Turner, 1984: 53).<sup>3</sup> The circulation of capital began in money and returned to money, a process that is typical of mercantilism.

By the eighteenth century, the Near East's commercial zenith was drawn into the European trade network. The Arab merchants supplied products, such as silk, cotton and coffee in exchange for manufactured goods. The Europeans – first the Amalfians, Genoese, and the Venetians, and then the Portuguese, French, and the British – traded with the Arab Near East. For their part, the Arab merchants sought quick profits from trade. Many of these merchants also acted as representatives for

European firms (Issawi, 1955: 117–18), lacking the capacity to act independently of the colonial powers. Syrian families, such as the Sahnawi and the Khumasieh, were important traders with Europe. They established glass, sugar, alcohol, vegetable oil, spinning, dyeing, and cement factories (Issawi, 1955: 118–22).

Industrialisation was curtailed in the Mandate period (1920–46). The colonial administration was opposed to any serious attempt to enhance industrialisation (Mabro and Radwan, 1976). The splitting up of Arab provinces of the Ottoman Empire and the creation of national borders was a blow to industrialisation (Khoury, 1987b: 25). The colonial rivalries and divisions had left their imprint on the economic landscape through the Sykes–Picot Agreement of 16 May 1916, which split Lebanon, Palestine, and Jordan from Syria. Moreover, the three major cities of the Arab Mashreq – Tripoli (the port city), Aleppo, and Mosul, which had once formed the industrial heartland of the Mashreq during the early twentieth century – were also severed from the truncated Syria. The state of Syria, as it is known today, is therefore considered a ‘residual state’ of whatever was left of the previous ‘natural Syria’ (Salama, 1987). Other impediments to industrialisation included conditions of uncertainty associated with political instability during the early colonial period. The latter obstructed productive investment and reinforced short-term rent-seeking activity in immobile property – such as land and buildings – to be the principal undertaking of private investors (Khoury, 1987b: 26). Given the uncertainty associated with weak states and intermittent wars that engulfed the Arab Mashreq, investors shied away from long-term industrial commitments.

Immediately following independence, Syria evolved as a ‘free enterprise economy’ (al-Ahsan, 1984: 302). Political power during the *ancien régime* was concentrated in the hands of the conservative old bourgeois class and the traditional landlords that exploited the country’s resources, repressed the peasant communities through the tenancy system, and suppressed opposition (Perthes, 1992a: 207). Albert Hourani describes how these traditional classes used the *ancien régime* ‘as a means of coercion’ (Hourani, 1972: 71). A postcolonial private industry was established by the old bourgeoisie, the sons of the old landlords and the wealthy merchants. The industrial activities were concentrated on food processing, agricultural tools, liquid gases, synthetic fibres, and construction materials. Although the old bourgeoisie undertook investment activities in line with consumer demands, their investment decisions were primarily driven by their personal motives. They could not raise the standard of industrial production, because they were structurally

incapable of independently acquiring the significant amount of funds needed for large productive projects, given that the majority of them were small, family-based businesses. According to Perthes (1992a: 208): ‘the national bourgeoisie generally connected the development of the national economy with their own economic interests’ in the sense that they pushed for state policies that supported and protected their investment projects. They thereby shifted the economic resources away from infrastructural projects (al-Ahsan, 1984: 302).

Syria remained a dependent economy during the postcolonial period, bearing in mind the impasse that the break-up of the Ottoman Empire had imposed on postcolonial societies. It witnessed rapid growth in its population, high living costs, and accelerated collapse of the traditional industries accompanied by retarded development of new ones (Khoury, 1984: 531).<sup>4</sup> Its old bourgeoisie could not assume national supremacy nor act as an agent of investment. Instead, this class functioned as an appendage to dominant imperialism, serving foreign interests by colluding with the West and shifting capital out of the economy (Amin, 1978; Ayubi, 1995: 180–81). In short, they served foreign capital rather than national economic development (Ayubi, 1995: 180–81). They remained conservative, semifeudal, and agrarian and acted as a landowning comprador bourgeoisie that did not succeed in situating Syria on a ‘capitalist road to development’ (al-Hamsh, 2004: 40; Khoury, 1984: 531; Springborg, 1993: 3).

### 3.2 The formation of the Ba’ath party

The Ba’ath party in Syria was officially founded in April 1947, following the first party congress held in Damascus, during which the party’s constitution was formed (Chouman, 2005). The founders were the two politicians: Michel Aflaq and Salah al-Din Bitar. During the first five years, the party established branches in Damascus, Aleppo, Homs, Lattakia, and even in Lebanon and Jordan. Its main political objectives included liberating the Arab world from colonialism and Western dependence to achieve human prosperity. The party therefore was nationalist and secularist. It promoted pan-Arabism that aimed at unifying the truncated Arab nations into one secular Arab nation that would embrace all Arabic-speaking people regardless of their religion.

The party’s main constituency was a group of militants who originated from the rural periphery. This explains why these militants had radical leanings that aimed at improving the living standards of all Syrians (Ayubi, 1995: 259). From around 1963, the party derived its support from the Alawite sect, the Druze sect of Jabal al-Arab, the Sunni group

of Hawran, and the Sunni group of Deir Ezzor (Batatu, 1981: 339), all of which were represented in the Regional Command or inner circle of the Ba'ath Party. The leading military officers did not originate from the landless peasantry but from the small property owners.<sup>5</sup> For instance, the families of the Alawite ruling officers, Salah Jadid and Hafiz Assad, were owners of small land holdings (Batatu, 1985: 36).

The party's slogans were unity, freedom, and 'socialism' (*wahda, hurriyah, ishtirakiyah*). Socialism, however, was not clearly manifest in the party's programme, because the party's ideology was unclear. Rather than promoting a classless, cooperative society or free association of the producers, the party's ideology was only radical insofar as it called for anti-colonialism. It did not challenge the underlying capitalist structure or propose to abolish the main pillars of capitalism – the appropriation of surplus value through wage labour and its realisation through sale as commodities (Beinin, 1999: 21 and Laqueur, 1958: 328, 332). It is more proper to say that Syria witnessed a semblance of socialism because of its heavy-handed state intervention in the 1960s. The state, in short, substituted itself for the private capitalist class, and accordingly the importance of state planning was undeniable during the 1960s and 1970s (Sayigh, 1982: 115). With the Soviet Union still representing the paragon of state-led development, the state intervened to mitigate Western dominance. By owning the means of production, the state became the allocator of resources and the appropriator of economic surplus. In this way, it built productive capacity and initiated internally-induced economic development.

A series of military coups took place between 1949 and 1954; these culminated in the establishment of the military rule of Adib al-Sishakli. The civilian leaders of the Ba'ath Party, Michel Aflaq, and Salah al-Din Bitar, met in exile with the head of the Arab Socialist Party, Akram al-Hawrani, and decided to unite the two parties into a single organisation called the Ba'ath Arab Socialist Party (BASP) to put an end to the Adib al-Sishakli dictatorship. The party's political organisation then played an important role in the coup that overthrew the military regime (Chouman, 2005). After the downfall of the dictator al-Shishakli, political life was restored. Democratic parliamentary elections under the supervision of a judicial committee took place in 1955. The Ba'ath party won a plurality of parliamentary seats (17 seats in all) and MP Akram al-Hawrani was elected as head of parliament (Chouman, 2005).

In 1958, the party's vision and mission were realised by the formation of the United Arab Republic (UAR) or the Egyptian–Syrian Unity of 1958–61. The Ba'athists pushed for unification with Egypt because it met

popular demands for pan-Arabism. The UAR moved closer to the Soviet orbit and initiated radical reforms, of which land reform and nationalisation were the main progressive measures (Ayubi, 1995; Hinnebusch, 2001b). Syria's deepening economic radicalisation was already mixed with an internal assault on pluralism and participation in politics under the unity government. The Syrian Ba'athists expected to have voting power in the UAR federal state under Nasser. They also expected that the new federation's ideology allow for 'regional' governance – the UAR, with its pan-Arab nationalism, no longer recognised its member countries as separate states. Unfortunately, the UAR evolved into a bureaucratic dominion that operated from Cairo and rested on military control. Nasser's conditions for the federation included the elimination of all political parties in Syria. He attempted to weaken the Syrian Ba'ath party and at times repositioned and transferred high-ranking Syrian officers or even excluded them completely from political participation (Petran, 1972). Alarmed by nationalisation and agrarian reforms, the Syrian old bourgeoisie and the traditional landowners voiced their complaints about the union and solicited political assistance from Western governments. For geostrategic reasons centred on oil, the US has never wanted strong states in the non-Gulf Middle East. Unification and a stronger United Egypt and Syria is anathema to US/Israeli interests. All of this led to the disintegration of the UAR on 28 September 1961. A group of army officers carried a counterrevolution that took Syria out of the union. The conservative old bourgeois class allied with like-minded members of the armed officers and engineered a coup d'état in September 1961, which effectively curtailed Nasser's efforts to extend his nationalisation plans (al-Ahsan, 1984: 306).

### 3.3 Syria's middle class aspires to radical change

The Syrian educated and salaried middle class emerged during the colonial period and grew stronger during the time of Ba'athist radicalisation. It consisted of academic professionals, administrators, civil workers, lawyers, doctors, engineers, journalists, and salaried employees in the tertiary sector (banks, commerce, tourism, and other services). Khoury (1984: 527) traces the rise of the educated and salaried middle class back to the French Mandate, for which he describes its basic sentiments to transcend beyond the sphere of family and confessional group and to extend to profession, city, and nation. It benefited from the broad educational system during the postcolonial transition and later during the Ba'athist period, because even people of humble origin were able to obtain an education.

During post-independence, the Syrian educated middle class viewed the *ancien regime*, the power of the traditional bourgeois and landowning classes, as an artefact of the colonial powers. It supported state-led development and resource retention in the economy. Its frustration was reflected by its political positions of anti-Westernism and anti-colonialism. In the words of Hinnebusch (1993b: 245): 'the failure of dependent capitalism to incorporate the salaried middle class turned it against the liberal model.' This class thereby pushed for sporadic insurrectionary revolts against the postcolonial semifeudal oligarchy. It also organised trade unions and battled for better wages and political rights. Because it discredited the old bourgeoisie and aspired radical reforms, the middle class supported the Ba'ath party during the 1950s, hoping that the party would initiate radical, dynamic, and well-directed change (Farsoun and Carroll, 1978: 142). Other demands of the middle class included broader political participation, intellectual openness, and freedom of speech, all of which had been severely circumscribed by the *ancien regime*.

### 3.4 The lifelong opposition of the Muslim Brotherhood

The historical rival that contested the radical Ba'ath party was the Muslim Brotherhood, whose leaders acted as the 'natural spokesmen' of the Sunni community – which was anything but homogenous – because they were the main beneficiaries of the radical reforms. The Brotherhood represented the sections of the old bourgeoisie hailing from Sunni cities that lost ground to the newly recomposed ruling class during Ba'athist rule. However, peasants adhering to the Sunni sect were the social base of support of the Ba'athist regime. During the Hafiz regime, the new Sunni bourgeoisie that benefitted from gradual neoliberal reforms allied themselves with the regime.

The Brotherhood originated from the Muslim 'men of religion' who followed *Shari'a* Islam (Batatu, 1982: 14–15). The economic and political demands of the Muslim movement were consonant with the demands of the Sunni urban manufacturers and traders whose businesses were severely harmed by the radical policies of the Ba'ath party (Batatu, 1982: 13–14; Lawson, 1982: 28). The Muslim Brotherhood spoke in the language of a conservative variant of Political Islam as opposed to an egalitarian one. Its social agenda called for private property – as prescribed in the Quran – investment, 'natural incentive' for fair profit, and protection of private investors from nationalisation (Hinnebusch, 1993a: 186). It also disapproved of state farms, cooperatives, and land reform because, according to them, these would ruin agricultural productivity. The

Muslim Brotherhood was therefore pro-capitalist and sought to Islamise the Arab nation in the name of the *umma*.

The Muslim Brotherhood was buoyed by the flow of funds from the conservative Gulf states that fuelled the international resurgence of political Islam (Abd-allah, 1983; Lawson, 1989: 19). The political defeat of Ba'athism and Nasserism after the 1973 war weakened the radical political movements and strengthened political Islam, which supported private enterprise and economic liberalisation (Beinin, 1999: 20). During the Hafiz period, the Muslim Brotherhood penetrated the traditional market – the *suq* – and aligned with the small merchants, the artisanal and the bazaar class,<sup>6</sup> which could not compete with the big merchants that were by-products of Hafiz's *laissez-faire* measures in the 1970s and 1980s. This alliance led to the Islamic uprising of 1982 that was brutally crushed by the Assad regime.

### 3.5 The role of the military

The Syrian army emerged weak from the colonial period. Syria's dismemberment after the disintegration of Ottoman Empire and the European colonial scramble were the main causes of this weakness. During the French Mandate, the French officers in charge either outranked Syrian officers or discouraged them from applying for military service (Halpern, 1962: 295). The colonial powers created unbalanced armed forces in their colonies (Drysdale, 1982b: 53); in particular, the French relied heavily on soldiers from ethnic minorities to suppress nationalist uprisings. They recruited from the minority Alawites and the Druze more than from the Sunni majority. This deepened ethnic differences, increased confessional divisions, and undermined the formation of a strong nationalist opposition (Drysdale, 1982b: 55).

Syria had no stable civilian rule after its independence. It witnessed 22 coups before Hafiz Assad took power in 1970. The army continuously intervened in the society to end social divisions. As previously discussed, there was growing antagonism between the educated middle class and the traditional classes (the landlord aristocracy and the old bourgeoisie). The workers and peasantry, who aspired to land reform, social welfare, and other socially responsible economic measures, also opposed the liberal model favoured by the traditional upper classes. The army brokered and attempted to mediate these class divisions. It used slogans like 'the rights of the masses' and the 'inevitability of progress' to broaden its social base of support and undermine the political influence of the traditional classes (Khuri, 1982: 18).

Three Ba'athist military officers: Salah Jadid, Hafiz Assad, and Muhammad 'Umran, controlled the Secret Military Committee of the Ba'ath party. On 8 March 1963, the Military Committee launched a coup against the military officers who ruled after the dissolution of the unity government between Syria and Egypt and who introduced counter reforms as a backlash against the radical reforms of the UAR. The coup was described as 'revolution from above.'<sup>7</sup> The Ba'athist officers did not 'retreat to the barracks' but established the National Revolutionary Council Command that initially consisted of military officers before the Nasserist military members were replaced by Ba'athist civilians (Picard, 1988: 123). They set up one-party rule (the Ba'athist regime) that intervened in civilian issues, assumed political power, and ran the economy as if it were going to stay in charge indefinitely (Abdel-Malek, 1971; Picard, 1988: 122–44).

Following the 1963 coup, military officers accounted for no less than 20 per cent of the National Revolutionary Council Command and no less than 25 per cent of the government's ministerial portfolios. Sensitive ministries, such as the Defence and the Interior, were held by military officers. Defence Minister General Mustafa Tlas stated that the Syrian armed forces would not relinquish power to civilians (Picard, 1988: 121). The regime's structure was characterised by the centralisation of political power, with the military playing a dominant role in protecting this structure with a pervasive and tightly controlling security and intelligence apparatus. Political participation was highly restricted; there was no space for multiparty pluralism. Most organisations of civil society were incorporated into the state apparatus and had no autonomous existence.

The army intervened not only in political affairs but also in economic and civilian ones (al-Hamsh, 2004: 101; Picard, 1988). This manifested an aspect of civil-military relations that received considerable attention in the literature (Abdel-Malek, 1971; Halpern, 1962; Khuri, 1982; Picard, 1988; Vatikiotis, 1972). The army extended its 'economic wing' into Syrian society and took on a wide range of projects, building houses, water pipelines, transport networks, factories, laboratories, clinics, and radio stations (Khuri, 1982: 17–21).

#### 4 State capitalism under Ba'athist rule

During the 1960s, the Ba'athist regime introduced far-reaching nationalisation: USD 50 million worth of assets were confiscated by the state (Richards and Waterbury, 1996: 201). The state took over almost all

sectors (mining, manufacturing, banking, agriculture, transport, real estate, and trade) and this greatly enlarged public sector became the main source of revenue for the state. 'As Galal Amin explain[ed], up to the 1940s, public ownership rarely extended beyond irrigation works and public utilities. By the mid-1960s, the public sector in Egypt, Iraq and Syria had become predominant in all sectors outside agriculture, retail trade, housing and small industry' (Ayubi, 1995: 292).

During 1964–65, the government fully or partially nationalised more than 120 industrial establishments (Perthes, 1995: 38). The public sector's share in industrial production rose from 25 per cent to 75 per cent (Richards and Waterbury, 1996: 201). As a result, many of the old industrialists left the country while those who remained were prohibited from setting up new business ventures or expanding their existing ones. They shifted instead to trade and fast-earning income activities (Perthes, 1995: 110). The Syrian merchants however were less affected (Perthes, 1992a: 209). Although the private sector was heavily curtailed, it was not completely demolished and the old bourgeoisie managed to survive the nationalisation phase of the 1960s by reducing their businesses and investing only in bazaar, handicraft, and artisanal activities.

Land reform was also enacted, uprooting what remained of the liberal model of the *ancien régime* – a time when 60 per cent of the rural population did not own any land (al-Ahsan, 1984: 302). Nearly one third of all agricultural land was expropriated and distributed to the landless farmers (Hopfinger and Boeckler, 1996: 184). Land reform imposed limits on the extent of private landholding, prevented the displacement of farmers from the land, introduced the first law for cooperatives, and organised agricultural relations between the landlord and tenant by specifying each party's share of the crops (Chouman, 2005).<sup>8</sup> Despite its limitations,<sup>9</sup> Ba'athist land reform was undoubtedly progressive to the vulnerable peasantry, because it enabled them to acquire land and improve their living conditions (Batatu, 1999).

The Ba'athist regime introduced radical economic measures to block any chance of relapsing into the commerce-centred post-colonial model. Prices were administered and production costs for necessities were subsidised by the state. The regime enacted an import-substituting industrialisation (ISI) programme that favoured the development of national industry. Its purpose was to retain and channel resources to rapid and broad-based industrialisation. It set up a system of multiple exchange and interest rates and restricted imports by erecting quota and tariff barriers. It protected local industry, and where possible, satisfied local demand by local production. The Ba'athist regime aimed at maintaining economic

emancipation from foreign influence. It restricted foreign companies from entering the country and exploiting its mineral resources; foreign capital's participation was limited to servicing contracts (Perthes, 1995: 42). Fiscal and monetary policies were geared towards replenishing the successive economic five-year plans.

In sum: through their control of the state, the Ba'athist military officers fully assumed the role of agent of investment. Their class, the state bourgeois class in control of the process of capital accumulation, calibrated with their allies in the working class and peasantry the political and social relationships needed to ensure social reproduction. Radical reforms increased even further with the second Five-Year Plan of 1966–70. The state and its managers held complete control over investment and investment decisions. The private sector only controlled 5 per cent of industrial investment (Ayubi 1995: 358). In infrastructure, the state built roads, bridges, and telecommunication networks. In agriculture, it improved rural electrification and introduced new irrigation projects (Picard, 1988: 139). In manufacturing, public investment projects were mainly in textile and food processing industries. Other manufacturing production included farm production, batteries, bottled mineral water, and simple military supplies and equipment (Hawwa, 1993: 85). The expansion of public investment, specifically in agriculture, industry, and infrastructure, bolstered the economy's productive capacity and enhanced internally-induced development. Buoyed by capital inflows from neighbouring countries due to Syria's role as 'front-line state' with regards to Israel (geopolitical rent), total public spending increased from S£ 561.8 million in 1964 to S£ 10.6 billion in 1978 (Drysdale, 1982b: 68). Public investment amounted to more than 60 per cent of total government spending during the 1970s (Ayubi, 1995: 293–95). Industrial output grew at an annual rate of 11.6 per cent between 1970 and 1978, as compared to 5.6 per cent between 1960 and 1970 (Chatelus and Schemeil 1984: 254).

Evidently, the socialisation measures involved the provisions of a social security system and free government services, in addition to subsidised housing, free education and health care. Largely doing away with colonial-era deprivation, these social welfare services gave many citizens the means to satisfy their basic needs and, in so doing, raised the standard of living. The regime raised wages in the public sector and enacted labour legislation that secured employment and protected workers against job dismissal (Longuenesse, 1996: 115).<sup>10</sup> The middle class gained a lot from these populist measures. The number of the wage workers in the public sector increased from 160,000 in 1970 to 370,000 in 1980. Other figures

show that the number of state employees increased from 34,000 in 1960 to 331,000 in 1979 (Batatu, 1985: 39; Beinun, 1999: 19). The middle class was therefore politically quieted by these social guarantees and welfare measures. GDP per capita grew at an annual rate of 3 per cent during 1964–74. This rate contrasts with the average 1 per cent annual rate recorded during 1980–2000, a period characterised by phases of gradual economic liberalisation (World Bank, 2014).

Despite blocking the political participation of the workers and peasants, the Ba'athist regime incorporated the aspirations of both the middle class and the working class. It kept its ear to the ground, tapping working-class concerns and addressing some of their livelihood concerns with socially responsible measures. However, the rights that it provided to the working class in terms of services and higher consumption were manifest once again as a top-down process rather than as the fulfilment of legitimate demands voiced by the workers and met by the authorities. The whole purpose of the regime was to limit vociferous demands from spreading and fuelling dissent.<sup>11</sup> The regime recognised the necessity to maintain tight control from above by maximising its social constituency below. It created the General Federation, which incorporated trade unions, syndicates, peasants, craftsmen, women and student's clubs, writers, academics, and journalists so as to grasp political control and maintain social order (Drysdale, 1982b; Sadowski, 1988: 167). In this forced assimilation of civil-society organisations and sectors into state-controlled organisations it paralleled Italian fascism.

One has to keep in mind that the rise of Israel as a Zionist colonial settler state in Palestine and its victory over the Arabs in 1948 was still fresh when the Ba'ath took the reins of power. The Ba'athist phase was an epoch culminating in radical economic changes that were strongly influenced by the exigencies of potential conflict on the Israeli front. The Ba'athist regime needed to consolidate its social base into a cross-class national front. Its 'socialist' policies were not only an instrument of political control but also an additional prop in the national security structure. Certainly, the gains awarded pauperised peasants from land reform gained mass support in the rural areas for the regime stability and quelled the challenge from the old oligarchy.

However, like much of twentieth-century *soi-disant* socialism, the Ba'ath model was not genuinely socialist. Syria's class structure remained capitalist, with surplus value accruing to the state-capitalist class through its control of the means of the production and its regimentation and exploitation of labour, albeit at better rates than under colonialism and the old bourgeoisie. Nor was there any attempt to undertake a socialist

transition, because this would have meant actually empowering the workers and peasants to collectively run both social production and the state. But limiting workers' participation in the political process in the long run strengthens neither regime stability nor national defence. In socialising (transitional) though still state-capitalist societies, workers' freedom is a building block of stability and progress. Not only was the labour process in Ba'athist Syria both capitalist and repressive, but the goal of economic activity was to increase output, whose distribution was tilted in favour of the state bourgeois class, which gained privileges through its control of state office. In this situation, where state-managed economic and political relationships are authoritarian and oligarchic rather than popular-democratic, security threats to the regime cause it to tighten the regimentation of both political life and labour process. Simply put: As the state bourgeoisie comes under pressure, it pressures the working class. National-security threats create fears at all levels that are exploited both by factions supporting working-class interests and at the same time by state-bourgeois factions seeking to promote their own privileges. In hindsight, the way the Syrian working classes were deprived of democratic participation in the political process created room for Islamists to occupy the ideological space that was vacated as the socialist project was rolled back. Islamisation is in essence not submission to god, but the unquestionable acceptance of the rule of capital. So the factions that won in the end are those that promoted capitalism at any price.

#### 4.1 The state-capitalist class in control of the state

The state bourgeoisie or the state-capitalist class in Syria constituted the highest echelons of the state apparatus (Longuenesse, 1979: 8–9), consisting of the Regional Command of the Ba'ath party, the provincial governors (*muhafizun*), the government ministers and deputy ministers, and the highest-ranking military officers (Perthes, 1995: 114). In the 1960s, the Regional Command of the Ba'ath party was composed of members of various sects from across the country (Rabinovich, 1972). A close examination of the Syrian cabinets and the Regional Command after 1970 shows an increased representation of Alawites, a minority sect group from the rural area (particularly from the Latakia region), indicating that military officers at the heart of the regime drew their strength from that sect (Lawson, 1989: 15; van Dam, 1981: 100).

During the Hafiz Assad regime, the officers who were decisive in holding together the political structure were Hafiz Assad (the late President of the Republic and the Commander in Chief of the Armed

Forces); Rif'at Assad (the Commander of *Saraya al-Difa'* or the Defence Units); Jamil Assad (the Commander of a special unit of *Saraya al-Difa'*, concerned with the security of the Alawite community); and Adnan Assad (Commander of *Saraya al-Sira'* or the Struggle Companies) (Batatu, 1981: 331). The Defence Unit and Struggle Companies were tasked to protect the regime. Interestingly, Adnan was the cousin of the president, and Rif'at and Jamil were his brothers. When Hafiz seized power in 1970, he promoted new officers, especially those close kin to him and of the Alawite tribe, to reinforce loyalty within the upper military ranks (Galvani, 1974: 9–10 and Sadowski, 1988: 162–64). Many traditional Ba'athists who joined the party before the 1970s described the transformation of the party during the Hafiz regime as disappointing (Sadowski, 1988: 160).

The ruling Alawites worked in close cohesion to safeguard the regime from any political threat and tightened their grip over the power structure through a coercive apparatus (Picard, 1985). Key family names from the Sunni sect included Khaddam, Tlas, and Ahmar, who occupied important positions in the regime. The Sunni state bourgeoisie, however, drew their authority from the President and had no power base of their own (Batatu, 1981: 333). They, along with the Alawites, formed an informal organisation, known as the *Jama'a* – literally meaning the group or the alliance – that monopolised the highest positions in power (Sadowski, 1988: 164–65).

By managing public institutions, the state bourgeois class accumulated wealth through legal and illegal procedures. For example, Rifat Assad, through his command of military units and his vast array of civilian clients, acquired a huge fortune. He colluded with the Sunni new bourgeoisie in Damascus and Aleppo to run fast-earning business activities. He granted the wealthy merchants exemptions from trade restrictions and from administrative procedures for valuable commissions. He supervised imports from Lebanon and controlled his business there using his personal militia (Sadowski, 1985: 7). He came to symbolise the worst forms of abuse of public office, which had escalated mass hatred and forced the regime to expel him in 1984. Other important political names included Bahjat Suleiman (the head of internal security who served until 2005) and Muhammad Haydar (the ex-deputy Premier of economic affairs) who joined the ranks of the more malleable new bourgeoisie – especially merchants. These military officers had interests in merchant business; in this way, they gradually created a new hybrid entity with the Damascene merchants that was known as the 'military-mercantile complex.'

#### 4.2 The rise of the new commercial bourgeoisie

During the Assad rule the upper strata of the *nouveaux riches* held the centre of economic power (Robinson, 1998: 159). This class was mainly composed of the commercial bourgeoisie. It was the by-product of state capitalism because it developed in the restrained private sector that remained active in commercial activities during the Ba'athist state-capitalist period. The new commercial bourgeoisie evolved under the purview of the state and benefited from state-bestowed monopolies.

During the Ba'athist regime, the new commercial bourgeoisie acquired their fortunes by running business deals with the state-run monopoly enterprises. They contracted with state monopolies and supplied them with spare parts. They obtained contracts to build pipelines, motorways, and hotels and to modernise Syria's telephone network. Through such contracts, they obtained profits far beyond what is normal under regular business transactions. They distributed their surplus goods on the growing black market and in contraband trade (Lawson, 1989). They also worked as representatives or agents for the state monopolies when the latter traded with international markets, even with the former USSR and the East European markets. They acted as subcontractors between the state monopolies and foreign firms to ensure contracts for industrial and infrastructure projects (Perthes, 1992a: 214). As a result, the new commercial bourgeoisie competed to obtain contracts with the public sector, because doing business with the state generated guaranteed returns (Perthes 1992a: 214).

During the Hafiz and Bashar Assad regimes, the new commercial bourgeoisie evolved to become a hybrid of the sons of the Alawite elites and the Sunni businessmen; especially the big merchants (Longuenesse, 1979). Other constituents included the petty bourgeoisie (bazaar class) and the wage-earning middle class, such as the Sief brothers (Hinnebusch, 1995: 314). Some figures from the old bourgeoisie also resurfaced and benefited from Syria's economic liberalisation. Family names such as al-Shallah, al-Sabbagh, al-Nahhas, and al-'Attar accessed the private sector and undertook commercial types of activities, mostly in tourism and transport (Perthes, 1991). For instance, Saeb al-Nahhas, an important local agent for auto companies, invested in the transport and tourism sectors. He was also a partner with Gulf businessmen in a few international banks and investment companies (Hinnebusch, 1995: 314). Other examples included the tycoon Mustafa al-Aidi – previously imprisoned by the radical Ba'ath party – who undertook profitable investment activities and amassed fortunes from aircraft commissions

that were later invested in the Sham hotel chain in Damascus. Moreover, he was able to ensure lucrative contracts in the petroleum sector. All along, the very formation of the *new class* and its activities remained highly dependent on the ruling elites, thereby representing the first line of defence for the regime. As the regime expanded its protection to the big merchants, the latter aligned with the ruling elites against the Muslim Brotherhood (Bahout, 1994: 75; Lawson, 1997: 11). The new commercial bourgeoisie therefore became the main line of support to the Hafiz and Bashar regimes.

#### 4.3 The class aspect of Syrian workers<sup>12</sup>

For the purpose of elucidation, the working class is generally defined as the class that does not own the means of production and that sells its labour power for wages. Since the 1970s, the political salience of the working class in the Arab World began to be reconfigured at a lower point, following the gradual transition of economic structures from state-controlled to market-oriented development (Beinin, 1999). The neoliberal agenda backed by the Washington Consensus eliminated workers and peasants as social categories altogether.

As noted by Beinin (1999), a salient literary manifestation of this social tendency and inclination was reflected in Richards and Waterbury's (1996) *A Political Economy of the Middle East*. While the first edition of the study included the subtitle *State, Class, and Economic Development*, the second edition did not. The conceptual framework of the study was redesigned so that the word 'class' was removed and replaced by the term 'social actors.' What could these changes signify? According to Beinin (1999: 22): 'the main task in this context is to avoid asking: Are there structural contradictions in capitalist economies, and in whose interests are such economies most likely to operate?' It follows that income inequality, declining purchasing power, and deteriorating living conditions of the working class tend to disappear from general socio-economic analysis.

The history of Syria's working class is rarely examined in the literature; except for Abdallah Hanna's book which can be considered the first attempt to explain the evolution of Syrian workers and their movements since 1945. Hanna (1973) explains that the process of social differentiation (identity-based) and proletarianisation of labour in Syria slowly began during the French Mandate and picked up speed again under the Hafiz and Bashar Assad regimes. As the countryside fell under the market's *diktats*, dependency on the market prevailed and determined the conditions of life for all Syrians. No enclaves escaped the market's



reach, and the capitalist wage-work relationship came to dominate the labour process (al-Hamsh, 2004; Khoury, 1987a).

For all that, development in Syria was freed from colonial constraints and was indeed an improvement on previous conditions. The first ten years of post-independence were marked by an increased number of private small-scale and traditional industrial firms that recruited workers from rural backgrounds. Workers were employed in textile and food production factories in Aleppo and Damascus (Longuenesse, 1985: 18).

In the 1970s and 1980s, most workers were of rural origin (Perthes, 1995: 95). By both incentives and by expulsion factors, such as the enclosure of common land, the growth of the market drove the typical patterns of rural-urban migration. With the slow rate of decent job creation under the Hafiz regime, rural migrants found more jobs in the informal sector, where working conditions were precarious and wages low. The double impact of imported labour-saving technology and the decreasing share of industry lessened the chances for migrants to be hired in higher-productivity, better-paying jobs. Many rural migrants from the countryside became self-employed as street vendors, selling small items such as cigarettes, smuggled goods, or lottery tickets (Perthes, 1995: 96). One might describe this subcategory of the working class as 'semi-proletarian' to benchmark it against the Western proletariat. However, as argued by Perthes (1995: 99), the economic conditions of this group are not as devastating as to be categorised as lumpenproletarian; Perthes defines the 'semi-proletariat' as 'those whose permanent unemployment can often be interrupted by temporary engagements, and secondly, self-employed sales' (Perthes, 1995: 99).

Another subcategory of the working class is the peasant-workers whose income from the informal sector is highly unsteady and whose subsistence from their rural backgrounds contributes to their livelihood (Perthes, 1995: 96). It is mainly the unsteadiness of income earned in their informal-sector market activities that have pushed these peasant-workers to maintain the strong ties with their families in the periphery. They have used these close family links as additional means of social support in case of loss of wage income and hence made use of agrarian subsistence. This could mean someone who cultivates his land during the day but works as taxi driver during the evening, or else someone who works as a street vendor during one season and cultivates the land during another. Conversely, although more and more peasants became wage workers following market openness and land counter-reform, they have continued to work occasionally in agriculture (Longuenesse, 1996: 114).

It is really impertinent to use the term 'lumpenproletariat' in the context of Syria. The notion was invoked by Marx initially to denote the section of the working class that lacks the material grounding for historical agency – 'a passively rotting mass thrown off by the old society' as he and Engels describe it in the *Communist Manifesto*. In Syria, the people that are often termed lumpenproletarian are really the Lazarus class, if one were to use Marx's language. Workers in poverty-level employment in the informal sector, or what Perthes terms the 'semi-proletariat,' comprise nearly half the rank and file of the Syrian labour force. Their productivity is low and their wages are also below decent subsistence level. In counties where minimum-wage employment meets the basic necessities for workers, it is understandable to use the standard ILO method in measuring employment. The standard ILO question when measuring unemployment asks if the surveyed had worked an hour for a wage during the reference week. The implication is that any employment at all would suffice for a living wage. In Syria, it would take many more work-hours at very low informal sector wages, and yet subsistence would still be below the decent minimum. That is why 'unemployment' is also a meaningless concept in poverty-stricken formations such as Syria (Kadri, 2012a).

#### 4.4 The delinking of the working class from the political process

In typical fashion of one-party rule in the twentieth century, the working class was not politically empowered in the state. The Ba'athist military officers who set up one-party rule through a 'revolution from above' did not allow the working class to acquire political representation in the state apparatus or participate in the political decision making (Ayubi 1992). The Ba'athist regime allowed no space for pluralism or multi-party participation. It equally repressed the left and the right – i.e., the traditional oligarchy and the working class and peasantry.<sup>13</sup>

These repressive blows enabled the state bourgeoisie to secure their ironclad control of the state apparatus and suppress all other classes. For example, the regime did not hesitate to put down by force the poor peasants who launched an uprising in the Ghab district in 1969 over the increasing debts owed to the Agricultural Bank (Batatu, 1985: 36). As a result, the working class and peasantry did not develop into a radical social force. They did not own the means to self-defence nor could they defend their handed-down gains. When the doors for liberalisation opened at a later stage, many of the gains were reversed without much opposition from below, until of course things came to a head in the Arab Spring.

In one of her articles on the Syrian working class, Longuenesse (1985: 21) proposes that it was unlikely that the Syrian working class would organise collective labour action and that workers instead resorted to 'individual solutions' because Syria's capitalism is weak and because its industrial production is still nascent. This duality invoked by Longuenesse (1985: 21) is quite misleading, for Syria differs from other countries, not in the fact that its capitalist mode of production is weak or that it is more feudal and less capitalistic, but in the more coercive measures that were imposed by the Syrian regime against the labour movement. For instance, when a large segment of the Sunni urban working class mobilised against the regime during 1978–82, they were put down savagely. During that period, mobilised social forces turned to Political Islam as an alternative movement to challenge the regime through violent confrontation. The armed conflict reached its peak in autumn 1982, when the northern and eastern sections of the city of Hamah were completely levelled by the Hafiz regime. The Muslim Brotherhood, along with other opposition leaders and dignitaries were victims of the regime's military repression. Doctors, lawyers, and other professionals were also assassinated in their homes in Hamah province (Michaud and Paul, 1982: 30). One ought to note that Amin (1978: 3) states that feudalism in the Arab region 'if it ever existed [is] long deceased.' Likewise, it is not the ratio of rural to urban inhabitants that determines whether a formation is capitalist or not; it is the extraction of surplus value from waged labour. Hence it is inappropriate to accuse the Syrian working class of a lack of ability to initiate collective action, especially given that it had fought a national liberation war. Individual action as postulated by Longuenesse (1985) was not a characteristic of resistance because individuation rarely constitutes agency. The history of Syria is a history of organisation, political parties, and class action that led to the betterment of living conditions in the post-independence phase. Earlier, radical ideologies, such as nationalism, pan-Arabism, and anti-imperialism captured workers' consciousness and helped them to unite and participate in national struggles in the Mandate period (Hanna, 1973). Inflating the role of individual political action is unwarranted and can only emerge as a concept because of collective defeat; it can apply to any defeat condition.

## 5 The Hafiz Assad regime (1970–2000)

The Arab military defeat in the 1967 Arab-Israeli War was a watershed event that weakened the Ba'ath party's rank and file. Political strife

spiralled within the Ba'ath party's political wings and against the leadership. The army gained ground at the expense of the ruling party. The party unsuccessfully tried to bring the army under its control, while the latter refused subservience. On November 1970, then-Minister of Defence Hafiz Assad carried out a decisive military coup that shut down all internal opposition. He successfully purged his rivals and put the army under his control. The coup allowed Assad to wield absolute control, sideline the Ba'ath party, and begin the process of co-opting civil society. He eschewed the radical ideologies of the Ba'ath that were initially introduced by Michel Aflaq and Salah al-Din Bitar. His so-called 'Corrective Movement' served regime security.<sup>14</sup> The Ba'athist hope for deepened 'socialist' transformation of the economic structure receded under the realities of the 1970s. From that time on, the Ba'ath party became a means for propaganda and mobilisation in the hands of increasingly narrow Alawite military circle. In short, it became the subordinate instrument of the regime's *raison d'état* (Salama, 1987: 162–66).

Various anecdotal names, such as the 'presidential monarchy' (Hinnebusch 2001a: 67–72), 'absolute presidency' (Perthes, 1995: 139), and 'Suriyah al-Assad' (Perthes, 2004b: 11) appear in the literature to portray the authoritarian rule of the Hafiz regime. The regime indeed became much more centralised, hierarchical, and repressive, with the military playing a dominant role. The intelligence services (*mukhabarat*), the main instrument of control that monitored day-to-day activities, became the most powerful institution during the Hafiz era. The service maintained a vast network of agents and informers. Hafiz kept a firm grip over the state apparatus as he became the puppeteer pulling all the strings of power. He and his brother Rifat (before the latter's dismissal) were the ultimate decision makers. Perhaps, needless to say, given that these points are made ad nauseam in the literature, Assad could appoint and dismiss the cabinet, deputies, government ministers, judges, and other senior officials, dissolve the parliament, and literally do as he wished (Perthes, 1995: 139 and Olmert, 1988). For anyone who has the slightest knowledge of Syria, these comments would be too obvious to state. The *mukhabarat* state, composed of several security and intelligence apparatuses, kept an eye over regime security as well as each other's behaviour. This was a leakproof system.

Hafiz's regime inhibited the institutional autonomy of state agencies. It transformed all organisations of civil society into appendages of the *mukhabarat* security apparatus and incorporated them into the authoritarian structure (Perthes, 1995: 140). Trade unions and the farmers' unions, whose autonomy is central to ensuring that working people's

concerns are conveyed adequately into state deliberations, were stripped of their autonomy. Nearly all progressive socialist parties were compelled to join the Progressive National Front as puppets of the central authority (PNF).<sup>15</sup> According to one anecdote, the Syrian Communist Party was in such a lackey position that it had to state under its logo 'owned by the Syrian Ba'ath Party.'

Until the mid-1980s, the middle class was the primary social base of support of the Assad regime. However, its members frequently expressed criticism of the regime. In 1980, a few outspoken lawyers and other educated professionals, with the help of their unions, pressured the regime to introduce some degree of the rule of law. The regime got rid of some trade union executives and imprisoned others (Perthes, 1995: 105). It was during the crisis of the mid-1980s that the already poorly paid government employees were severely harmed, as public wages could not keep pace with rising inflation. The regime therefore lost much of its legitimacy and credibility within the middle class, who resented the regime's policies of gradual liberalisation. Expressions of this resentment were met with coercive measures from the regime's side to secure the regime's security.

The 'presidential monarchy' and its associated class, weakened as they were as a result of serious war defeats, consolidated their class rule by resorting to sectarianism, especially the pinning of regime security on the Alawite-sect army units that were loyal to the president. Some authors, like Sadowski (1988) and Perthes (1995), back away from describing the Assad regime as sectarian, basing their argument on the proposition that the Sunnis, like the Alawites, occupied important positions in the inner circle of the Assad regime. Social benefits were also granted to the Sunnis and the Alawites equally. However, this proposition misconstrues the nature of class. A class is a social relationship that could not conceivably be composed of a single sectarian group, particularly in a county which is multisectarian. The class in power and its representative regime employed the colonial heritage of confessionalism – a structure that was erected by the French colonialist within the military – to bolster the security and the core bodies responsible for safeguarding the Hafiz regime. Sectarianism was present but as a means to an end. The security bodies of the regime consisted mainly of Alawites, and concerns about this overwhelming hold of the Alawite sect were voiced by local analysts such as Subhi Hadidi (2010b) and Tha'er al-Nashef (2010). A close examination of the sectarian background of the military officers who were appointed in the Regional Command of the Ba'ath party reveals a similar pattern of pro-Alawite bias under both Hafiz and Bashar

(van Dam, 1981: 52 and Gambill, 2000b and 2002). Political tensions, meanwhile, made the confessional divide more palpable. The Muslim Brotherhood increased its military actions against the regime during 1977–82, until its supporters were ruthlessly suppressed by the regime in the 1982 Hamah massacre.

The Hafiz regime maintained the façade of a legitimate institutional set-up, but its components were in reality completely powerless. The cabinet, the Parliament, the Ba'ath party, the PNF, trade unions, women's organisations, and any other form of social organisation were skeletons of genuine, independent institutions of government and civil society. As earlier noted, the consensus is that the real decision-making process was in the office of the President and his Alawite clique (Batatu, 1981). As argued by Perthes, it is euphemistic to claim that Syria is 'a state of institutions,' because 'the role of existing institutions [was] more limited than their names might suggest' (Perthes, 1995: 206–07).

In retrospect, the post-uprising survival of the Bashar regime is proof of the cohesion of the Alawite sect, its control of the army, and the allegiance of the new Sunni bourgeoisies to the regime. However, the professionalisation of the Syrian army and the strength and mobility of certain loyal army units were the real backbone of the regime's endurance in the early stages of the uprising. At later stages, or more recently, the implicit support of China and the open backing of Russia and Iran have bolstered the regime's position. Syria, unlike Tunisia and Egypt, is a strategic post that has not fully fallen into America's orbit. As such, comparisons to those countries are sometimes impertinent because the fall of Syria would weaken Iran and its backers (China and Russia) in the Gulf. That fall would shift the global power structure considerably in favour of the US and its allies. The consequences are too gloomy to contemplate.

## 6 Twilight of state capitalism

Hafiz was known for his pragmatism, and unlike Anwar Sadat, he opposed the latter's strategy for complete and abrupt economic liberalisation. As soon as Hafiz assumed power, he started to introduce piecemeal market-friendly reforms that laid the foundation for a broader and deeper market expansion starting in the late 1980s. Since the private sector was not completely demolished during the heavy-handed state interventionist past, it acted as a stepping stone for the state-capitalist class to pursue market-friendly reforms. Following the change in international political conditions in the late 1980s, the dictates of the neoliberal

paradigm and its associated profit-based resource allocation mechanism carried more weight. The Hafiz regime broke away from Ba'athist radicalism and its ISI programme and replaced them with economic strategies that promoted market-led economic growth. It enacted structural adjustment policies that 'streamlined' the public sector, revitalised the private sector, lifted protections from local industry, liberalised capital and trade accounts, and promoted foreign investment and exports. It was a period characterised by gradual erosion of state capitalism and its associated economic planning and centralised bureaucracy that directed resource allocation.

The transition from state capitalism to private capitalism, however, was accompanied by reversing the socially progressive measures that were beneficial to the more marginalised segments in society. The government imposed austerity measures to shrink budget expenditure and as a result suppressed wages, decreased its expenditures on health and education, and gradually lifted state subsidies on food and necessity items. Laissez-faire policies were therefore socially deficient, representing a frontal attack on the living standards and welfare conditions of the working class and peasantry and accentuating social unrest (Alami and Karshenas 2012).

The grassroots, who were the main beneficiaries of Ba'athist radicalisation measures, could not obstruct the gradual lifting of populist measures that accompanied the deepening of neoliberal reforms. The working class was not allowed to develop into a strong and united social force. Instead, because of Ba'athist authoritarianism, it had remained weak and fragmented since the 1960s. Trade unions and other social organisations and movements had relinquished their autonomy to the state edifice as they were transformed into quasi-corporatist institutions, largely integrated into the state machine (Longuenesse, 1996: 121; Perthes, 1995: 99, 140). Moreover, labour representatives became mouthpieces of the government, and trade union executives played more of a managerial and bureaucratic role than an oppositional one (Haddad, 2004: 69, ft.20). The regime also repressed workers' collective action via an apparatus of repression. Hadidi (2010b) recounts the brutality of the Hafiz regime by referring to the tens of thousands of prisoners of conscience, the missing persons, the victims of torture, and the people killed during armed confrontations between the regime and supporters of the Muslim Brotherhood. Hadidi quotes Riad al-Turk who described the Assad regime as the 'kingdom of silence.' The regime used unprecedentedly brutal measures to wipe out all forms of opposition and installed fascist-like 'phalanges' within civil society.<sup>16</sup>

One may conclude here that state capitalists embraced a market-oriented economic structure in the very same way that they had embraced a state-controlled economic structure, i.e. without allowing the grassroots to participate in the political process. It may be useful to recall that Braverman (1959) warned that, unless the working class took part in the making of 'socialism,' a reversal in the process of egalitarian development could take place.<sup>17</sup> Radical measures were later removed 'from above' in the same way as they were introduced 'from above' when the political interests of the politically empowered state-capitalist class changed. Given the hostile and repressive measures imposed by the regime, the earlier radical reforms were lifted without much opposition from the weak, atomised marginal segments.

Although a transition to 'socialism' was not completed, especially since the working class was kept at the margins of political life,<sup>18</sup> the Ba'athist radicalisation experience led to better welfare-enhancing and developmental outcomes, compared to the private capitalist model that replaced it during the days of Hafiz and Bashar. When the social contract – which in essence had subordinated the working class and peasantry politically for decades in return for the state's delivery of basic services – was shattered, social hardship was exacerbated, and this eventually ignited the political revolt in 2011.

## 7 Concluding remarks

In the presence of a weak colonialist-bred bourgeoisie that could not challenge the economic impediments of the postcolonial period, the process of accumulation in Syria had to take place through state intervention. Through a series of nationalisations and confiscations, the state gained the necessary legal and economic means of ownership and became the main agent for economic and political decision-making. Seen from a class-based perspective, the Ba'athist military officers undermined the political influence of the traditional classes, assumed the role of the agent of investment and took direct responsibility for the process of capital accumulation. They pushed for state-led investment to enhance the economy's productive capacity and placed Syria on the path of national economic development. Far-reaching nationalisation, radical land reform, and other populist measures were promulgated to enhance social welfare and consolidate the regime's social base of support. The Ba'athist regime is therefore describable as state capitalist.

With the army's 'revolution from above' that was carried out without the insurrection of the working class, a few military officers with

egalitarian inclinations situated themselves at the pinnacle of the state apparatus and set forth a socially progressive structure. The institutions of civil society, such as trade unions, professional associations, and women's and students' clubs were subordinated to the state and did not hold political power in themselves. The extent of political coercion and repression later provided space for the state bourgeoisie to reverse the radical policies that were introduced in the 1960s with limited opposition from the working class and peasants. The working class was poorly organised, did not hold political representation in the state apparatus, and thereby could not defend the social gains extended to it during the Ba'athist regime. Once international political conditions paved the way for neoliberal transformation, the Hafiz Assad regime managed to reverse the earlier social dynamic of the Ba'athist model.

The next chapter will examine the cautious economic liberalisation that was undertaken by the Hafiz regime to meet the political interests of the state bourgeoisie. It will discuss how the regime undertook economic reforms and introduced trade and investment liberalisation to reward the merchant constituency of the new bourgeoisie that aligned itself with the regime against the Islamists. The alliance of the state bourgeoisie with the commercial bourgeoisie formed a new agent of investment that pushed for similarly new patterns of investment.

## 5

# Investment Liberalisation during the Hafiz Assad Regime: Moving to a 'Freer' Market

### 1 Introduction

This chapter examines the piecemeal economic liberalisation or *infitah* endorsed during the Hafiz Assad regime (1970–2000).<sup>1</sup> These reforms were characterised by being gradual, home-based, and tailored by the state bourgeoisie. The political economy of these selective reform measures is here explained. Although there were times when economic concerns pushed the regime toward market liberalisation, political considerations held primacy in the timing and the extent of the reforms. They were conducted under the decisive control of the ruling elites, preventing threats to the core power structure. This chapter will also discuss how the Hafiz regime maintained Syria's slow pace of economic liberalisation by making use of the Lebanese free-market system that acted as a 'back-door' economic liberalisation valve for Syria.

It was through *infitah* that Hafiz called on the new commercial bourgeoisie that formed the regime's social base of support to trust his pragmatic moves. More important, he served the class interests of the state bourgeoisie who were keen to undertake private investment projects on their own or with the new commercial bourgeoisie. By aligning with the new commercial bourgeoisie, the state bourgeoisie formed a new agent of investment that became responsible for investment decision making and its pattern during Hafiz's rule. Piecemeal economic liberalisation culminated in investment reform Law No. 10 of 1991, which paved the way for Syria's transition from state capitalism to private capitalism. Because Law No. 10 did not prioritise the productive sectors, the new agent of investment pushed for commercial rather than industrial investment

in order to ensure quick returns. Concomitantly, the state bourgeoisie made use of market liberalisation, especially Law No. 10, to gradually transmute themselves from state capitalists to private capitalists.

The Syrian regime under Hafiz never conceded that Syria was a 'socialist society on the road to capitalism' (Sadowski, 1985: 6). Or, as expressed by Molyneux and Halliday (1984: 20): 'the anti-capitalism of...Hafiz al-Assad [did] not promise emancipation from capitalism but rather the replacement of rule by one capitalism with another.' It was the combination of changing historical currents, the dictate of laissez-faire neoliberal ideology, and the willingness of the state bourgeoisie to become private capitalists, that together set the stage for the economic transition to take place. Regional and international developments at the time did not make it any easier for Syria, whose economy relied on financial inflows (geopolitical rent) during the 1970s and 1980s. The collapse of the 'Soviet project,' Soviet treaties, and the Soviet market pushed the Syrian regime to align itself with the winners of the Cold War. Once regional and international political conditions were ripe, the state bourgeoisie parted with its Ba'athist state-interventionist past and deepened market-friendly reforms, of which investment Law No. 10 was a major measure that is explored in the last section of this chapter.

## 2 Overdetermination of politics in Syria's movement toward *infitah*

The transformation from a state-controlled to an open-market economic system in which the private sector plays an increasing role is known as *infitah*. *Infitah* is change in economic policies that revives private sector activities, curtails the public sector, and opens up the economy to regional and international markets. It is frequently but superficially viewed as a response to economic problems arising from the statist or state-controlled economy, such as low levels of productivity, resource misallocation, institutional weakness, debt build-up, and foreign exchange shortages. Many economists argue that whenever state-led and internally-induced investment deteriorates, the potential opportunities of private investment push policy-makers to pursue *infitah* policies (Richards and Waterbury, 1996; and Hopfinger, 1996). Authors like Perthes (1995: 15), Polling (1994: 17), Sukkar (1994), and Hawwa (1993: 84) argue that Hafiz Assad pursued market liberalisation because of the economic crisis in the mid-1980s. This explanation is incomplete. The Syrian regime did not rely exclusively on economic logic. Rather, the interplay of political and economic considerations determined

the transformation (Niblock, 1993: 57 and Hinnebusch, 2001b: 114 and Heydemann, 2000). In fact, in Syria, political factors (internal and external) held primacy in the degree, timing, and even targeting of economic reforms. Economic considerations were subordinated to political rationality in Syria, basically to the regime's *raison d'être* or its security and stability. Only when economic problems presented a threat to the regime's stability did the state bourgeoisie take measures to safeguard the regime (Heydemann, 1992: 17-32). It will be discussed throughout the chapter how both internal and external political factors influenced Syria's gradual move toward the market economy during the Hafiz Assad era. Since the 1970s, economic liberalisation in Syria has been conducted in a selective and tailored way according to the ruling elites' political calculations, so that it did not threaten the core political structure.

More importantly, the economic crisis that preceded the *infitah* was, in fact, the result of Hafiz's adoption of piecemeal reform measures that shifted resources towards the highest echelons in the regime and their allies in the commercial sector. Up to the early-1980s the ISI policies, the debts and rates of investment, were paying off in development terms. In the early 1980s, the state bourgeois class engineered one of the biggest heists in Syrian history. By currency smuggling, they precipitated a balance-of-payments crisis from which the country never fully recuperated. The heist policies were pursued gradually time and again to siphon resources from the national economy. While the ISI programme during the 1960s managed to channel external aid and financial flows to the productive sectors in the economy, the Hafiz regime used them instead to expand military expenditure and enlarge the political patronage. It was the regime that decided not to build on the ISI achievement and prematurely reversed the statist policies that retain resources in the national economy.

## 3 Hafiz sets the foundation for piecemeal and tailored market expansion

Hafiz Assad never advocated economic liberalisation in the 1970s, despite his effort to revive the private sector from the very first day of his rule through his so-called pragmatic 'corrective movement.' The Hafiz regime was cautious with economic liberalisation because it wanted to avoid the depressive 'shock therapy' associated with the accelerated all-out liberalisation that was experienced in the former Soviet states. The public sector in Syria was the main employer of the wage-earning middle class

that grew enormously in the 1970s. The regime feared that shrinking the public sector would bring about social disorder, thereby creating a threat to the regime. The struggle with the Muslim Brotherhood – most intense in the years 1977–82 – was also another reason Hafiz was cautious with economic liberalisation (Hinnebusch, 2001b: 124). The regime worried that a revived private sector would bring with it anti-regime mobilisation, and the bourgeoisie would demand more political participation (Gambill, 2001a).

Behind the facade of public sector, the Hafiz regime introduced limited market liberalisation in the 1970s that set the foundation for Syria's gradual transformation to the market economy. Although piecemeal economic liberalisation started in the 1970s, it was only in the 1990s that they were officially announced as new government policies. The need for change was expressed at that time as the need for 'economic pluralism' (*al-ta'adudiyah al-iqtisadiyah*) (Haddad, 2004: 70, ft.31 and Hopfinger and Boeckler, 1996: 190).<sup>2</sup> In the 1970s, the Hafiz regime allowed the establishment of mixed (public-private) sector companies in the tourism and agriculture sectors with the promulgation of Law No. 56 of 1977, Law No. 41 of 1978, and Law No. 10 of 1986 (Polling, 1994: 14–15 and Perthes, 1994). The management of the mixed-sector companies was in private hands, while the state held a minority share of assets of 25 per cent and acted as a silent partner (Lawson, 1989: 18). Private investors provided the financing for these investment projects and they were exempted from paying corporate taxes and import duties for up to seven years after their founding (Polling, 1994: 18). Law No. 56 of 1977 established the ASCTE (Arab Syrian Company for Touristic Establishments); Law No. 41 of 1978 established TRANSTOUR (Syrian Transport and Tourism Marketing Company); and Law No. 10 of 1986 established mixed sector companies in the agriculture sector (Polling, 1994: 14–15).

The regime concluded contracts with foreign firms, especially in the petroleum sector. The Syrian authorities made claims on petroleum production, and the foreign contractors supplied inputs and controlled production operations. The regime also introduced limited trade liberalisation with the conservative Arab states and with Lebanon in particular, granting authorisations – subject to a quota system – to licensed importers to bring in previously import-prohibited goods (Hopfinger and Boeckler, 1996). Customs duties on about 190 products imported from neighbouring Arab countries were also entirely lifted. Import of a wide range of manufactured goods, listed in the 'exceptional imports system,' was also authorised. These goods were harmful to the internal

industrial market, particularly to the local artisans and craftsmen who could not compete with the price of the smuggled goods (Lawson, 1984: 473). Duty-free areas around Damascus and the country's port cities were also established (Petran, 1972: 251).

Private investors were encouraged to work with public-sector companies. They presented their bids on public tenders to supply equipment and other material to the publicly-owned companies in industry, agriculture, construction, and transport. As mentioned in Chapter 4, they also operated as subcontractors and imported materials from foreign companies to the public sector. Private-sector activities were encouraged in the 1970s, but only according to the socio-political and economic priorities of the state. They remained concentrated in trade, services, and construction (Perthes, 1995: 50–51).

These unsynchronised and selective liberalisation measures were undertaken to win the support of the new commercial bourgeoisie, who represented the baseline of support of the regime and offset opposition from the radical Ba'athists in the Ba'th Party and the Islamists from the Muslim Brotherhood. The cohesion between the regime and the new commercial bourgeoisie strengthened, because the latter did not join the anti-regime strikes of the Islamists in the 1980s (Robinson, 1998: 161). The merchants, whose number increased from 72,000 in 1974 to 99,000 in 1981, benefitted from the limited liberalisation in the 1970s (Central Bureau of Statistics, 1975 and 1983). Some wealthy capitalists smuggled goods from Lebanon and competed with the small Syrian industrialists (Kanovsky, 1997: 3 and Lawson, 1984: 473). Others benefitted from loosening of state control and reduced the supply of raw materials, machinery, and assembly kits in the local market, selling them instead on the black market. The regime protected few mixed-sector companies and helped them to operate as quasi-monopolies in the tourism sector. It also selectively applied high customs on certain products such as tobacco to ensure that smuggled goods are protected from competition.

#### 4 Lebanon: a facilitator for Syria's slow pace of economic liberalisation

One cannot adequately address the *infitah* history of Syria without referring to its neighbour, Lebanon. Access to the Lebanese market during 1976–2000 (the Hafiz period) helped Syria make up for shortfalls in its half-hearted economic liberalisation. Even given the Syrian military presence in Lebanon, which burdened the Syrian budget, the Syrian

state bourgeois class managed to siphon extraordinary economic gains from the Lebanese free-market economy. The Assad regime politically controlled Lebanon and became the dominant political force there for nearly 30 years.<sup>3</sup> Although the 1990 Ta'if Agreement envisaged the withdrawal of the Syrian forces two years after the implementation of the agreement, the Syrian regime reinterpreted the clauses of the Accord and stayed on as the guarantor of stability for Lebanon. Its position was that the withdrawal of Syrian military forces could not occur before the final pull-out of Israeli forces from southern Lebanon. In 1991, Lebanon and Syria signed the Treaty of Fraternity, Friendship, and Cooperation, which strengthened economic cooperation. Israel's losses and subsequent withdrawal from south Lebanon in 2000 strengthened Lebanese criticism of the Syrian military presence in Lebanon (Perthes, 2001: 41). The Lebanese bourgeoisie became more vocal in its demands for a complete withdrawal of Syrian troops. Evidently, Syrian retreat from Lebanon would entail immense damage to the Syrian state bourgeoisie that enjoyed access to global financial markets through Lebanese banks. It was only after Prime Minister Rafiq Hariri's assassination in February 2005 that Lebanon witnessed a complete withdrawal of Syrian troops.

Back in 1976, the Syrian military intervention in Lebanon represented the interests of American, Israeli, and Lebanese right-wing politicians in smashing the Lebanese left and taming the Palestinian resistance movement. The strengthening of the Lebanese progressive forces or the victory of the Palestinian resistance in Lebanon would have meant a Lebanese government close to the radical faction of the Ba'ath Party of Syria. That would encourage many dissidents in Syria and create a major threat to the stability of the regime (Middle East Research and Information Project, 1976). The Syrian regime therefore intervened to make changes in Lebanon that best suited its political interests – especially when it was threatened internally by the rise of antagonism between the Sunni majority and the minority Alawite rulers (Lawson, 1984: 456 and 459).

The Lebanese market became a magnet for Syrian unskilled or semi-skilled wage workers who sought higher remuneration for their labour (Chalcraft, 2009). It also represented an escape hatch to the newly acquired western lifestyle habits of the Syrian state bourgeois class. Migration from Syria to Lebanon alleviated the social disaffection that could have arisen had the numbers of the unemployed grown in Syria; hence the regime was relaxed about the huge numbers of Syrian migrants in Lebanon. These migrants were mainly employed in the Lebanese

construction sector. They were duly responsible for rebuilding much of the destroyed Lebanese infrastructure for an inadequate compensation, given the high returns to Lebanese capital.

To summarise: The Hafiz regime did not accelerate economic reforms because it made use of the neighbour's liberal economy. The wealthy capitalists who demanded free-market policies conducted business in Lebanon. This mitigated the pressure for increased liberalisation on the regime. Local and international analysts, in fact, had identified Lebanon as the 'lung' through which the Syrian economy breathed (MEED, 2007). According to the Lebanese economist, Joe Faddoul, Syria siphoned USD two billion annually from legal and illegal transactions in Lebanon (Spindle, 2005). Trade between Beirut and Damascus grew significantly during the Hafiz period. Syria made use of the port of Beirut – a large and efficient line of transport, trans-export and communication in the Middle East – through which foreign goods were transported to Damascus (MEED, 1975: 26 and Kanovsky, 1977: 144). Trade between Syria and Lebanon was estimated to have reached USD 90 million per annum in the 1990s. However, if smuggling is included, the figure could reach ten times as much (Kanovsky, 1997 and Marcus, 1996).

Lebanon was an 'offshore zone' for the Assad regime. In particular, it was a significant source of wealth that was used to reward the regime's loyalists (Lawson, 1984: 474). Syrian military officers, especially those occupying the highest political positions in the state apparatus, benefited greatly from the Syrian presence in Lebanon as they openly invested in the Lebanese industrial, commercial, and service ventures along with Lebanese businessmen (Ghadbian, 2001: 635). There were no significant business restrictions imposed on the Syrian bourgeoisie given that Lebanon was virtually a subordinate entity to Syria (Kanovsky, 1997: 5). They were involved in key business deals, such as the GSM phone contract awards to Cellis and Libancell, during the Lebanese reconstruction period in the mid-1990s (MEED, 2007). They were free to travel back and forth to Lebanon to carry out various transactions in the Lebanese banking system, especially after the Lebanese government removed most travel restrictions between the two countries (Gambill, 2001b). Certain Lebanese employees were given special passes or military lines (*khatt 'askari*) that enabled them to easily cross the Lebanese-Syrian border by bypassing the meticulous security search at the border. These employees would collect deposits from the Syrian bourgeoisie and return to Beirut to credit their respective accounts. Such transactions were not usually documented in the sense that no signing



of official papers were carried out between the two parties (Haddad, 2004: 74, ft.69).<sup>4</sup>

Moreover, Syrian military officers undertook a variety of contra-band activities. By controlling the trading routes and custom operations with Lebanon, they managed to smuggle goods from Lebanon (Robinson, 1998: 176). Many key military officers, such as Rifa't Assad, Ghazi Kan'an, Ali Haydar and Shafiq Fayyad were enriched during that period. Anecdotal evidence shows that military officers competed over positions and assignments in Lebanon (Haddad, 2002: 224). The 569th Army division used its vehicles to smuggle luxury cars (Haddad, 2002: 241). It has been estimated that USD 1 to USD 1.5 billion worth of goods were smuggled into Syria. When the Syrian armed forces were redeployed in Lebanon during the 1970s, imports from Lebanon provided a range of consumer goods that the Syrian market craved. Eventually, Syrian officers were operating a black market in everything from tape decks to automobiles, which accumulated astronomical profits. On the other side, subsidised Syrian goods ranging from cement, petrol, and sugar were sold in the Lebanese markets where market prices are higher (Sadowski, 1985). The chief beneficiary of these smuggling activities was the president's brother Rifa't Assad, who was in command until 1984 (Richards and Waterbury, 1996: 367–68).

The Syrian troops – estimated at 35,000 to 40,000 soldiers – withdrew from Lebanon in 2005. Syrian exports to Lebanon dropped from USD 240 million in 2004, to 196 million in 2005 and then to 178 million in 2006 (*The Syrian Lebanese Higher Council*, 2008), mainly due to the fall in exports of Syrian oil derivatives to Lebanon. Lebanese exports to Syria in 2007 (USD 210 million) were higher than Syrian exports to Lebanon (USD 206 million) (*The Syrian Lebanese Higher Council*, 2008). The main Lebanese exports included metal products, food products, chemical products, and wood and paper. These four items accounted for 62 per cent of total exports to Syria. In the other direction, Syrian exports to Lebanon included metal products, fruits and vegetables, chemicals, animals, and other animal products (*The Syrian Lebanese Higher Council* 2008). Close monitoring of the aftermath of the withdrawal of Syrian troops shows that strong links persisted between the two countries despite the political tensions after the Hariri assassination (MEED, 2007). The smuggling activities did not stop (Robinson, 1998: 173). The informal sectors that were created after the Syrian withdrawal from Lebanon wove intricate cross-border trade and maintained tight economic ties between the two countries. The flow of goods, including arms, ammunition and other illicit goods, across the border continued.

## 5 The early Hafiz days: living the legacy of statism

In the 1970s, statist policies with limited *infatih* represented a good recipe for economic independence. The state maintained its leading role in the economy and the public sector remained the main source of revenue. Syria benefitted from the first oil boom of 1973–81 and its windfalls. Starting in 1974, export of oil surpassed that of cotton, constituting 72 per cent of total exports in 1979 (Central Bureau of Statistics, 1988). Backed by high oil prices, workers' remittances especially from the Gulf conservative countries peaked, amounting to USD 750 million per annum after 1975 (Carr, 1980: 455). The Syrian regime acted as an 'intermediary regime': it received financial assistance from the Soviet Union and the ex-Soviet East European nations while also obtaining foreign aid from the conservative Gulf states (allies of the US), Iran, and Libya, especially after the October War of 1973. In the early 1970s, the Soviet Union and other East European countries were the main contributors of foreign aid (Carr, 1980: 455), after which the Arab Gulf states took over. These flows constituted part of the geopolitical rents that Syria received because of its regional political role as a 'front line state' with Israel (Melhem, 1997: 4, Olmert, 1988: 733, and Hopfinger, 1996). The regime's antagonism toward Israel was considered by other regional Arab countries, especially the conservative Gulf States, as a necessary response to Zionism and to the Israeli threat. Syria received very large capital inflows that helped it solidify this strategic regional position. Specifically, it received USD 2.1 billion during 1973–76 and about USD seven billion during 1977–81 (Sukkar, 1994 and Carr, 1980). This inflow of capital amounted to an average of 12.7 per cent of GNP during 1977–81 (Sukkar, 1994: 27). However, the bulk of the financial support came from the 10-year Steadfastness Fund that was set up at the Baghdad summit in 1978, in which the quota for Syria reached 1.85 billion dollars (*Oxford Analytica*, 1989). The Hafiz regime in its early days was still influenced by the radical policies of the ISI programme and liberalised the market without jeopardising the decisive role of the public sector. It channelled resources to building productive capacity, the result of which was increased investment in 1970s. GFCF increased from S£ 897 million in 1970 to S£ 14.1 billion in 1980, and public investment contributed more than 60 per cent of total GFCF each year in the late 1970s. The economy realised considerable growth in almost all sectors except agriculture.<sup>5</sup> Living standards improved and per capita GDP at constant prices grew at an annual rate of 6 per cent during the 1970s (World Bank, 2010). However, this situation did not last for long. Hafiz was more concerned with maintaining

the regime's political stability. Subordinating economic considerations to the political priorities of the regime's survival implied an inevitable reversal of these economic achievements.

## 6 The economic crisis of the mid-1980s

In the early 1980s, the Hafiz regime adopted policies that accelerated the diversion of resources to the nonproductive sectors. It prematurely parted with the ISI programme and channelled resources to building the internal security apparatus instead of enhancing state-led, import-substituting industrialisation. The five-year plan (1980–85) reduced government spending on imports and allowed only for the completion of unfinished investment projects from the 1970s. Capital inflows (geo-political rents and aid) during that time were directed into military expenditure and other current expenditures – mainly political patronage<sup>6</sup> – rather than on developmental and infrastructural projects.

The regime spent lavishly on military – after the 1973 War and especially after the 1979 Camp David agreement – although it did not undertake any major combat operations after 1973. Syria's 'constant preparation for war' against Israel ensured that it overspent on military and maintained its 'praetorian leadership' in the Arab region (Perthes, 2000: 158). Internally, the regime maintained its iron grip on society through a tight security and intelligence apparatus that managed to put an end to a wide range of internal conflicts and political threats to the regime, like the Hamah revolt in 1982 (Lawson, 1984: 477). Syria was described as a police state because every part of Syrian life was monitored by the Syrian secret services (*mukhabarat*) (Picard, 1988: 127 and 135). Hafiz did not hesitate to fire and expel commanders, including his brother Rifa't, if he faced political threats from them (Owen, 2004: 185 and Olmert, 1988: 726). He quelled opposition in any form, left or right (Batatu, 1982: 15 and Lawson, 1997: 11). The Muslim Brotherhood and the communist parties, as well as the prisoners of conscience, such as Riad Al-Terk, were all victims of Hafiz's repression.

Military spending burdened the government's budget.<sup>7</sup> Estimates show that military expenditure – including imports of Soviet arms – amounted to 30 per cent of GDP. Military outlays increased from USD 1.8 billion dollars in 1977 to USD 5.4 billion in 1984 (Clawson, 1989). It was estimated that military spending was two point one times higher than spending on education and 33.5 per cent higher than the spending on health (Ayubi, 1995: 261). Most of the arms purchases were financed by geopolitical rent from the Gulf and by Soviet loans (Clawson, 1989) that

it repaid in Syrian goods exported to the Soviet market. Investment in the dwelling and construction sector increased because of building of new military establishments and institutions, such as the Ministry of Defence and the Military Construction Establishment. A decomposition of GFCF in the late 1980s shows that the dwelling category constituted the highest average share (27 per cent) of total GFCF (Central Bureau of Statistics, 1989). On another front, the average rate of mining and manufacturing dropped from 45 per cent of gross fixed capital formation (GFCF) in the late 1970s to 30 per cent in early 1980s, then further to 23 per cent in late 1980s (Central Bureau of Statistics, various issues).

Because the economy was highly dependent on external funds, it was the shortfall of these capital inflows that contributed to the economic crisis in the mid-1980s. Aid flows, loans and workers' remittances from the conservative Arab countries dropped following the fall in international oil prices in 1986, adding pressure to the balance-of-payment-constraint. Syria also lost a huge amount of Arab aid because of its political position on the Iraq-Iran War (siding with Iran). Arab transfers fell from USD 1.8 billion a year during 1979–83 to USD 500 million during 1986–88 (Hinnebusch, 1993a: 188). Credit from the West also declined, and Western sanctions on the economy were imposed in 1986. Foreign exchange reserves fell to about USD 357 million, sufficient to finance one month of imports only (Sukkar, 1994: 28). The trade account registered a deficit in the second half of the 1980s, because Syria imported oil while its exports fell. Following the government's austerity measures, production levels dropped. Real GDP growth rate dropped to 1 per cent in the late 1980s compared to 5 per cent in the late 1970s (World Bank, 2014).

During the 1980s, the state bourgeoisie and the wealthy merchants smuggled Syrian pounds into Lebanon and exchanged them for dollars in the Beirut exchange market. The state bourgeoisie who were keen to store their wealth in dollars, kept their funds in Lebanese banks or other banks in neighbouring countries (interview with al-Zaim, 2007). This contributed to the foreign exchange rate crisis in Syria and to the severe depreciation of the Syrian pound, which simultaneously pushed prices up in 1986–87. In 1985, the value of the Syrian pound in Beirut dropped from 10 (SE/\$) to 18 (SE/\$), and continued to slide thereafter (Sukkar, 1994: 27). The government started to devalue the Syrian pound, from SE/\$ 3.90 in 1979 to SE/\$ 10 in 1985, SE/\$ 20 in 1986, and finally to SE/\$ 45 by the end of the 1980s (Seifan, 2010: 4). In 1986, a new 'encouragement' rate for noncommercial transactions was introduced and set close to the black or free-market rate of 22 SE/\$ (Perthes 1994: 58). The

government also introduced a law in September 1986, known as Law No. 24, that imposed serious penalties on illegal foreign-exchange dealings so as to curtail smuggling in the currency black market and slow down the slide in the value of the Syrian pound.<sup>8</sup> As a result, prices increased by 498.3 per cent over the period 1980–89 (World Bank, 2014). While official figures recorded an unprecedented inflation rate of 60 per cent in 1987, up from 36 per cent in 1986, unofficial figures reported more than 100 per cent per annum in both 1986 and 1987 (Sukkar, 1994: 28). Syria also defaulted on its external debt payments (Kanovsky, 1997: 3), of which USD 100 million in 1989 and USD 210 million in 1990 fell into arrears (Lawson, 1994: 48–49).

The cumulative effect of low production levels, trade deficit, budget deficit and hyperinflation pushed the economy into structural deficits in the second half of the 1980s. Whilst state employees, farmers and industrial workers suffered from real income losses due to the huge rise in inflation, the state capitalist class with its allied wealthy merchant class made fortunes (Najmah, 1986: 323–24). Available data on wages and prices showed that while public-sector wages increased by about 300 per cent, retail prices rose by approximately 600 per cent from their 1980 level (Perthes, 1992b: 43).

### **7 Investment liberalisation in 1991: opening the way to a 'freer' market**

Starting in the late 1980s, the Syrian government gradually surrendered some of its economic levers on the private sector for both economic and political reasons. As explained earlier, the economy suffered from a plunge in foreign exchange, a crisis in the balance of payments, and depletion of public resources. The collapse of the 'Soviet project' and the domination of the neoliberal paradigm in the 1990s 'also played an influential role. When loans and grants declined from the Eastern bloc, Syria, which needed alternative sources of economic assistance, parted with its radicalism in regional affairs (Pan-Arabism) and sided with the winners of the Cold War – the US and its allies. Syria received USD two point five billion from the Gulf states because of its political stance with them against Iraq in the Gulf War (Sukkar, 1994: 37).<sup>9</sup> Also, regional factors including two successive military defeats in the 1967 and 1973 Wars weakened Syria. It was the Madrid Conference of October 1991 that deluded the Arab region into believing that peace was a possibility and, as such, the Syrian regime became yet more confident in deepening its market-friendly reforms.

The early 1990s witnessed the promulgation of investment Law No. 10, a major qualitative measure that revived the private sector. It represented rapprochement with the bourgeois class, especially the old bourgeoisie, whose business activities were tightly curtailed during Syria's nationalisation experience. While private commercial activities were conducted jointly with the public sector during the 1980s, they could be pursued on a wholly private basis under Law No. 10.<sup>10</sup> This law broadened the scope of activities for the private sector by permitting Syrians, other Arabs, and international investors, to invest in previously prohibited sectors. It was responsible for approving and initiating investment projects in most sectors of the economy – industrial, agrarian, transport, oil and energy, health, and infrastructural sectors – except for tourism, private banking and insurance. The minimum amount of capital required for an investment project was S£ 10 million, equating to USD 240,000 – calculated at the market rate of S£ 42 per US Dollar. The Law represented a reversal of the statist policies of the Ba'athist period. It also restored private ownership, which subsequently enabled the state bourgeoisie to own private property.

The Law offered tax exemptions while facilitating trade and exchange transactions. Approved projects were granted five years of tax holiday. In an attempt to boost production at the time, companies that exported 50 per cent of their output were eligible for another two years of tax exemption. Investors could borrow in local currency from the state banks to finance their projects. They could import duty-free goods used for setting up and running investment during the implementation phase. They could also retain 50 to 75 per cent of their export earnings to finance imports of raw materials and industrial products to be used in their investment; the remainder had to be surrendered to the Commercial Bank of Syria at the market exchange rate (Sukkar, 1994: 32). Firms were also exempted from foreign exchange regulation, a major bottleneck to investment at the time (interview with the SIA, 2007). At the Central Bank of Syria, they could exchange their hard currency in the local market and open bank accounts in foreign currencies. In case of project failure, they were free to repatriate their invested capital to their home country.

In 2000, an amendment to investment Law No. 10, Legislative Decree No. 7, was introduced to deepen investment liberalisation. It allowed investors to open bank accounts outside Syria in foreign currencies and to freely move profits attained from their investment in and out of Syria by using the neighbouring exchange rate (i.e. S£/\$ 50). Other financial exemptions, such as reduction in business taxes from 32 per cent to

25 per cent, were granted to attract private investors (Kanaan, 2000: 108–09). However, LD No. 7, like Law No. 10, failed to target the productive sectors.

The main limitation of Law No. 10 was that it treated all sectors of the economy equally (interview with Ministry of Industry, 2007). It failed to prioritise productive sectors by excluding the other sectors from financial privileges. It provided the same incentives and guarantees to all investment projects in all fields, without assigning priority to building the economy's productive capacity or imposing the obligation of job creation. Private investors, especially merchants, who were keen to increase their own private profits, managed to abuse the Law and benefit from its financial privileges. The next chapter will expand on this point and show that private-sector-led investment served private as opposed to social benefit.

Other limitations included the lack of synchronisation in economic reforms that made it difficult for Law No. 10 to encourage investment in Syria. Law No. 10, on its own, was unable to provide guarantees to local and foreign investors that would encourage them to make commitments over the long term. With the exception of tax law No. 20 of 1991, which substantially reduced business taxes (Perthes, 1995: 58), Law No. 10 was introduced without changes in other laws that had been in effect for more than two decades and that needed reform to gain the trust of investors. Investors were sceptical of the half-hearted liberalisation and were also discouraged by the conflicting legislations – Law No. 10 exempting investors from foreign exchange regulation, while Law No. 24 of 1986 remained in force until 2003 (interview with Ministry of Industry, 2007). The absence of clear-cut domestic laws concerning the rule of law, property rights and financial regulations, as well as ongoing bureaucratic obstruction and other administrative difficulties when opening a new business in Syria, discouraged investors. In particular, issues related to banking, repatriation of funds, and taxes were unclear and contradictory, which deepened investor mistrust (interview with Ministry of Industry, 2007). Investors always feared that abrupt political changes might reinstate nationalism and impose capital restrictions on their investment. There was also lack of confidence in the legal system, which, as already noted, was itself very contradictory. The judiciary in Syria was unreliable and unlikely to favour foreign over local interests, especially when local companies enjoyed the political support of the regime. An exemplary case involved Orascom Telecom, an Egyptian company that owned a 25 per cent share in SyriaTel, a local phone company. When a financial disagreement developed between the two

partners in 2002, a Syrian court froze Orascom's assets in Syria. Orascom was subsequently able to sort the problem out in a foreign court and the two parties eventually reconciled, ending Orascom's partnership with SyriaTel (Perthes, 2004b: 38).

Moreover, the Investment Bureau that was attached to the ministerial Higher Council of Investment could not act as an independent and viable body. Like all other vital state bodies, it was incorporated into the authoritarian structure of the state. Its role was limited to screening and processing project applications and to monitoring project performance. Feasible projects were submitted to the Higher Council of Investment – composed of the Prime Minister (the chairperson of the Council) the president of the Investment Bureau, and other ministers – for approval. The chairperson met with experts to take their opinion on the investment projects; however, the final decision remained with him. Incentives were given arbitrarily to investors according to how much they were connected to the state bourgeoisie and not according to the importance or performance of their projects. With such biasedness in granting approvals and financial incentives, the Investment Bureau failed to mitigate the barriers to entry and to increase competition in the market (Kanaan, 2000). The Investment Bureau also failed to act as a viable one-stop shop to govern investment projects from plan to implementation (Reddawi, 2001: 7–8) between 1991 and 2006.

## 8 Concluding remarks

The main contribution of Law No. 10 was the revamping of private ownership through which the state bourgeoisie formalised their informal hold on property. The state bourgeoisie started to gradually transmute itself from a class of state capitalists to one of private capitalists and became the tycoons who controlled the market through monopolies and quasi-monopolies during the Bashar regime. However, Law No. 10 did not achieve generally fruitful economic results. It failed to promote long-term and productive investment that can ensure job creation and higher living standards for the Syrians. The main investors remained the state bourgeoisie and their new allies in the commercial bourgeoisie who abused the law for short-term profit. The state bourgeoisie parted ways with the interests of the middle class and shifted its alliance to the new bourgeois class, especially the merchants. State capitalists were keen to invest the wealth they had accumulated through the control and management of state properties in the private sector.<sup>11</sup> By restoring the private sector, Law No. 10 made this possible. The state bourgeoisie

looked for profitable and parasitic business opportunities in the private sector to amass its own wealth. There are no clear figures of how many 'brigadier merchants' there were, but anecdotal evidence from Syria signified that it was a rare occurrence that a military officer retired without undertaking a business partnership with wealthy merchants in the private sector.

As its class-based interests changed to become more entrepreneurial and capitalist, the state bourgeoisie formed a new agent of investment with the new commercial bourgeoisie (the 'military-mercantile complex'). The driving social force determining investment after liberalisation was not confined to the bureaucracy of the state, but rather became an amalgamation of military officers and businessmen. A more commercial way of doing business was strengthened and investment was directed away from industry and into real-estate speculation and into trade-related, touristic, and short-term transport activities in the tertiary sector. These activities entailed little risk and quick returns (Ayubi 1995: 345; Perthes 1992a: 211–12). As will be demonstrated in the next chapter, the traditional industrial sector had been on the wane for more than two decades prior to the uprising, and the private sector failed to initiate employment-generating investment that could ensure jobs for the growing labour force. The process of capital accumulation therefore tilted away from the public interest and into the private interests of the new agent of investment.

The next chapter will focus on the Bashar Assad regime and its promulgation of wide-ranging economic reforms during 2000–10. The socio-economic implications of economic reforms including investment reform will be examined in more detail. Data and information compiled from field trips to Syria will serve as substantiated evidence to prove that private sector-led investment following investment reforms did not boost industrial expansion. It did not contribute to economic and social development and did not ensure adequate production levels of goods and services. Investment reforms were tailored to serve the private concerns of the 'military-mercantile complex' and failed to enhance the economy's productive capacity. Concomitantly, the working class and the peasants were subjected to the baleful cost of liberalisation. The most visible cases were the dispossession of peasants following land privatisation, dampened purchasing power because of rising prices, deepened social polarisation, and increasing unemployment, especially among youth and women.

## 6

# Economic Liberalisation as an Irreversible Trend during the Bashar Regime: The Socioeconomic Fuel of the Syrian Crisis

### 1 Introduction

This chapter examines Bashar's lurch to the market-driven economic order starting in the year 2000. Neoliberal reforms were wide-ranging and included lifting of price controls and tariffs, amending investment reform law, unifying the exchange rate, removing subsidies, and opening up trade and capital accounts. The Bashar regime aimed not only to transform the economy from a state-controlled to a market-oriented one, but also to serve the class-based interests of the state bourgeoisie. The natural next step for that class was to break free from the fetters of state control and to transform itself from a state capitalist class, which controls the means of production through its control of the state, into a private capitalist class that owns the means of production. While on fieldwork, the standard cliché that I heard from state officials in response to my critique that market liberalisation has not paid off was that the move toward the free market was irreversible. The grip of neoliberal ideology on the imagination of ruling class and its cronies acted like a sedating drug: while working people became poorer, the authorities hallucinated that conditions were rosy. Nevertheless, this irreversible move would eventually prove disastrous.

What was the evidence that the free market recipe floundered? In this chapter, I provide data and technical information compiled from fieldwork to substantiate the contention that private-sector-led investment following economic liberalisation was neither employment-generating

nor developmental. Much of the free-reforms hid behind the laws liberalising investment. My investigation on the ground and discussions showed that industrial establishments under investment reform laws were minimal in comparison to other economic endeavours. The staff interviewed at the Syrian Investment Agency and the Ministry of Industry in 2007 were most helpful in explaining to me that under Law No. 10, namely, commercial-type of investment activities took root.

Apart from the ideological strength of neoliberalism, the other issue one notices clearly is the divide between the interest of the local industrial class and the merchant class. Industrialists were hurt by dwindling state credit and loss of protection from unfair competition as a result of lifting the tariff barrier on imports. Merchants were contended because of the privileges of *laissez faire* imports, free flow of capital, and the fixed and consolidated exchange rate. They were most happy with the lifting of price controls. These conclusions were echoed by state officials from the Syrian Ministry of Industry and Ministry of Economy and Trade, who confirmed that the private sector boosted commercial investment over manufacturing. For instance, Al-Za'tari (former Resident Representative of the United Nations) from UNDP-Syria expressed that Syria has been transformed from a state-planned economy into a FIRE (Finance, Insurance and Real Estate) economy. The late Al-Zaim (a foremost scholar of Syria's economy) also linked the change in the investment pattern to the change in the class interests of the social class responsible for investment.

This chapter also examines the economic, social, and environmental sources of the social unrest. With a rising Gini index and increasing discrepancy between wages and profits, it is evident that the *laissez-faire* reforms were neither pro-poor nor egalitarian, any rhetoric of 'opportunity' to the contrary. Certain segments of society benefited at the expense of others. Crucially, the political revolt had agrarian roots: the farmers' disaffection as a result of the severe droughts in 2006–10 and the regime's austerity measures toward the agricultural sector. These, along with socially-irresponsible investment policies, aggravated social hardships that partially contributed to the political uprising in 2011.

## **2 The Bashar Assad regime: difficult inheritance and the metamorphosis of the state bourgeoisie**

In 2000, at 34 years old, Bashar Assad became the president of the Republic by a hasty amendment to the constitution that facilitated the smooth transition.<sup>1</sup> Before presidency, he acted as a lieutenant general and a commander in chief of the armed forces. He was also elected as the

general-secretary of the Ba'ath Party, which also makes him the president of the Progressive National Front. Bashar maintained the internal consolidation of power and kept a firm grip on society despite the pro-democracy rhetoric that was promoted during the first days of his rule. He did not overlook the state's primary purpose of regime security, maintaining the strong security and military apparatus that was implemented during his father's days. He also pursued his father's legacy in foreign relations and continued to improve the regime's relationship with regional and international powers.

Bashar handled a difficult inheritance. The Hafiz regime left unresolved economic problems that can be traced back to the economic crisis of the mid-1980s. These included low growth rate in real GDP per capita, a poorly performing public sector, weak employment generation, and rising poverty and unemployment.<sup>2</sup> GDP per capita at constant prices grew at an annual rate of -1.2 per cent in the late 1990s (Central Bureau of Statistics, 2010 and other issues). Poverty hovered at double-digit level (14.3 per cent in 1996–97) (UNDP, 2005). Nominal wages did not increase during the second half of the 1990s, falling behind the increase in prices (Al-Sattel, 2001). It was estimated that the purchasing power of Syrian workers dropped by 12 per cent per annum during 1994–2000 (Izmishli, 2000). This chapter will include an account of how the Bashar regime unfortunately left these problems unaddressed and leapt into the neoliberal transformation.

From a political-economic perspective, economic reforms in Syria had always been determined by the political calculations of the state bourgeoisie rather than by economic considerations (see Chapter 5). For instance, a Syrian analyst pointed out that economic liberalisation in Syria had transformed it into an 'economy of state opportunities (Reddawi, 2001).' The state bourgeoisie would target a certain sector, for example telecoms, for reform because investments in it were highly profitable. The intensive package of economic liberalisation initiated by Bashar therefore served the political interests of the state bourgeoisie, who were eager to transform themselves from state capitalists to private capitalists.

In the few years prior to the uprising, the dominant private capitalists or property-owning bourgeoisie were the state bourgeoisie themselves: Rami Makhluf and Mustapha Tlas, the sons of 'Abd al-Halim Khaddam, and the sons of Bahjat Sulaiman. These wealthy capitalists made use of their close ties to the regime to exploit economic reforms and initiate their own profitable business ventures that added to their private wealth (Seifan, 2010; Barout, 2011). Rami Makhluf, a cousin of the president,

controlled as much as 60 per cent of the economy through a group of business projects and virtual monopolies in telecommunications (SyriaTel), oil and gas, real estate, construction, banking, duty free, and retail (Ramak Duty Free shops) (Saigol, 2011).<sup>3</sup> Makhluḥ was also the main shareholder of Cham Holding Company, Syria's second largest holding company, which includes most of Syria's prominent businessmen. Cham Holding Company's investments were mainly in real estate projects, infrastructural works, and transport and finance projects. Mohamad Makhluḥ, the father of Rami, was head of the Tobacco Department. He made lucrative profits by smuggling illegal Marlboro and B-grade cigarettes into the country (and caused clashes with Rifat Assad). The sons of Tlas owned the MAS Group (a chain of different commercial and semi-industrial companies) while the sons of Sulaiman controlled the United Group (an important advertising and marketing company) (Ismail, 2009) and the sons of Khaddam owned Afia, one of Syria's largest food firms, which produced food conserves, olive oil, and bakery products (*The Syria Report*, 17 April 2006). Nizar Assad, another important businessman, is the CEO and main shareholder of Lead Contracting and Trading Group, the country's largest oil field services firm. Together with Rami Makhluḥ, he invested USD23.2 million in Gulfsands Petroleum, a UK-based oil company that conducts operations in Syria (*The Syria Report*, 2 July 2007).

Evidently, the main social force determining investment no longer rested within the bureaucracy of the state as during the previous Ba'athist state-capitalist phase, but rather became an amalgamation of regime figures or military officers and businessmen, or what became known as the 'military-mercantile complex.' Nevertheless, Syria's transition from a state-led to a market-oriented economy cannot be explained without referring to the regional and international developments that weakened Syria. The two successive military defeats in the 1967 and 1973 wars against Israel and, more important, the ideological defeat of the Soviet project in 1990 paved the way for the reversal of the radical and progressive reforms of the state-capitalist phase. This combination of shifting geohistorical currents, the change in the class-based interests of the state bourgeoisie, and the rise of laissez-faire ideology set the stage for the volte-face to follow.

### 3 Bashar's uncontrolled lurch into a market-driven economic order

The Bashar regime did not start with a thorough institutional reform that authenticates and empowers the incorporated institutions (police,

judiciary, legislative, private property law, and associated regulatory bodies) that, in turn, are needed to build a 'confident' market economy. Institutional reforms 'may encourage' accountability, ensure fair and transparent rules of the game, promote confidence in the judicial system, and put an end to corruption and unfair practices. Instead, the regime decided to set aside such institutional rationalisation and continue with economic reforms, but this time at a more intensive pace. The major liberalisation measures enacted during his era were investment liberalisation, counter land reforms, lifting of price controls, introducing a private banking system, and establishing private-sector-led monetary policy. These reforms laid a solid and irreversible foundation for the expansion of the market-driven economic order.

Unlike Hafiz, Bashar allowed the International Financial Institutions (IFIs): the World Bank and the International Monetary Fund, to interfere in the process of economic liberalisation (IMF, 2009a and 2010). The IFIs allegedly claimed that market-led reforms would promote macroeconomic stabilisation. The Syrian policymakers were also convinced that the neoliberal paradigm and its associated profit-based resource allocation mechanism would inevitably 'trickle down' and improve the social conditions of ordinary Syrians. In reality, the transition to the market economy completely abandoned any progressive social agenda and removed various social services that had been previously provided to Syrians. These points are further elaborated in the last section of this chapter.

Wide-ranging economic reforms did not crowd in political reform. The Bashar regime sparked few reformist hopes even as demands for reform grew louder, both from Syrian intellectuals and from political opposition forces both inside and outside the country. During the first six months of Bashar's rule, a group of 99 prominent intellectuals and writers initiated a political reform movement known as the 'Damascus Spring.' They issued an open letter in which they called for political freedoms – freedom of expression and of the press – the release of all political prisoners of conscience, and for political pluralism (Ghadbian, 2001: 636–38). In 1998, Bashar ran a campaign against corruption. The former Prime Minister, Mahmoud al-Zu'bi, was accused of corruption. He was expelled from the Regional Command of the Ba'ath Party and his assets were confiscated, after which he committed suicide. Hikmat Shihabi, a former high level official, was also charged with corruption. Shihabi's case was more significant than Zu'bi's as he was a serious candidate for succession to the presidency and was therefore sidelined by the regime (Ghadbian, 2001: 633). And so it went. It was not long, however,

before the 'Damascus Spring' came to an end and efforts at political reform were turned into retrenchment.

The open-market reforms during Bashar's days consisted of:

### 3.1 Investment liberalisation

Legislative Decree (LD) No. 8 was enacted in 2007 to encourage more private investment. By replacing the old Investment Law No. 10 of 1991, LD No. 8 became the main legal framework behind private investment starting 2007 (interview with Syrian Investment Agency, 2007). With the new LD, the authorities removed the remaining state controls on private investment and allowed investors to purchase and own the land on which the investment project is conducted. This encouraged local, foreign, and Gulf investors to invest in real estate. Local investors also implemented business projects – mainly commercial offices, service complexes, housing complexes, hotels, restaurants, and cafes – on the purchased property.<sup>4</sup> Investment in real estate was undertaken to speculate on rising prices of assets, underpinning a real estate boom during 2002–10 (Seifan, 2011: 5).

A new investment authority, the Syrian Investment Agency (SIA) was created under LD No. 9. SIA replaced the Investment Bureau that had been operating for 15 years. Today it acts as a one-stop shop and is responsible for supervising and governing investment projects. It provides advice and support in administrative procedures to investors. The SIA is directly affiliated with the Prime Minister's office. However, unlike its predecessor – the Investment Bureau – it has the authority to license projects without the approval of the Higher Council of Investment. It has a board of directors, whose members are appointed by the Prime Minister and whose chairman is appointed by a ministerial decree.

According to SIA, LD No. 8 is responsible for investment in industry, oil and gas, agriculture, environment, transport, IT, and services (interview with SIA, 2007). Investments in these sectors therefore benefit from the privileges, facilities, and guarantees granted by LD No. 8. The tourism and financial sectors are overseen by other government bodies (defacto tourism projects fell under Law No. 10 and LD No. 8 through operation of Holding Companies and establishment of real estate complexes).<sup>5</sup> The similarities and differences between LD No. 8 of 2007 and the previous Law No. 10 of 1991 are summarised as follows (interview with SIA, 2007):

*The right to buy land and buildings:* According to LD No. 8, investors have the right to buy the land and buildings needed for their projects.

They are also allowed to exceed the ownership ceiling on land if it is used for the purposes of their investment.

*Introducing the dynamic tax discount:* LD No. 8 removed the five-to-seven year tax exemptions that were granted by Law No. 10 of 1991 (interview with Ministry of Finance, 2007). Instead, tax law of 2006 (LD No. 51) – which replaced the income tax Law No. 24 of 2003 – became responsible for financial issues of all investment projects. This new decree is the only law that grants tax exemptions through a dynamic deduction mechanism. Investors are subject to a dynamic tax discount throughout the period of the project, depending on its financial and economic success. Taxes are reduced to 28 per cent and can drop down to 14 per cent, depending on how well the investment project is performing (interview with Ministry of Finance, 2007).

*Failure to give priority to the productive sectors of the economy continues to apply:* Like its predecessor, LD. No. 8 does not differentiate between economic sectors. The privileges, exemptions, guarantees, and facilities are granted equally to all investment projects regardless of the type of investment. This opened the door for the commercial bourgeoisie to make use of these privileges and to engage in short-term and non-productive types of investment for quick profit-making.

*The dispute settlement process continues to apply:* In case of disputes, the Decree lists four methods for resolving conflicts: through arbitration; through the Syrian judiciary; through the Arab Investment Court – established pursuant to the Unified Agreement for the investment of Arab Capital in the Arab states in 1980; or through the Investment Insurance and Protection Agreement that is signed between Syria and the investing country or any other international organisation. The Decree also states that Syrian courts should deem all investment-related disputes to be urgent.

*The right to repatriate funds continues to apply:* Investors under LD No. 8 are allowed to repatriate their capital in the convertible currency. They can do this if unforeseen circumstances prevented the initiation of the project, and they are also allowed to repatriate their shares in the project in the convertible currency upon its liquidation. Foreign employees (Arab and non-Arab experts, workers and technicians) can also repatriate or transfer 50 per cent of their income and bonuses and 100 per cent of their end-of-service compensation in the convertible currency. However, they are entitled to settle the taxes due on the wages and bonuses.



*Permission for dealing in foreign currency continues to apply:* Because Decree No. 24 of 1986 that prohibited transactions in foreign currency was a major impediment to investors, LD No. 8 lifted this restriction. Moreover, Decree No. 24 of 1986 was abrogated by Legislative Decree No. 33. The latter decree states that all transactions in foreign currencies and in precious metals should abide to the regulations set by the Ministry of Economy and Foreign Trade.

*Lifting of import prohibitions on machinery, tools and equipment continues to apply:* Investors are allowed to import all their needs without being subject to import restrictions. All equipment and machinery are exempt from customs duties. Non-custom restrictions are also eliminated in conformity with binding international agreements, such as Greater Arab Free Trade Zone agreement. Import of transport vehicles and cars are allowed as long as they strictly serve the investment project.

A caveat is required here. The above-mentioned points focus on internal issues and limitations. However, there remains another important factor: external geopolitical risk. As much as the internal factors matter, external forces have also played an important role in influencing the course of events in Syria. Crucially, high geopolitical risk had kept entrepreneurs reluctant to invest in Syria, regardless of the investment climate and investment laws. The uncertainty over the horizon had not been conducive for local and foreign investors to run investments with high sunk costs over a long gestation period. It must be recalled that the rate of investment took off in the early 1990s simply on the grounds that the region was presumed to be set on a new peaceful course of development after the Madrid Conference in 1991. While institutional quality mattered, a secure political environment also counted. Even offered a one-stop shop, investors still shied away from long-term commitments. Investment in Syria had to be underwritten by a more stringent set of guarantees from the state that surpassed the one-stop shops.

### 3.2 Trade liberalisation

Starting in 2000, Syria began to open up its borders to foreign imports in an effort to integrate with other regional and international economies and boost bilateral trade and investment.<sup>6</sup> This move was accelerated by the signing of free trade agreements with partner countries such as Turkey. Syria also substantially reduced customs on the blacklist, known as the 'negative list,' of commodities that had high tariffs levied on

them, from 3,000 items to a mere 100 by 2007. Many of these products, such as fruits, vegetables, cotton, and textiles were banned during the ISI program in order to protect local industry, whereas other products such as animals, animal products and internationally prohibited drugs were banned for security, religious or health reasons.

Trade liberalisation and the lifting of state protection had created serious challenges to Syrian industry, which needed reform and modernisation to be able to compete at international standards (Abdel-Nour, 2000). The elimination of the import blacklist exposed local production to foreign competition. The Syrian economy could not sustain the pressures from abroad. The 3,000 blacklisted items formed part of the supply line of the security structure of the state, given that Syria had been in a state of war with Israel. They included essential items with dual usages (military and civil). Experimenting with openness for the purpose of testing whether these industries would be able to actually cope with competitiveness from abroad was not something that the Syrian economy could afford. In fact, trade openness, including the Ankara Treaty, led to dislocation of productive resources and to the closure of many local manufacturing plants, especially those located in the suburbs of the main cities – where the protests initially started. Given the technological gap between foreign and local production, it is impossible for Syria to compete.

The most remarkable shift in the structure of imports occurred as luxury consumption items began to rise in share and absolute quantity in the composition of imported goods. Over time, imports as a share of GDP rose (it doubled from a plateau of around 20 per cent during the early 1970s to about 40 per cent in the late 2000s) while conspicuous consumption items eclipsed the part of imports that could be used to bolster national industry (World Bank, various years). In point of fact, dies and moulds as percentage of total imports had witnessed a decreasing trend during 2000–10 (*UN Comtrade Database*, various years). Although small as a share of imports, this trend signifies that the tools needed for the production of machines (productive resources) and for the modernisation of industry (investment in science and technology) had been deteriorating.

### 3.3 Privatisation of state farms

The Bashar regime promulgated a series of decrees that privatised state farms between 2000 and 2005 (Ababsa, 2006). Decision 83 of 2000 was promulgated to privatise state farms in the north after 40 years of collective ownership (since 1958). Shares of three hectares for irrigated and eight

hectares for non-irrigated land were sold off to the 'public.' Apart from the traditional landlords, the primary beneficiary of this counter-reform was a re-emergent class of latifundists tied to the state and to the Alawite ruling elites (Ababsa, 2006). With counter land reform, land became scarce to the peasants, who were forced to seek seasonal or even permanent work away from the countryside, particularly in the urban informal sector.

### 3.4 Lifting of price controls and subsidies

The pricing system moved away from social pricing of basic commodities or centralised pricing, toward market pricing. 85 per cent of consumer products were subject to market pricing, while the state administered the remaining 15 per cent (interview with the Ministry of Economy and Trade, 2007). The lifting of price controls on basic commodities, such as milk, vegetables, and other essentials allowed merchants to abuse price liberalisation. Merchants had free rein to raise prices as they wished, thus increasing their profit margins. The consumer price index on bread and cereal, meat, and vegetables, increased by 50.9 per cent, 58.6 per cent and 23.1 per cent, respectively over the period 2006–10 (Central Bureau of Statistics, 2011). However, because Syria's inflation data is doctored, it is very likely that these figures are underestimates (Barout, 2011: 103).

As advised by the IMF, the Syrian state in 2008 phased out subsidies on petroleum products to streamline budget expenditure and introduced ration cards and coupons to help poorer households purchase diesel at discounted prices. The import, distribution, and sale price of oil derivatives had been administered by the state for four decades. Following the removal of subsidies, gasoline, and diesel prices increased by 33 and 240 per cent respectively in 2008 (IMF, 2009a). Initially, the Syrian government kept the standard bus fares – that were initially fixed by the Ministry of Tourism – unchanged. Bus drivers protested against keeping commuter bus fares fixed. Instead of reversing the decision on the removal of subsidy, the authorities tripled the commuter fares (The Syria Report, 5 May 2008), adding upward pressure on the daily costs of the Syrian poor.

### 3.5 Private banking system

The private banking law was promulgated in 2001, allowing the establishment of private banks for the first time after 40 years of a state-controlled banking system. Six private banks were established: Bank of Syria and Overseas (BSO), Bank BEMO, Bank Audi, the International Bank of Trade and Finance, Arab Bank, and Byblos Bank. Their combined deposits were estimated at USD 30–50 million at the time of privatisation, which then increased to USD three billion in 2007 (Moubayed,

2007). Initially, there was a restriction on foreign ownership of bank shares. Syrian nationals and companies were required to own 51 per cent of shares in any of these banks. The ruling elites and the commercial bourgeoisie, such as Rami Makhluuf, Nader Qalal, Issam Anbouba, and Samir Hassan – rather than competitive market bidders – turned out to be the main shareholders (*The Syria Report*, 17 January 2010). This 51 per cent ceiling was later relaxed and an increase in the share of foreign ownership was allowed. During the Bashar regime, more than 20 private banks operated alongside the specialised public banks (the Real Estate Bank, the Agricultural Cooperative Bank, and the Industrial Bank).

The activation of private banking was crucial for the state bourgeoisie. It enabled them to manage their bank accounts and easily transfer their money deposits outside the country. Previously, they had to smuggle or transfer their wealth into the dollar and store it in the Lebanese private banks. (IMF, 1975: 102).

Bank loans provided by private financiers remained very limited. Table 6.1 shows that the average credit given out by the commercial private banks during 2008–10 amounted to only 16 per cent out of total local bank credit; whereas that of the public banks amounted to 82 per cent of the total. During the Bashar regime, the private bank credit was limited to usury-like transactions and did not finance industrial and developmental projects.<sup>7</sup> Loans were given out on the basis of collateral against a new investment project rather than based on the achievements of the project. Because they failed to finance long-term investment, the Syrian private banks proved to be similar to the shallow financial institutions of most Arab countries in the sense that not only are lending operations conducted on a short-term basis, but they require huge collateral and guarantees. Table 6.2 shows that the average of total local bank credit given out to agriculture and industry accounted for

Table 6.1 Distribution of local bank credit according to type of credit in millions of Syrian pounds, 2008–10

|                             | 2008    | 2009      | 2010      | Average<br>2008–10 | Average<br>share |
|-----------------------------|---------|-----------|-----------|--------------------|------------------|
| Public Banks                | 745,224 | 857,599   | 945,689   | 849,504            | 82%              |
| Commercial Private<br>Banks | 110,895 | 149,285   | 224,306   | 161,495            | 16%              |
| Islamic Banks               | 14,176  | 21,331    | 43,210    | 26,239             | 3%               |
| Total Credit                | 870,295 | 1,028,215 | 1,213,205 | 1,037,238          | 100%             |

Source: Central Bureau of Statistics, 2011.

Table 6.2 Distribution of local bank credit according to type of economic activity in millions of Syrian pounds, 2008–10

|                           | 2008    | 2009      | 2010      | Average<br>2008–10 | Average<br>share |
|---------------------------|---------|-----------|-----------|--------------------|------------------|
| Agriculture               | 96,286  | 140,026   | 149,092   | 128,468            | 12%              |
| Industry                  | 45,090  | 78,100    | 101,980   | 75,057             | 7%               |
| Building and construction | 113,260 | 142,724   | 176,986   | 144,323            | 14%              |
| Commerce                  | 490,901 | 515,129   | 575,386   | 527,139            | 51%              |
| Other activities          | 124,759 | 152,237   | 209,761   | 162,252            | 16%              |
| Total                     | 870,295 | 1,028,216 | 1,213,205 | 1,037,239          | 100%             |

Source: Central Bureau of Statistics, 2011.

only 12 per cent and 7 per cent respectively during 2008–10. In contrast, 51 per cent was given out to the commercial sector.

The neglect of productive sectors in state policy in the 1990s and 2000s was accompanied by a shift in state banks' lending operations from development investments to short-term commercial activities (Kanaan, 2000: 128). While the Industrial Bank was literally frozen during 1991–98, the amount of loans provided by the Commercial Bank of Syria to both public and private sectors doubled (Haddad, 2004: 59). The state banking sector was then criticised for its weak banking tools and its inability to finance developmental projects,<sup>8</sup> while in fact the blame should fall on state policies that were supportive of commercial sectors instead of the productive ones.

### 3.6 Monetary policy

Under tightly regulated capital accounts and fixed exchange rates, monetary policy was a sovereign state policy for more than 30 years. Expansion of the money supply was tightly controlled by the Central Bank during the 1960s and the spread between the saving and lending rates balanced savings and investment. Money creation was basically within the purview of the state, and only an unsustainable shortage of foreign exchange could trigger inflation. However, one must note the usage of the official exchange rates (the overvalued rate) was undertaken for the purpose of subsidising the necessary consumption bundle of the working population: if foreign exchange rises, the over-valued official rate does not change allowing the same amount of Syrian pounds to be exchanged for the foreign currency, and hence, buying the same amount for effectively fewer pounds. One can also discern that in such a tightly controlled system, inflation would rise at a rate roughly commensurate

with the ratio of imports to GDP – that is, how much Syria buys from abroad in foreign currency. But hyperinflation like what happened in the mid-1980s could only occur as a result of illicit outflows in the national currency.

The state banks lent to the public sector at a rate lower than the market rate of 7 per cent, while they lent private investors at a much higher rate (interview with the Ministry of Economy and Trade, 2007). The Central Bank managed the interest rate only to direct state transactions rather than to maintain a cap on inflation or to hold capital flows in check. It managed the interest rate to finance state-led investment in strategic sectors at concessional terms, according to a pre-determined credit allocation plan.

The Credit and Monetary Council (CMC) that has been responsible for conducting monetary policy operations during the liberalisation phase lowered the interest rate on saving deposits for the first time in 2003 – after holding it constant at 7 per cent for 22 years. Interest rates on loans were also reduced in order to stimulate financial intermediation between savings and investment. However, the CMC gave private banks the option to set their own rate on credit facilities (interview with Ministry of Economy and Trade, 2007).

Interest rate reduction did not transmit policy signals into changes in money supply and investment. As mentioned in Chapter 2, the risk factor holds primacy when deciding on investment and as such, the influence of interest rates diminishes when issues of risk and uncertainty are taken into consideration. Moreover, because the private banks were allowed to raise their own rates on lending – as in any other private banking system – private financiers made use of the difference between the official rate and the private lending rate to raise their earnings. In shallow financial markets in which lending for the purpose of finance is limited, lowering the interest rate does not implicate investment demand.

### 3.7 The issue of privatisation

For many years, strategic economic sectors, such as petroleum and mining, electricity, cement and steel manufacturing, glass, and paper were publicly owned. Privatisation of state-owned enterprises was a very sensitive issue in Syria, given that it would add to the then inflated army of unemployed people. The public sector was criticised for its weakness due to its low level of technological upgrade, its shortage of raw materials, and its compilation of obsolete and archaic equipment that was rarely updated or replaced (Dalila, 2000 and Sukkar, 1994: 29). Despite these limitations, the public sector absorbed a large percentage of the labour

force in keeping with the regime's populist measures. Employment in the public sector was used as a patronage tool by the regime to cultivate its social base of support during the 1960s and 1970s. The regime's fear in 2000 was that, if privatisation proceeded, it would not be able to handle the problem of layoffs as unemployment escalated. No set of decrees was issued to encourage the privatisation of state-run industries.

Reddawi and Al-Zaim called for public-sector reforms. Reddawi (2007) recommended that strategic state-owned enterprises or those that generated profits for the state must remain in the hands of the state, whereas those that were losing and represented a drain on public finance should be sold off, partly to their employers and partly to private capital. Out of 260 state-owned companies, only 20 then generated profits for the Ministry of Finance. These included large organisations, such as the Syrian Petroleum Company, the Syrian Telecommunications Establishment, the Commercial Bank of Syria and the General Organisation of Tobacco. All other firms were either losing or breaking even. Maintaining the public sector in Syria was essential for political and economic reasons. According to Al-Zaim, as long as Syria faced external political threats from Israel and the West, the public sector had to be maintained (Al-Zaim, 2001). In case of conflict, the state could ensure the supply of basic goods and necessities through its industries. Against this backdrop, Syria resorted to outsourcing management to private investors as an alternative to privatisation (interview with State Planning Commission, 2007).

However, the state's invitation for private sector participation culminated in the state bourgeoisie indirectly owning these enterprises. In hindsight, when selective public firms (e.g. telecommunications, production and refining of sugar, generation and distribution of electricity, oil and gas industries, and the cement industry, tourism and transport) were handed out to private investors (*The Syria Report*, 1 November 2005 and 1 July 2004), the state bourgeoisie and their affiliates along with other big commercial businessmen were the main owners and investors.

#### 4 The implications of investment reforms during Bashar and Hafiz regimes

As discussed in Chapter 1 (see Figure 1.6), following investment liberalisation, GFCF as percentage of GDP registered 22 per cent during the 1990s and 21 per cent during the 2000s.<sup>9</sup> This is compared to 21 per cent during the late 1980s. This shows that investment reform Law No. 10 had hardly had any impact on overall investment rate. Private-sector-led investment could not push overall investment to rates higher than those achieved by the public sector during 1975–79 (31 per cent), despite the

privileges and guarantees that were given out to private investment. So, when public investment receded as a result of market liberalisation, private investment could not fill the gap and achieve the high investment rates needed to build Syria's productive capacity.

Executed investment projects under Law No. 10 and LD No. 8 generated 105,467 job opportunities during 1991–2008 (SIA, 2008). The Syrian State Planning Commission estimated that new entrants into the labour market averaged 214,000 per year during 1999–2003. With an average of 162,000 jobs provided by the economy during that period, the average number of unemployed amounted to 52,000 per year (State Planning Commission, 2005: 36). Al-Zaim also noted that the private sector significantly failed to create sufficient job opportunities for the new entrants into the labour market per year (interview with Al-Zaim, 2007). The Syrian Agency for Combating Unemployment (ACU) echoed the same concern (interview with ACU, 2007). The ACU pointed out that most of these projects were small-scale investments that were family based; that is, they recruited family members and hardly employed anyone from outside the family.

##### 4.1 Law No. 10's contribution to industrial activities

In 2007, the antagonism between industrialists and merchants had spread to their respective chambers: those of Industry and Commerce, respectively. When I visited the Ministry of Industry for discussions about Law No. 10, the disgruntled official made it clear that the law did not induce industrial investment. In our discussion, I asked for evidence as to the impact of the law on industry, I was provided with data that showed that Law No. 10 only contributed to 1 per cent of total private industrial investments since its enactment, while the majority of industrial projects were associated with the old law of 1958. I was fortunate to get hold of this data.

Figure 6.1 shows that the bulk of industrial establishments were artisanal projects – as is common in developing countries – constituting 76 per cent of the total. The remainder comprised 23 per cent of industrial establishments that were accomplished under the old Law No. 21 of 1958, whereas a minute 1 per cent of the total were implemented under Law No. 10. These figures show clearly that Law No. 10 failed to galvanise the necessary environment for industrial investment.

Manufacturing output did not exceed 10 per cent of total value added in the 1990s and 2000s (UNIDO, 2014) and remained concentrated in light finishing industries and low-quality investment. Because the average investment rate remained almost constant after liberalisation and the manufacturing share of value-added production was low, the bulk of

investment was clearly going into the tertiary sector, such as services, construction, and real estate. During my field work interviews with the State Planning Commission and the Chamber of Industry, the message conveyed was that industrial activities were not promoted despite investment liberalisation. State officials agreed that Law No. 10 failed to promote investment projects that could contribute to value-added production, adequate employment creation and export promotion.

In addition, Table 6.3 shows that the majority of industrial projects licensed by Law No. 21 of 1958 were food and textile – 32 per cent and 51 per cent, respectively – producing knitwear, outerwear, processed food, soft drinks, and biscuits. The engineering and chemical projects licensed by Law No. 21 produced shampoos, pharmaceuticals, cosmetics, toys, shoes and plastic items that almost totally addressed to consumer demand (interview with Ministry of Industry, 2007).

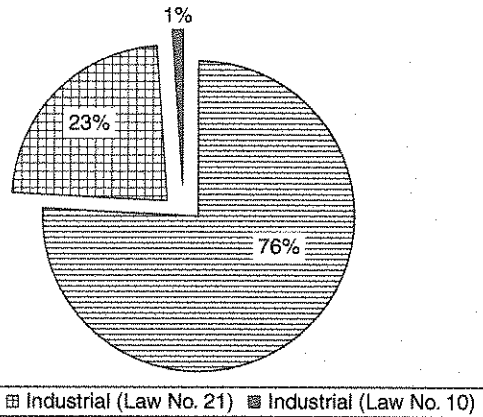


Figure 6.1 Number of private industrial establishments up to 2005

Source: Computation based on data compiled from the Ministry of Industry.

Table 6.3 Distribution of private industrial establishments according to type of industrial activity till 2005 (%)

|             | Artisanal projects by handicraft law | Industrial projects by Law No. 21 | Industrial projects by Law No. 10 |
|-------------|--------------------------------------|-----------------------------------|-----------------------------------|
| engineering | 89                                   | 10                                | 1                                 |
| chemical    | 70                                   | 29                                | 1                                 |
| Food        | 67                                   | 32                                | 1                                 |
| Textiles    | 49                                   | 51                                | 0                                 |

Source: Computation based on data compiled from the Ministry of Industry.

#### 4.2 Distribution of investment projects of Law No. 10 by economic sector

The distribution of investment projects by economic sector licensed under Law No. 10 during 1991–2005 shows that the transport sector attracted the highest share of all projects during those years (see Figure 6.2). During 1991–2005, transport projects accounted for 60 per cent of the total, followed by industrial projects (37 per cent) and agricultural projects (3 per cent).

Data on the sectoral distribution of investment is not rigorous, because of the lack of a central governing agency that gathers and keeps records of the newly licensed projects. Local and foreign investors had to go through different state agencies in licensing their projects, depending on the economic sector. For instance, the Higher Tourism Council is responsible for licensing investments in the tourism sector; while tourism projects were also slotted under LD No. 7 and LD No. 8 through the operations of Holding Companies (Barout, 2011). Moreover, investments in the manufacturing sector can be licensed either through the SIA or through the Ministry of Economy and Trade.

According to SIA data, a total of 3,576 projects was licensed under Law No. 10 from 1991 to 2006 (see Table 6.4). Their total capital cost stood at \$£1.094 trillion (USD 21.45 billion) (SIA, 2007). Out of these approved projects, 2,480 (or 69 per cent of total projects) were implemented. Fifty-nine per cent of these *implemented* projects were conducted in the

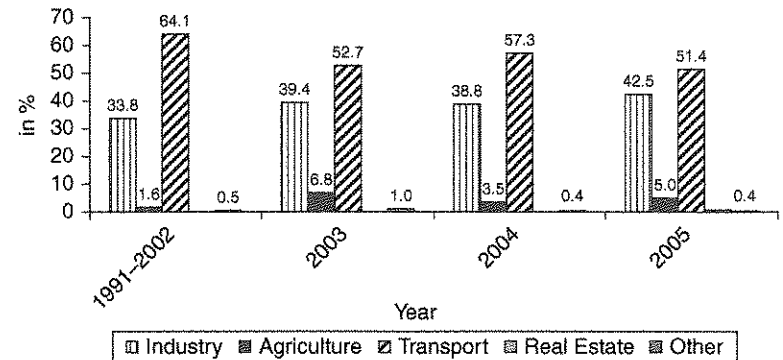


Figure 6.2 Investment projects licensed under Law No. 10 of 1991 by economic sector, 1991–2005

Source: Computation based on SIA data compiled from fieldwork.

Table 6.4 Licensed and executed investment projects under Law No. 10 by economic sectors, 1991–2006

|   | Agriculture | Transport | Industry | Other | Total |
|---|-------------|-----------|----------|-------|-------|
| Number of Licensed Projects                       | 148         | 1,931     | 1,472    | 25    | 3,576 |
| Number of executed – or<br>under execution – ones | 69          | 1,460     | 938      | 13    | 2,480 |

Source: Computation based on data taken from SIA, *Annual Investment Report 2007*.

transport sector alone. This was done at the expense of the industrial projects whose share stood at 38 per cent for the period 1991–2006 and whose implementation capital costs remain unknown (refer to Table 6.4).

The question arises: why did investors choose the transport sector? Law No. 10 had considerable impact on short-term activities in the transport sector (Reddawi, 2001 and Khoury, 1999). The total cost of executed projects licensed under Law No. 10 in the transport sector during 1991–2006 was only \$52.3 billion (generating only 34,928 jobs) (SIA, 2007: 50), indicating that these executed transport projects over the 15-year period were only small projects that did not entail high sunk costs. Al-Zaim and Basil explained that Law No. 10 had a crucial limitation because it treated all economic sectors equally in terms of privileges and exemptions, including the financial ones. As a result, the new commercial bourgeoisie made use of these privileges to pursue their commercial and short-run types of investment (fieldwork interviews with late Issam Al-Zaim and Maged Basil, 2007). While the Syrian Ministry of Transport used Law No. 10 to conduct a few transport projects that improved the basic infrastructure, private investors, specifically the merchants, had different aims. They abused the incentives given out by the Law for their personal profit (Hopfinger and Khadour 1999: 66).

During the 1970s and 1980s, private cars were import-prohibited. The government charged a high rate of customs duties.<sup>10</sup> Cars and vehicles could only be imported by state-owned enterprises. Exemption for one-off importation of a vehicle was only provided to a state bourgeois, a high-ranking military officer, a disabled person, or a Syrian who had spent more than ten years outside Syria (Hopfinger and Khadour, 1999: 65). Local merchants made use of law No. 10 to circumvent the state monopoly on car imports, importing cars for private use and leasing. They took advantage of the Law's lifting of tariffs on imported cars and brought in huge numbers of cars under the guise of car rental agencies

and promotion of tourism. However, these cars were either put to private use or rented out long-term to local citizens, instead of being rented out to tourists (EIU, 1992: 16). As a result, merchants earned profits out of this short-run and commercial type of investment.

These cars were falsely recorded as investment and capital goods in national accounts book-keeping. They were mistakenly counted as productive resources that were used in the production process, while actually they were used for consumption (interview with Basil, 2007). This explains why the investment rate rose in the early 1990s as opposed to the late 1990s, as was pointed out in Chapter 1. By the end of 1995, a total of 16,199 vehicles had been imported into the Syrian economy, of which 48.1 per cent were private cars, 17.5 per cent were minivans and microbuses, 6.8 per cent were freight haulage, and 4 per cent were coaches. These cars were purchased as part of a 'rent-a-car' business (*Central Bureau of Statistics*, 1995: 483).<sup>11</sup> Basil pointed out that listing cars as investment items in accounting books is a major shortcoming. He stated that although consumer durables, such as private cars, television sets, refrigerators, and other home appliances have an expected lifetime of more than a year; they cannot be counted as fixed assets in national accounts (interview with Basil, 2007). These figures, therefore, disguised reality and gave a false impression of how well the economy was performing. Around the late 1990s, the state intervened to correct this crucial problem in investment law. It banned the car rental agencies from importing cars. It allowed for the import of commercial vehicles, minibuses, and microbuses free of customs duty only if they were to be used as part of investment projects. Law No. 10 therefore benefited the new commercial bourgeoisie at the expense of the industrial bourgeoisie.

In the mid-1990s, the new commercial bourgeoisie looked for opportunities in the private sector to invest their excess savings. At the time, a personalised scheme by a group of investors, except for the 'money gatherers,' was acting as a pipeline channelling for money savings into investment. They wanted to make use of investment Law No. 10 to invest the savings in holding companies. However, within the state bourgeoisie, there was a group of 'reformers' – known for their ostensibly leftist views and their opposition to complete market liberalisation – who objected to the development of such personalised investment schemes into an officially recognised corporate structure. In 2000, the tables turned in favour of the 'money gatherers,' who were able to acquire through LD No. 7 of 2000 the status of an anonymous company enjoying the same rights as a shareholding company (Barout, 2011: 63–64). The prominent

holding companies that were created in the mid-2000s, and that enjoyed the rights of a shareholding corporation were the Cham and Souria Holding Companies and (later) the Syria-Qatari Holding Company that was created by LD No. 8 of 2007. Cham Holding Company was technically owned by Rami Makhluḥ and Mohamad Sharabati (Ibid: 67).

The establishment of these holding companies had the complete support of the state. And it was through these holding companies that the state bourgeoisie managed to conduct private business with the new commercial bourgeoisie.<sup>12</sup> The main investments of these holding companies were in real estate, banking, hotels, restaurants, and other services. Haytham Joud, the biggest shareholder of Souria Holding Company, rated the trade sector as the first sector to be chosen for investment by the holding companies, followed by tourism and then industry (Ibid: 69–73).

These holding companies and overall investment liberalisation failed to repatriate a large amount of Syrian capital, estimated to be USD135 billion, that were transferred to neighbouring countries like Lebanon, Jordan, and Turkey and other international countries during the 1970s and 1980s (Ibid: 44).

### 4.3 The divide between industrialists and merchants

One of my main observations during my field trips to Syria was the antagonism between merchants and industrialists. Although the Chamber of Commerce denied that there was such an antagonism, the Chamber of Industry raised this concern (interviews with Chamber of Commerce and Chamber of Industry, 2007). For 15 years, industrialists and merchants fought over Law No. 10. The big merchants managed to find means to exploit the Law and run their own monopolies and quasi-monopolies in certain economic fields, such as telecommunication and services.

During the Assad regime, the state cooperated more with the Chamber of Commerce than with the Chamber of Industry or the Artisan Cooperatives. While the industrialists were unable to voice their concerns and demands to the state until the mid-2000s, the Chamber of Commerce had always been a powerful institution and had access to cabinet decision-making (Chamber of Industry interview, 2007). It was a place where businessmen met and were either lured or manipulated by the regime elites, or they played their own cards and tried penetrating the elites (Haddad, 2004: 47). An official at the Chamber of Commerce argued that, although Syrian industrialists were exposed to international competition as a result of market liberalisation, this

would serve as inducement for them to improve the quality of local production (interview with Chamber of Commerce, 2007). According to him, industrialists were also willing to enlarge their businesses if new opportunities unfolded following enhanced trade liberalisation. In contrast, the Chamber of Industry stated that if anything, trade liberalisation was detrimental to the local industry. The new Syrian commercial bourgeoisie imported low-priced consumer goods to be sold in the Syrian market, harming local production. These import operations hurt not only the small-scale private manufacturers, but also the state-sponsored industrial firms (interview with Chamber of Industry, 2007). The dumping of Chinese imports by Syrian merchants created unfair competition with local industrialists, because Chinese textiles were transited through Dubai and other Arab countries that apply no custom tariffs on textiles. This depressed prices in the local market and caused severe losses to Syrian manufacturers (interview with Chamber of Industry, 2007). In 2009, the Ministry of Economy and Trade issued a decree to ban all imports of Chinese products that were not imported directly from China (*Syria-news*, 2009).

### 4.4 LD No. 8 of 2007 boosted investment in real estate

As mentioned earlier, LD No. 8 – like Law No. 10 – failed to prioritise the productive sectors and to grant subsidies and tax concessions exclusively to industrial and agricultural projects, that could have channelled economic resources into modern sectors with the potential for economies of scale and global competitiveness. LD No. 8 reinstated more private ownership – the ownership of land – and thereby served the private interests of the ruling elites and their allied new commercial bourgeoisie. Again, the state failed to address major limitations in the investment reform laws, and market liberalisation was hence bound to benefit a certain group of society at the expense of others. Because LD No. 8 of 2007 allowed local and foreign investors to own land, Gulf money poured into real estate. Al-Zaim pointed out that investments executed under Law No. 10 flowed into the transport sector (private car rentals) while those executed by LD No. 8 flooded into real estate (interview with Al-Zaim, 2007). According to him, the new LD is not an improvement on the previous investment law, which was amended expressly to induce investment in real estate.

Gulf investors placed their funds, which were earned from the oil windfall of 2002–08 oil boom, in the real-estate sector, because speculation on real estate offered high and quick returns over the short to medium term (Barout, 2011). A few Gulf investors also conducted commercial

activities that were profitable over the short term. The most prominent was the Syrian-Qatari Holding Company, which was established at the end of 2007 by LD. No. 8 with a capital of £ 250 billion (SIA, 2007). Its investment activities concentrated on real estate, banking, hotels and restaurants, and other services. Speculation on land property prices culminated in a real estate boom in Syria – and other Arab countries – in the late 2000s (UN, 2009). Housing prices increased by 30 per cent every year during 2003–06, while in 2009, they increased by 40 per cent compared to 2008 (Seifan, 2011: 5). Similarly, the sale and rental price of office space in central Damascus increased significantly in 2009, with the average rental cost increasing by 24 per cent in the third quarter of 2009 compared to the same quarter in 2008. Meanwhile the sales price of retail space increased by 40 per cent in the third quarter in 2009 compared to the same period in 2008 (*The Syria Report*, 26 April 2010). According to a survey conducted by Cushman & Wakefield, Damascus registered eighth among the most expensive cities in office rental prices (*The Syria Report*, 12 October 2009). While the real estate boom played a crucial role in enriching the Syrian rich, it was harmful to those with lower incomes. Because workers' incomes could not stretch to cover the increase in rental prices, they were unable to obtain decent housing.

#### 4.5 Law No. 10's impact on foreign direct investment

A total of 226 foreign projects were licensed to operate under investment law No. 10 of 1991 and LD No. 8 of 2007 during 1991–2007. The total cost of these licensed projects was £ 442,795 million (SIA, 2007), constituting only 13 per cent of total GFCF for the period 1991–2007 (see Table 6.5). However, the value of executed FDI projects accounted for 3 per cent of total GFCF during 1991–2007 (see Table 6.5). The oil and gas and tourism sectors were the largest recipients of foreign investment. During 2004–08, the highest average shares of total FDI inflows were recorded in the oil and gas and tourism sectors – attracting 29 and 34 per cent respectively (see Table 6.6). Foreign investors, especially US firms, had been investing in the Syrian oil sector since the 1970s. This kind of foreign investment into the primary sector – commonly known as resource-seeking investment – is non-employment generating and non-developmental.<sup>13</sup>

Against this backdrop, the bulk of investment activities during the Hafiz and Bashar regimes were non-manufacturing types. In contrast to the state-led investment that remained mainly within the purview of the state during the 1960s and 1970s, the process of capital accumulation during the Assad regimes shifted into a path of dependency

Table 6.5 Licensed and executed local and foreign projects under Law No. 10 of 1991 and LD No. 8 of 2007, 1991–2007

|   | No. of projects  | Investment Costs in million of Syrian pounds |               | Execution % |
|---|------------------|--|---------------|-------------|
| Licensed Projects   | Local investment | 3,762  | 1,494,800     |             |
|   | FDI              | 226  | 442,795       |             |
| Executed Projects   | Local investment | 2,556  | not available | 68%         |
|   | FDI              | 117  | 93,489        | 52%         |
| Total GFCF for period 1991–2007 in million of Syrian pounds |                  |  | 3,272,663     |             |

Source: Computations based on data from SIA, *Annual Investment Report 2007* and Central Bureau of Statistics, *Syrian Statistical Abstract*, 2008.

Table 6.6 FDI inflows by economic sectors in millions of USD, 2004–08

|  | 2004 | 2005 | 2006 | 2007  | 2008  | Average 2004–08 | Average share |
|--|------|------|------|-------|-------|-----------------|---------------|
| Oil and gas  | 157  | 100  | 111  | 282   | 600   | 250             | 29%           |
| Tourism  | 60   | 300  | 225  | 385   | 490   | 292             | 34%           |
| Licensed by investment law No. 10 and decree No. 8 | 13   | 55   | 92   | 110   | 250   | 104             | 12%           |
| Insurance  | 0    | 0    | 93   | 40    | 23    | 31.2            | 4%            |
| Private banks                                      | 45   | 45   | 64   | 130   | 28    | 62.4            | 7%            |
| Capital increase of banks                          | 0    | 0    | 15   | 30    | 22    | 13.4            | 2%            |
| Others   | 45   | 83   | 59   | 265   | 54    | 101.2           | 12%           |
| Total  | 320  | 583  | 659  | 1,242 | 1,467 | 854.2           | 100%          |

Source: SIA, *Annual Investment Report*, 2009.

on money-money circulation (M-C-M') rather than commodity-money circulation (C-M-C'), precipitating a crisis in capital accumulation. Industrial investment needed to build the economy's productive capacity and absorb the new entrants into the labour market was left to face its ill-fated deterioration. All investment liberalisation laws and



amendments ratified during the Assad regimes were premeditated measures to consolidate the wealth and power of the ruling minorities. They enabled the new agent of investment to secure more private ownership and to promote ephemeral, mercantile-type investment activities for quick returns.

## 5 The socioeconomic roots of the Syrian uprising of 2011

In retrospect, all the social conditions prevailing in Syria would have contributed to the uprising. Social unrest erupted in Syria partly because of years of poor developmental outcomes and the loosening grip of the ruling class on the state. The wide-ranging neoliberal reforms led to the slowing of economic development and exacerbated social problems of unemployment, poverty, and the worsening of living conditions. When the state bourgeoisie relinquished its part of the social contract by depleting the resources hitherto destined for the working class and, in particular, the peasantry, it also set in motion a poverty dynamic that would act as a catalyst to the revolutionary process. Grievances had built up against the regime and its vassals across the broad spectrum of wage workers as well as in the countryside. However, the insurrection began in rural areas. The first inflamed state, Dera'a, had suffered from severe droughts, low investments in agricultural infrastructure, and rising input prices that strangled the farming community. By favouring the new commercial bourgeoisie, the state bourgeoisie had not only neglected the peasantry during the Hafiz and later the Bashar regimes, but had also pauperised them in order to cheapen resources it drew from the rural areas. The exodus from the villages to the city encountered unemployment and further downward pressure on wages. Rural unemployment may have risen only slightly in the official records as result of poorer investment and output, but the real unemployment rate soared, as a result of rising poverty-level employment in the informal sector. Working peasants cannot resort to state unemployment benefits and will engage in poverty-level employment to make ends meet (Kadri, 2012b). Falls in crop production and the rise in the cost of production associated with the rise in the price of fuel due to the lifting of subsidies had ravaged the wealth of the farmers. The resultant falling behind in living conditions also put cruel pressures on the community and on family members, generating further disciplining and discrimination against the vulnerable, especially women. In what follows, I summarise the social, economic and agrarian underpinnings of the Syrian uprising.

### 5.1 Rising unemployment and poverty

As explained earlier, private-sector-led investment following economic liberalisation was not socially responsible. It was not good-quality, high-capital-output investment – that is, in manufacturing. Manufacturing is the backbone of development, and in developing countries such as Syria, labour demand is derived from development. Manufacturing investment had been low since the 1980s. The manufacturing share of total value-added was 8 per cent in 1989, dropping to 6 per cent in 1995, then further to 2 per cent in 2000. In 2011, the year of the uprising, this share was only 5 per cent (UNIDO, 2014). Economic growth during the Assad regimes (Hafiz and Bashar) was primarily rent-based, relying on oil export revenues, geopolitical rents and capital inflows including remittances.<sup>14</sup> During 2000–08, Syria experienced an average economic growth rate of 5 per cent (Central Bureau of Statistics, 2011), mostly attributable to the second oil boom of 2002–08 and to the reopening of the Iraqi oil pipeline in 2000, when Syria became the main route for Iraqi oil to be exported outside the UN-controlled oil-for-food programme.<sup>15</sup> GDP per capita grew at an annual rate of 2.4 per cent during 2000–07 (World Bank, 2014). Nevertheless, this rent-based growth was anti-developmental. The new agent of investment under the Assad regimes promoted artisanal and low-quality investment in services, real estate, transport and family based projects that served private as opposed to public interests.

Rising unemployment and poverty in Syria (as elsewhere) are a result of long-term contraction in manufacturing investment. Many workers were pushed into the informal sector due to the private sector's inability to generate jobs. In 2009, the Central Bank of Syria reported the unemployment rate to be 8.2 per cent, while Syrian economists estimated the rate to be 16.5 per cent (Barout, 2011: 114). However, youth unemployment was more than twice total unemployment and remained at double-digit levels (see Table 6.7). Female unemployment reached 37.1 per cent in 2011 (Central Bureau of Statistics, 2011). As a result, workers in the informal sector during 2000–07 amounted to 30 per cent of total non-agricultural employment (Jütting, J. and de Laiglesia, 2009).

According to UNDP figures, the poverty rate was 30.1 per cent in 2003–04, representing 5.3 million individuals (UNDP, 2005). It increased to 34.3 per cent in 2010 (representing 7 million people) (El-Laithy and Abu-Ismaïl, 2010).

### 5.2 Social polarisation

A marked effect of Syria's transformation to the market economy was the redistribution of wealth from lower income groups to higher-income

Table 6.7 Total and youth unemployment rates in Syria, 2007–11

|      | Total unemployment rate | Youth unemployment rate |
|------|-------------------------|-------------------------|
| 2007 | 8.4                     | 19.1                    |
| 2008 | 10.9                    | 22.4                    |
| 2009 | 8                       | ...                     |
| 2010 | 9                       | 20                      |
| 2011 | 14.9                    | 35.8                    |

Source: United Nations Statistical Abstract of the Arab region, 2013.

ones. In effect, the reform package hurt the poor and swelled the assets of the rich in dollars. The share of wages in the national income was less than 33 per cent in 2009, compared to nearly 40.5 per cent in 2004, implying that profits and rents to the capitalists constituted more than 67 per cent of the GDP (Marzouk, 2011). Income inequality between the rich and the poor widened and social differences increased. The Gini index increased from 0.33 in 1997 to 0.37 in 2004 (UNDP, 2005). The illegal enrichment of the ruling elites was blatant (Perthes 2004b).

According to UNDP, the poorest population – the bottom 20 per cent – consumed only 7 per cent of all expenditure, while the richest consumed 45 per cent (UNDP, 2005). In 2009, the average household expenditure was \$31,000 per month (approximately USD 653), of which \$14,000 (approximately USD 295) was spent on food (Central Bureau of Statistics, 2009). Nearly 71 per cent of Syrian workers were earning less than \$13,000 (approximately USD 274) a month, which indicated that the majority of wage-earning people were barely surviving (Central Bureau of Statistics, 2009).

### 5.3 Dampening of purchasing power

As mentioned earlier in the chapter, the rise in prices of basic food items and necessities was harmful to the Syrian workers. During my field trips to Syria, local experts claimed that this was a demand-pull inflation (interviews with officials at the State Planning Commission and the Ministry of Economy and Trade, 2007). The 1.5 million Iraqi refugees who poured into Syria starting in 2003 were blamed for pushing up demand, thereby raising food prices. Other state officials argued that increased prices were due to seasonal shortages in the supply of basic goods, because of cold weather, droughts and bad seasonal harvest – or even a drop in imports from Jordan and Lebanon (interviews with Ministry of Economy and Trade and State Planning Commission, 2007).

However, the Central Bureau of Statistics assured me that there had been no shortage in the supply of basic goods in the market and that the seasonal weather effects had not prohibited the economy from achieving self-sufficiency in basic food production (interview with Central Bureau of Statistics, 2007). This self-sufficiency would therefore have offset demand-pull inflation. If increase in demand from the Iraqi refugees was really the reason behind the increase in prices, then it would have been compensated by an increase in the supply of goods. This compensation in supply would then offset the increase in prices and the demand-pull inflation would have been short-lived.

The situation on the ground was different. Merchants took advantage of the lifting of state controls and tightened the supply of goods. They created supply shortages and forced scarcity in the market that pushed up prices of basic commodities, raising their profit margins. In the absence of state monitoring, they created monopolies and quasi-monopolies and reduced supply levels, which added pressure on prices (interview with Al-Zaim, 2007). As a result, the inflation rate stood at 73 per cent during 2000–10 (World Bank, 2014). Moreover, because of the phasing out of subsidies on oil products, the price of food increased by 38.2 per cent in the period between 2006–10, whereas the price of electricity, gas, and other fuel oils rose by 102.3 per cent during the same period (Central Bureau of Statistics, 2011). Through my own observations and from discussions during my field work, I was able to conclude that the inflation rate in essential commodities is at least three times the official rate. This, however, is a guesstimate. During my discussions with Al-Zaim, Marzouk and Al-Za'tari, they also confirmed that the real inflation rate is several times the official rate. There are anomalies one may deduce from the Penn tables published by the University of Pennsylvania that confirm this observation. In these tables, the PPP GDP of Syria for the years 2006–10 is lower than the real GDP computed in international dollars. Goods in Syria cost more than on the international market due to inflation and price mark-ups. This is an occurrence that could only arise from overpricing essential commodities, especially food in a food producing country. Mr. Barout, who for a long time was a high-ranking state official in Syria, confirms that the inflation rate is the item that is subjected to the worst forms of doctoring by the Syrian Authorities (Barout, 2011: 103 and 104) He continues to state the obvious, which is that the purpose of lowering the inflation rate is to embellish the economic performance of the regime.

Trade unions that had fought for better wages and rights were co-opted during the Assad regime and transformed into quasi-corporatist

institutions closely integrated into the state apparatus (see Chapter 4). In the absence of effective trade unions to fight for social safety nets, the process of market liberalisation had entailed an undesirable social cost for the wage-earning working class. Although the authorities raised the wages of civil servants, military personnel and employees of the state-owned companies during the 2000s, real wages remained behind inflation and the purchasing power of the poor shrank (Seifan, 2009: 13).

#### 5.4 Deteriorating living conditions in the countryside

In the process of economic liberalisation, both Hafiz and Bashar put aside the interests of the farmers. They endorsed austerity measures against the agricultural sector, cutting down government expenditure on agriculture infrastructure to mitigate water shortages. As advised by the IFIs, government subsidies on inputs of production (fertiliser, diesel fuel, electricity, and seed) were also phased out, forcing farmers to cultivate less or abandon their crops altogether, as they were unable to finance the cost of production. Many herders sold their livestock at reduced prices because of vegetation dwindling in pastures and the exhaustion of feed reserves.

The regime's neglect of the agrarian sector was accompanied by harsh climate conditions. During 2006–11, 60 per cent of Syria's land suffered from severe drought, pushing 2 to 3 million Syrians into extreme poverty. The southern, southeastern and northeastern regions suffered from erratic rainfall as a result of continuing droughts. The top four wheat producers, Al-Hasakah, Ar-Raqqah, Aleppo, and Deir Ezzor, were primarily affected by poor rainfall. According to the FAO, wheat and barley yields dropped by 47 and 67 per cent respectively in 2008 as compared to 2007, and Syria had to import wheat for the first time (IRIN, 2009a). In 2011, wheat yields dropped by 82 per cent, thereby reducing the ability of families to meet their daily food requirements. Health problems, crop failure, food insecurity, and migrations were among the many social consequences of the drought. Farmers were unable to cultivate food and raise enough income to feed their families. In the Northeastern region, 75 per cent of farmers suffered from total crop failure and herders lost 80 to 85 per cent of their livestock, affecting 1.3 million people (IRIN, 2009b). It is estimated that 330,000 job opportunities were lost as a result of harsh climate conditions during 2003–09. There is no accurate figure on the number of farmers, herders and agriculturally-dependent persons who left the countryside; however it is estimated that one million had migrated by 2009, adding pressure to the cities that were already strained by the influx of Iraqi refugees.

Poverty became more prevalent in the countryside, as the rate reached 62 per cent in 2003–04 (UNDP, 2005), with the northeastern region, both rural and urban – Aleppo, Al-Hasakeh, Deir Ezzor, Idlib, and Al-Raqqah – absorbing the highest number of the poorest (GAR, 2011). Poverty levels also increased in the rural areas of the south, as in Dera'a, the epicenter of the riots, and Rif Dimashq. These areas suffered from falls in crop production, increased marginalisation, weak social safety networks, and limited opportunities for migration in the 2000s (Barout, 2011). This explains why the initial protests against the regime erupted in the periphery and then spread to the small towns and the suburbs.

## 6 Concluding remarks

There is no doubt that as resources flow from production and working-class consumption into affluent consumption and into the national and foreign savings of the ruling classes, the system will experience a rupture at some time in the future. It is futile to forecast when the eruption will occur, but that it will occur is certain. Every system includes equilibrating forces that stabilise it. The state mediates the process of stabilisation by coercion, ideological indoctrination, and the redistribution of income through its 'civil society' function to satisfy the needs of the majority. In Syria, the ruling class practically owns the state. This is both a potentially favourable condition because it can buttress capital accumulation when the ruling class exhibits an industrial bent as in the East Asian model, or it can be detrimental, as when the rulers are inclined only to commerce. The latter was Syria's case. Investment neither bolstered industrial capacity nor did it require the workers to re-skill to keep track of improving technology. Productivity decline would naturally be followed by steady or declining wages. But in Syria, workers had no right to independently organise, so their wages were depressed by the double impact of rising inflation and lower productivity growth. In short, there was less income and fewer goods around for working people – and more repression. This situation could have gone on forever without a change in consciousness. Such a change occurred as the ruling class hold on power weakened and the people perceived change as a possibility when the Tunisian regime fell.