

# BTI 2008 | Syria Country Report

<b>Status Index</b>	1-10	<b>3.39</b>	# 113 of 125	
Democracy	1-10	2.60	# 121 of 125	➔
Market Economy	1-10	4.18	# 96 of 125	➔
<b>Management Index</b>	1-10	<b>2.47</b>	# 116 of 125	

scale: 1 (lowest) to 10 (highest)    score    rank    trend

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## Key Indicators

Population	mn.	19.0	HDI	0.72	GDP p.c.	\$	3,388
Pop. growth <sup>1</sup>	% p.a.	2.5	HDI rank of 177	107	Gini Index		-
Life expectancy	years	74	UN Education Index	0.74	Poverty <sup>3</sup>	%	-
Urban population	%	50.6	Gender equality <sup>2</sup>	-	Aid per capita	\$	4.1

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

After Bashar al-Asad's inauguration as president of Syria in July 2000, many Syrians and foreign observers expected him to revive the economic and political reforms initiated in the late 1980s and early 1990s by his father, Hafiz al-Asad, that had run out of steam. In spite of a short period of political decompression and various new economic reform measures, developments during the period under review have been marked by stagnation at best, raising important questions not only about the president's intentions and capacities to reform, but also more generally about the nature of political and economic change in Syria, which contradicts optimistic assumptions about the emergence of a full-fledged market economy and democracy.

While the Syrian regime has continued to adapt to domestic and external constraints, modest economic and political change has failed to result in a full-fledged market economy and the end of authoritarianism. Similar to other cases of crony capitalism, Syria's private sector remains by and large dependent on the regime. Many of its political leaders are also business leaders who cannot be ignored by anyone seeking to do business in Syria. The pace of change is exemplified by recent legislation that allows private banks to operate. While these reforms seem revolutionary by local standards, their wider effects may be limited to speeding up the modernization of the public banking sector, while falling short of working to the advantage of new market entrants. In spite of overall private sector growth and more moderate market growth, the Syrian economy has not been liberalized in any meaningful way. The regime's current emphasis on a "social market economy" rehabilitates hydrocarbon rent, subsidized public sector companies, and social benefit schemes rather than effectively and impartially regulating the market. Indeed, both reforms envisaged under the 2006 – 2010 five-year plan – to say nothing of those actually implemented – may well fail to prepare the country for the approaching post-petroleum age. Politically, the relative and

selective strengthening of representation and the moderate growth in respect for human rights decreed in the 1990s have been maintained without additional improvements. The new – as yet tentative – division of labor between the government and the ruling Ba’th party has not weakened the regime. To the contrary, developments confirm the need to distinguish between two sorts of regime transformation; namely: the renewal of authoritarianism on the one hand and the transition to democracy – understood as the institutionalized possibility for the ruled to peacefully dismiss or confirm their rulers at regular intervals – on the other.

## History and Characteristics of Transformation

Syria’s relatively short history as an independent state has been marked by numerous, sometimes radical and abrupt changes affecting both its political regime and system of government. Constitutional arrangements put in place by the French survived decolonization by no more than three years. A number of military coups and a short-lived merger with Egypt resulted in a succession of authoritarian regimes intermittently interrupted by attempts to rebuild a parliamentary democracy. Since the 1963 “revolution,” the country has been ruled by Ba’thi officers and their allies, despite the fact that the institutional forms and social basis of their rule have undergone a degree of change. In the late 1950s and 1960s, the economy, which until that point had remained largely privatized, in spite of some etatist features, was reorganized into a command economy with a dominant public sector. Land reforms entailed substantial redistribution of agricultural property. Unlike in the USSR and Eastern Europe, however, small-scale private capital remained exempt from nationalizations and indeed an important source of output.

Bedeviled by various ills, Syrian “socialism” was in deep crisis after the Arab defeat in the 1967 war with Israel. Hafiz al-Asad, who took full power in 1970, engineered a degree of economic “opening” (“infitah”) that soon allowed the country to benefit from the recycling of oil rents. Although highly dependent on the regime, private capital was allowed to thrive in various sectors, particularly trade, real estate and services. To gather additional support for his rule, Asad introduced limited political reforms such as re-instating the representative assembly, legalizing some smaller political parties and inviting them to join the Ba’th in the rather symbolic Progressive National Front (PNF), and promulgating a new constitution. Interrupted in the late 1970s and early 1980s by violent conflict between the regime and Islamist opposition groups, limited political reform was pushed slightly further in the early 1990s. At the time, it appeared prudent to associate political reform symbolically with a private sector that had played a crucial role in overcoming the balance of payment crisis of the mid-1980s. This reform can also be accounted for in the need to please the United States and Western Europe after the collapse of the Soviet Union, which had been Syria’s main

international ally at the time. Since the late 1980s, economic policy has focused on attracting additional domestic as well as foreign, particularly Arab, and expatriate private investments, though with limited success. Economic reforms soon stalled and were only partly revived after the death of Hafiz al-Asad, with the advent of his son Bashar's rule in 2000.

Parliamentary elections continue to be held at the regular intervals set by the constitution. Since 1990 one-third of seats in parliament have been reserved for "independents," many of whom are active in the private sector and enjoy close links with the regime. The other two-thirds of seats have remained in the PNF's hands, with its built-in majority of the Ba'th party, itself dominated by the regime. More importantly, the armed and other "security" forces remain under the regime's control and indeed form its mainstay of power. The rapid vote of constitutional amendments enabling Bashar al-Asad to assume the presidency upon his father's death in 2000 aptly illustrates the actual nature of power relations in Syria. In spite of various signs of disagreement or competition within the ruling group, political power has remained as concentrated as ever. The slightly more restrictive definition of the role of the ruling party, the relatively open debates that marked its latest congress, the streamlining of its governing body and the government represent minor changes that hardly amount to anything that could be termed "reform." Since the 1990s, civil and human rights have been respected slightly better than in the past, with a number of political prisoners being released and others tried in court instead of simply being held without charges. However, the period of relative political decompression, sometimes referred to as the "Damascus spring," and attendant hopes for additional political reform that followed Bashar al-Asad's inauguration were dashed within 12 months. Although the state of human rights has not deteriorated to levels observed in the late 1990s, there have been arrests of peaceful opponents and critical journalists.

# Transformation Status

## I. Democracy

### 1 | Stateness

The Syrian regime enjoys an ultimate monopoly on the use of force within the borders of the state. Nonetheless, this monopoly is occasionally challenged openly, though not very effectively. A case in point is Kurdish unrest in some parts of the country in 2004, detailed below. More endemic is the inability of the regime and its representatives to guarantee implementation of decisions at lower levels of the state apparatus, which in turn reflects a lack of authority rather than of power.

Monopoly on the use of force

Generally, Syrians accept the borders of their state as legitimate more readily today than they did a few decades ago. To be sure, this does not imply acceptance of the current status of the occupied Golan Heights. Ever since its creation by European powers after World War I, the Syrian state has been seen as an “artificial” construct of imperialist divide-and-rule policy. However, from the mid-1960s onwards – and in particular under Hafiz al-Asad – Arab nationalist rhetoric was accompanied by a degree of Syrian-centered nation-building that reinforced the acceptance of state borders. The process may be least evident with regard to Lebanon, but continued Syrian presence there is mainly due to strategic and material interests. The Syrian constitution explicitly rules out certain types of discrimination. It grants protection to all religions, provides for equal rights for men and women, and more generally establishes the equality of all citizens before the law. However, it remains mute on language, race, and sexual orientation. Various clauses refer to the Arab character of Syria, thus implicitly questioning the status of Kurds, and Arabic is the only official language. The supposedly equal status of all religions is called into question by provisions requiring the president to be a Muslim, and the fact that Islamic (Shari’ah) law is a main source of legislation.

State identity

Syria remains divided along regional, religious, familial and linguistic cleavages. Linguistically, the Syrian population is about 90% Arab. In religious terms, it is roughly 75% Sunni Muslim. However, in the absence of census data, these

figures remain estimates. Attention has generally focused on religious divides, in particular between Alawites and Sunnis. Access to sensitive positions in the armed forces and the “security” apparatus in practice remains largely restricted to Alawites (such as the al-Asad family). However, what appear to be religious divides often boil down to regional and kinship divides. Druze, Ismailis and Alawites largely hail from areas where they form the majority population, even though many of them have migrated to urban centers. The visibility of such internal divides has slightly diminished after their climax in the late 1970s and 1980s, partly because both Sunni and Christian entrepreneurs managed to benefit from economic liberalization and therefore allied themselves with the regime. Nonetheless, as is to be expected in any country without a capitalist or industrial revolution, these cleavages remain an important feature of Syrian society. Issues of personal status, for instance, remain largely governed by rules specific to the various faiths.

Though generally less visible than in the 1980s, societal cleavages nevertheless remain clear-cut and sometimes stark. There is little trust across these divides and intermarriage remains the exception to the rule. Bashar al-Asad’s marriage to a Sunni certainly has a symbolical dimension, though the precise political significance of this cannot yet be assessed. Periods of economic decline have tended to reinforce vertical divides in society, with individuals falling back on their families, extended kin and on religious charities. Conversely, interest-based links between Sunni and Christian businessmen on the one hand and their Alawite counterparts and “protectors” on the other may encourage closer and more durable inter-family relations. Should they do so, such relations nonetheless will most likely be limited to a small class of people. In March 2004 and subsequent months, Clashes between Arabs and Kurds that broke out in northeastern Syria in March 2004 and the months thereafter were followed by a clampdown on Kurdish opponents, real and suspected. The clashes highlighted the plight of several hundred thousand Kurds in the country, who, as a result of the 1960 census, have no citizenship. Other Kurds, however, are Syrian citizens, active in authorized Syrian politics (traditionally in one of the communist parties) and prominent representatives of the state-appointed Sunni religious establishment. Syria also has numerous citizens of Armenian origin who are permitted free practice of their language.

With the caveats referenced above, the Syrian state emphasizes the equal status of all “religions of the book,” that is, Islam, Judaism and Christianity. It is not a secular state in the sense of accepting agnosticism or atheism, or in the sense of completely separating its own affairs and legislation from religion.

No interference  
of religious  
dogmas

Government administration is impressive in its size and complexity, but is far less so in terms of internal organization, human and material resources, and efficiency. The administrative apparatus is subservient to the interests of the

Basic  
administration

regime now in power as opposed to those of the state more broadly. At high levels it is colonized by kin and cronies of the rulers, at the bottom by numerous other local, kinship-based or special interest networks that frequently foil policy implementation on the ground. Attempts to “modernize” the bureaucracy, including those based on foreign advice, have remained purely technical and are therefore limited in their results.

## 2 | Political Participation

Political participation remains entirely decoupled from elections and formal modes of representation. Since the 1990 general elections, one-third of seats in the unicameral parliament may be contested by so-called independents that are, however, thoroughly screened by security agencies. The remaining two-thirds are reserved for candidates fielded by the PNF. The PNF’s seats, in turn, are divided such that one-half of the total number of seats is reserved for members of the Ba’th party. Moreover, half of the total number of deputies needs to be peasants or workers. The change in the electoral law reflects an attempt to enlarge the regime’s basis in society rather than an attempt at political liberalization or democratization. Also, the changes introduced in 1990 have not been followed by additional measures to widen representation or participation. The March 2003 elections confirmed previous results. After a slight numerical rise, women now account for slightly more than 10% of deputies, all of whom were PNF candidates. The Ba’th party is the only party in Syria with an administrative apparatus and the tools to mobilize a constituency. As the ruling party, it enjoys numerous constitutional privileges. Though formally elected, members of its governing body (the “Regional Command”) and other key functionaries are hand-picked by the president and his close aides. Limited changes to its internal structure and workings have not produced more participatory decision-making structures. Parties other than those in the PNF remain illegal, even though some small parties are presently tolerated. While parliament has been the forum for some lively debates on economic issues and has censured individual ministers, it has never actually challenged regime policy. Deputies unwise enough to transgress the official line found themselves first stripped of parliamentary immunity and then in prison.

Free and fair  
elections

Constitutionally, sweeping powers are vested in the president, whose ultimate strength derives from support by the armed and security forces. Officers closely linked to the president, who are the mainstay of the regime, dominate the chains of command in these forces. Presidential elections take the form of referenda in which voters endorse the single candidate officially chosen by the Ba’th party, but who, in actuality, is chosen by the incumbent himself. The centrality of the presidency is manifest clearly in the remarkable speed with which parliament,

following Hafiz al-Asad's death, lowered the constitutional minimum age for president from 40 to 34 years to allow his son Bashar to be elected. None of the following have led to further political decompression: the American presence in Iraq; external pressures on Syria to change its policies toward its neighbors; accusations of terrorism and the wider international fall-out from the assassination of Lebanese Prime Minister Hariri; or regime satisfaction after the end of the July 2006 war between Israel and Hezbollah in Lebanon. Should the regime ever determine to use decompression as a useful tool in buttressing its legitimacy and reputation, it is likely to keep the process under strict control to prevent any slippage that might endanger its own privileges and survival.

The president, who is "elected" in accordance with procedures described in 2.1, Free elections, effectively rules the country.

Effective power  
to govern

Formal interest representation and aggregation outside parliament, the PNF, and other regime-dominated organizations such as the official trade unions are not allowed. These organizations allow a degree of pluralism that varies with the sensitivity of the subject and the limits of which are defined by the regime. There are some 500 registered private voluntary associations in the country, mostly concerned with development issues and closely watched by the authorities. The most visible associations are run by individuals close to the regime, including the president's wife. During the Damascus Spring, Syrians used the term "civil society" to refer to the numerous debating clubs that sprang up spontaneously and a few other coordinated initiatives involving concerned citizens. The regime has since put an end to such activities. Several smaller unauthorized demonstrations and sit-ins have been organized in recent years, each followed by temporary arrests or official charges against participants. Petitions calling for major political reforms and an end to Syrian interference in Lebanon that were signed by hundreds of intellectuals and opposition politicians in 2003 and 2005 failed to impress the regime. To the contrary, signatories of the 2005 "Damascus Declaration" were arrested.

Association /  
assembly rights

On an individual level, private freedom of expression has improved over the years. However, collective expression of dissent remains a dangerous enterprise, as illustrated in 2.3, Association/Assembly rights. The regime-controlled press has gradually begun to reflect a wider variety of views, though within clearly drawn limits. The regime keeps a close watch on a growing number of privately-owned papers and Syria's sole private radio station.

Freedom of  
expression



### 3 | Rule of Law

With the legislature and the judiciary dominated by the executive constitutionally as well as in practice, there is no separation of powers which itself is the precondition for the rule of law. Effectively, legislation, law enforcement and the administration of justice are ultimately the preserve of the regime and the president.

Separation of powers

The judiciary exists constitutionally and professionally but the same constitution, additional legislation, appointment practices and intimidation referenced above make it entirely subservient to the regime and its “security” agencies. The absence of an independent judiciary allows “security” forces not only to enforce but also to transgress the law. For the same reasons, corruption is rampant, and prosecution is selective and generally politically motivated. Economic security courts were abolished in 2004.

Independent judiciary

By law, abuse of office is an offense or crime, but in practice prosecution is limited to cases where the dismissal of officials is expected to increase the regime’s popular legitimacy. Ministers and even prime ministers may be the subject of such prosecution, which need not be based on actual evidence. The president, his kin and key regime representatives are immune. Disagreement and competition in these circles is generally resolved through golden hand shakes, exile, and sometimes death, as detailed below.

Prosecution of office abuse

After the brief domestic thaw that followed the advent of Bashar al-Asad’s rule and seemed to push the modest trend toward political decompression marking the 1990s slightly further, the government has resumed arresting opponents and critics including journalists, human rights activists and even deputies. Various trials have resulted in prison sentences, others are underway. The violent deaths of political figures have been blamed on the regime including Shaykh Khiznawi, an oppositional preacher in 2004, and Ghazi Kan’an, former coordinator of Syrian intelligence in Lebanon and minister of the interior during the eventful months of early 2005. The fact that it remains practically impossible to sue the government or regime representatives, deters domestic and foreign investors who are less well-connected than others. There are strong indications that Syrian “security” agencies have remained very active in Lebanon in order to prop up political actors close to the Syrian regime, such as Lebanese president Lahud, and weaken their opponents such as Prime Minister Siniora. Syrian involvement is suspected in the assassination of former Lebanese Prime Minister Hariri and some twenty other people in early 2005 (and before) and subsequent assassinations and attempted assassinations in Lebanon.

Civil rights

#### 4 | Stability of Democratic Institutions

It should be emphasized that the political change described above cannot in any way be interpreted as a transition to democracy, the beginnings of such a transition, or a “blocked” transition. Those political parties that were legalized in 1972 and the PNF remain under tight regime control. The same applies to the non-regime forces that have been selectively, often more informally, “incorporated” or simply tolerated since the 1990s. Parties are parties only in name. Within the Ba’th party debates are more open than in the past, but internal elections remain controlled, albeit more subtly than in past years. In a sense, representation has (very moderately) improved but it has done so without a concomitant increase in participation. It is therefore impossible to interpret relative institutional stability within the framework of the stability of democratic institutions, which are non-existent.

Performance of democratic institutions

For decades, decision-making structures at all levels have been undemocratic, though they have at times been embellished by democratic appearances. In families, in schools, at the workplace and in public affairs, consultation is the utmost concession to be gained under basically paternalistic or outright authoritarian procedures. The vast majority of Syrians have not been exposed to any democratic practice. Given these conditions, the spontaneous emergence of self-governing debating clubs and other grassroots initiatives in 2002 was an impressive – if short-lived – development.

Commitment to democratic institutions

#### 5 | Political and Social Integration

As explained above there is no party system in any meaningful sense of the term. As elections and their outcomes are entirely managed by the regime, even the degree of voter volatility cannot be ascertained.

Party system

Likewise the comments made above show the absence of a network of associations or organized interest groups able to effectively mediate between state and society. Only the chambers of commerce, organized on a regional basis, are intermediaries of sorts, though by and large they are dominated by larger business families and presently, in spite of conflicts of interest, are locked into crony-capitalist logics arrangements with the regime. A degree of subterranean interest representation and aggregation occurs within official organizations affiliated to the Ba’th party, such as women’s organizations and professional syndicates. The absence of associations and formal organizations is partly compensated by other intermediaries such as family networks, regional and tribal networks.

Interest groups

It is difficult to assess to what extent democratic norms are accepted given the omnipresence of the regime, the absence of democratic structures and thus the difficulty, if not to say impossibility, of obtaining relevant data.

Consent to democratic norms

There are no formal structures of social self-organization. Informal networks are limited to neighborhood, workplace, family, tribal, regional and religious-based networks. See also above comments on “interest groups.” The regime has basically remained unchallenged domestically ever since it crushed its armed Islamist opponents in the early 1980s when the shelling of Hama led to some 10-30,000 civilian casualties. In order to prevent subsequent challenges, it has continued to combine repression with symbolic policies of Islamization. More recent Kurdish unrest in the country, in particular in the spring of 1994, has not affected regime stability so far. While stability continues to rest to a large extent on repression (the efficiency of which does not depend on the excesses routinely committed in the 1980s), strong rhetorical support for the Palestinian case, active support for Hezbollah in the July 2006 war in Lebanon, and firm policies toward Israel and the United States also create considerable domestic legitimacy. Increasing hydrocarbon prices and revenues since 2000 have enabled the regime to contain or reverse some of the disruptive effects of economic decline and of reforms aimed at overcoming this decline. Once again, the distribution of rent has strengthened loyalty toward the regime. At the same time, contraband activities with neighboring countries and the taxation of politically dependent economic actors in Lebanon or close to the ousted Iraqi regime under Saddam Hussein have had additional positive effects on cash flows. Finally, emigration also contributes to stability in the short and medium-term, even though in the longer term its effects on the economy may entail political instability.

Associational activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

The economic reforms of the late 1980s and early 1990s, which were largely copied from the stabilization and adjustment policies advocated by the World Bank and the IMF, reportedly contributed to growth and to significant temporary improvements to external and budgetary imbalances. These reforms also led to a substantial rise in income levels and capital accumulation, which benefited private sector entrepreneurs, though it should be noted that the credibility of statistical sources from the state is questionable. However, conspicuous

Socioeconomic barriers

consumption, capital flight and distribution rules defined by a regime eager to incorporate private business as a junior partner severely limited trickle-down effects. In distributional terms, the gap widened primarily between the haves and have-nots, but also between the public sector and earners of wages and salaries in the private sector. The economic downturn from the mid-1990s did nothing to ease the lot of the majority of Syrians. The recent rise in hydrocarbon rents has had beneficial effects on growth and distribution, as the regime uses such strategies to emphasize its objective to build a “social market economy.” The revival of economic reform - visible, for instance, in the partial opening of the banking sector to private capital - may have additional effects. However, long-term improvements depend heavily on global economic and political developments and regional political risks, such as the future of Iraq and Lebanon, and the conflict between Israel and the Palestinians. Presently mandatory social security schemes only cover certain professions and their families, including civil servants, military and police officers, public sector workers and employees. Others have no or simply minimal coverage, as is detailed below. The regime has announced plans to generalize health insurance to cover all Syrians. In terms of income the gap has significantly widened between some parts of the private sector and public employees. Qualified technical and managerial staff in private companies may earn multiples of government and public sector staff. More than liberal professions catering to the needs of privileged private sector staff owners of capital have been the key winners of economic liberalization measures. Gaps in income distribution and wealth are stark but there hardly are reliable data concerning income distribution (distribution by upper/ lower deciles, Gini index are absent from HDRs). The human poverty index for 2004 stands at 14.4%, as measured by the UNDP’s HDR. For social security schemes and benefits, see below.

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	21,186	21,999	24,972	<b>26,320</b>
Growth of GDP	%	4.0	1.6	3.9	<b>5.1</b>
Inflation (CPI)	%	1	-	-	-
Unemployment	%	11.7	12.3	-	-
Foreign direct investment	% of GDP	0.5	0.7	1.1	<b>1.6</b>
Export growth	%	8.7	-23.3	13.3	<b>3.9</b>
Import growth	%	6.8	-4.1	27	<b>17.9</b>

		2002	2003	2004	2005
Current account balance	\$ mn.	1440.0	752.0	-623.7	<b>-1061.1</b>
Public debt	\$ mn.	15,848.7	15,847.6	15,742.4	<b>5,640.2</b>
External debt	\$ mn.	19,966.1	19,265.6	18,980.7	<b>6,508.3</b>
External debt service	% of GNI	1.1	1.2	1	<b>0.8</b>
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	12.3	13.5	14.0	<b>13.5</b>
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	2.3	2.5	2.2	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	6.3	7.2	6.6	<b>5.1</b>

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

## 7 | Organization of the Market and Competition

The growth of the private sector relative to the public sector and public sector reform have not led to commensurate growth of markets as mechanisms for resource allocation. In various domains the public sector still has monopoly status or privileged market access, though in other cases such advantages have been transferred to private companies or newly conceded to them. All sorts of licenses and authorizations governing economic activity are granted by administrations fully dependent on an unaccountable regime. Even the creation and expansion of companies under law number 10 of 1991, which is to encourage private investment, remained dependent on opaque official approval. The same applies to private investment in the banking sector under recent legal changes. Barriers to market entry therefore remain high and often arbitrary. There is no stock exchange. More recent changes to tax and the investment laws remained limited. Tax rates on personal income and company profits were slashed in the 2003 tax reform, but in practice, taxation continues to depend on a variety of factors, including relations with officials and the regime. In the absence of an independent judiciary (or any true separation of powers), notwithstanding legal statutes, actual taxation, markets and competition are severely biased in favor of regime protégés. While the size of the informal sector is difficult to estimate, it is certainly

Market-based  
competition

substantial in absolute and relative terms. Restrictions on the transfer of currency and profits abroad have been eased over the years. Law number 24 of 1986, which prohibited Syrians from possession of foreign currency, was abrogated in 2003. However, various other restrictions remain in place.

Anti-trust legislation has been passed too recently for its effects to be judged. However, the selective application of other pieces of legislation and the lack of independence of the judiciary do not bode well for its impartial or effective implementation. Private and public oligopolies and monopolies remain a dominant feature of the Syrian economy, that is, in products such as domestic flights and cell phone networks.

Anti-monopoly  
policy

Gradually liberalized, foreign trade picked up significantly in the 1990s, but then stagnated. Exports of goods and services amounted to roughly 28% of GDP in 1990, to 36.1% of GDP in 2001, but fell to 33.8% in 2004. According to World Bank data, imports of goods and services rose from roughly 28% of GDP in 1990 to 29.2% in 2001 and to 32.3% in 2004. According to the UNDP's HDR, ratio of exports to GDP declined even though oil and gas prices increased. Primary exports, including oil and gas, rose from 64% of merchandise exports in 1990 to 87% in 2004. Over the same period, manufactured exports fell from 36 to 11% of merchandise exports while high-tech exports rose from 0 to 1%. More recent assessments from the IMF are more optimistic about trends in the non-oil balance. Trade liberalization nonetheless remains subject to restrictions. Import licenses are supposed to be replaced with a negative list of commodities. Some import bans for instance on cotton fabrics have been removed. Foreign currency bottlenecks and selective sale to firms are additional obstacles. Tariffs were reduced in and around 2005, lowering the maximum tariff from 255% to 65%. Free trade agreements have been signed with various Arab and other states. Since 2005, Syria has been a party to the Arab free trade area. In 2004 Syria initialed an association agreement with the European Union, governed by the principles of the Euro-Mediterranean Partnership. Subsequent amendments requested by the European Union have so far prevented signing and ratification. Syria applied for WTO membership in 2001 but is not yet a member. Political conflicts have probably had negative effects on trade with neighboring states, in particular Lebanon and Iraq. Since 2004, U.S. sanctions entail additional restrictions. The Syrian regime repeatedly closed the Lebanese border to bilateral and transit trade. Following the occupation of Iraq, the bilateral border was partly closed by U.S. and Iraqi authorities. However, contraband trade may at least partly have compensated for losses recorded in trade statistics.

Liberalization of  
foreign trade

Although new legislation allows private banks to operate in Syria and to be registered there, public sector banks remain the major depositories of savings and providers of loans. Attempts to modernize the public sector banks have been initiated and pursued with some success. Their credit policy nonetheless remains

Banking system

opaque and at least partly driven by the needs of the government, public sector companies and regime cronies. Private banks, in business since 2004, must be joint stock companies registered in Syria; pending new investment legislation, 51% of shares must be owned by Syrians and a majority of board members must also be Syrians. In 2005 the private banks reportedly granted credits totaling about 5% of the credit volume of public sector banks (FEMISE); at present, there 10 private banks are operating. A capital markets authority was established in 2006. The creation of a stock exchange has been announced for some time, it is not to open until 2007.

## 8 | Currency and Price Stability

At the relatively realistic “rate of neighboring countries” one U.S. dollar was worth 46 Syrian pounds in 1996 and 1998 (a multiple of the previous artificial official rate, see also above). After 2001, one U.S. dollar was worth between 51 - 54 Syrian pounds, according to the IMF, which placed the real effective exchange rate between 53 - 59 Syrian pounds per dollar between from 2001 to 2005. As of January 2007, the neighboring rate of the Syrian pound is no longer pegged to the U.S. dollar but determined with regard to a currency basket including the dollar, the euro, the yen, and the British pound. As noted elsewhere in this report, however, exchange rate unification has not been completed yet and the other rates continue to exist. The Syrian central bank is controlled by the executive. Inflation was relatively flat in the early years of the 21st century, but rose to 7% in 2003 and 9% in 2004, according to the World Bank. According to the IMF, average inflation has remained around 6% since 2003, while monetary policy has been expansionary, including substantial increases in wages and in credit to the private sector since 2004.

Anti-inflation /  
forex policy

Since 2002, government expenditure has exceeded revenues. While, according to the IMF, 2001 recorded a budget surplus of 2.3% of GDP, 2002 recorded a deficit of 2% of GDP, which increased to 2.6% in 2003 and to 4.2% in 2005, decreasing to an estimated 2.8% in 2006. The changes reflected in particular decreasing oil-related revenue (a function of both prices and output) that could not be compensated either by non-oil tax revenue or moderately increasing expenditure for wages, defense and development. Non-oil tax revenue hardly shows an increase over the period concerned, even after or because of tax reforms that slashed rates for direct taxation. Indirect taxes broadly compensated for decreasing excise revenues. The IMF placed external debt at 17.6% of GDP in 2001, 18.2% in 2003, 19.9% in 2004, 25% in 2005, and an estimated 22.6% in 2006. During the same years, the external debt-to-exports ratio stood at 52.2%, 54.0%, 58.9%, 72.2% and 68.5%. It is expected to grow further over the coming years. Total public sector debt amounted to 22.4% of GDP in 2001, 25.7% in

Macrostability

2003, 29.5% in 2004, 38.2% in 2005 and an estimated 37.9% in 2006, with a respective public sector debt-to-revenue ratio of 74%, 89.3%, 106.7%, 144.4% and 137.5%. It should be noted that the above figures of total public and external debt for 2005 include military debt to the former USSR, which was acknowledged by Syria in that year because of its rescheduling agreement with Russia. In 2005 and in preceding years, Syria reached agreements with most creditors, including Russia, to reschedule and/or substantially reduce its foreign debt, according to the World Bank and IMF. In 2006, long-term foreign debt stood at roughly \$7 billion compared to about \$16 billion (including military debt to the former USSR) in 2004.

## 9 | Private Property

Property rights are defined by law and in the constitution. Legislation such as investment law number 10 of 1991 and the law regulating foreign investment in Syrian banks enacted under Bashar al-Asad has extended the property rights of foreigners, though this falls short of ending all restrictions. Legislation passed in 2007 allows foreign investors to own land. However, the absence of the rule of law and the unaccountable nature of government often dilute these rights considerably. The days of outright nationalization or sequestration of property are long-gone, but numerous more subtle methods are applied to erode the rights of regime opponents and competitors of regime protégés. New legislation on intellectual property will also have to be judged by its implementation.

Property rights

Private companies are permitted to exist. Successive legislation including laws mentioned under “property rights” has eased restrictions on private businesses and investments, and increasingly been extended to foreign companies and investors. Due to successive measures of economic liberalization, the private sector accounts for more than half of the country’s output, current investment, gross fixed capital formation, foreign trade (excluding that in hydrocarbons), employment and GDP. According to some figures, the private sector presently accounts for 70% of non-hydrocarbon output. As mentioned earlier, the most successful private companies are owned by members of the regimes or their kin. The status of private banks is discussed above. Following new legislation in 2005, nine private insurance companies have been authorized to operate. According to IMF data, credit to the private sector, including loans from public sector banks, has grown by some 45% since 2004. New areas, such as electricity and cement production, have been opened up to the private sector in recent years. Without privatization, the public sector, except for the state-owned hydrocarbon sector, has been shrinking continuously in relative terms. Public sector reform forces companies to operate by market rules and enforces such reforms as cuts in staff levels and factory closures, but falls short of privatization.

Private  
enterprise



## 10 | Welfare Regime

In line with its emphasis on socialism, which has, since the late 1980s, co-existed uneasily with private sector-oriented growth strategies, the regime maintains the social welfare policies introduced after the 1963 coup. This includes a (work-related) accident insurance and retirement scheme for public sector workers and employees, officials and military officers, with the latter being particularly well-cared for. Civil servants (military and police officers in particular) benefit from more far-reaching entitlement schemes. While no more than 50% of the workforce benefits from these programs, basic health care exists for the majority of the population and state education is free. A generalized health insurance scheme, which would cover all citizens, is in the works, to be introduced in the near future, as are unemployment benefits. However, the existing schemes have been at least partly eroded over the last twenty years because of a substantial decrease in funding, which is only partly compensated by more recent improvements. Those able to pay are pushed toward private medical care inside and outside the country. Similarly, they complement state education with private lessons and prefer universities abroad or the new private universities at home to higher education provided by the Syrian government. Those unable to pay their own way suffer in terms of health, life expectancy and formal education.

Social safety nets

Officially, some 12.3% of the labor force is unemployed today, compared to 8.9% in 1998. Some non-official estimates put this figure at 20%. The regime has launched a large job creation program but acknowledges that growth and investment rates remain insufficient to absorb the unemployed and new entrants to the labor market. The respective annual growth target pursued by the government is 7%. It should also be noted that most wages and salaries fail to cover anything beyond most basic needs. The definition of poverty lines and corresponding head counts are no less problematic in Syria than elsewhere because of their ultimately arbitrary character and numerous methodological shortcomings, as noted above. Although they do exist, informal safety nets are unable to compensate for the shortcomings of state-sponsored ones.

The equal opportunity effects of “socialist” policies of the past have largely eroded. Access to numerous aspects of health care and to quality education, in particular to higher education, depend on financial resources or on privileges granted by the regime. Membership in the Ba’th party still facilitates access to state-sponsored higher education. Various social services are restricted to public sector employees, civil servants or military and police officers. Government and public sector employment and promotion are also frequently subject to political or kinship criteria wholly independent of performance, merit or ability. Private sector employment often reproduces selection methods based on kin and other

Equal opportunity

ascriptive criteria. Attempts to reign in or even reverse the expansion of staff levels in government and sector expansion have often been at the expense of female participation in the labor force.

## 11 | Economic Performance

According to World Bank data, the rate of growth rose with the economic reforms of the late 1980s and early 1990s, reaching between 7% and 10% annually, but then fell to less than 5% in the second half of the 1990s. It stood at no more than 2.5% in 2000, at 6% in 2002, 2% in 2003 and 4% in 2004 and 2005. Population growth, in contrast, was measured at 2.7% in 1997, at roughly 2.5% in 2001, and at 2.3% in 2004, such that GDP per capita growth averaged only 1.5% per annum (UNDP/HDR) between 1990 and 2004. According to World Bank data, net inflows in foreign direct investment rose from some \$70 million in 1990 (prior to the enactment of a new investment law) to some \$170 million in 1993 after its implementation. FDI inflows rose to \$250 million in 1994 but then declined, measuring only \$80 million as of 1998. They rebounded between 2001 and 2004, ranging from \$110-160 million in these years and skyrocketing to \$275 million in 2004. The government estimates that total investments of \$34 billion are needed in the period between 2006 and 2010 to push growth to 7% annually. On the HDI, Syria reached 0.716 in 2005, thus ranking 107th out of 177 countries. It should be noted that this represents steady progress in absolute terms, as reflected in the corresponding figures for past years: 0.580 in 1980, 0.634 in 1990, 0.665 in 1995 and 0.691 in 2000 (however, UNDP caveats as to comparability over time apply). Growth will remain dependant on rainfall, relations with neighboring countries and the major powers, including the opening or closure of borders, and hydrocarbon prices. Oil reserves will be exhausted within a decade or less, and Syria may become a net oil importer as early as 2010. Whether gas production and exports will fill the gap remains to be seen. Syria is also likely to face increasing water shortages.

Output strength

## 12 | Sustainability

For all intents and purposes, environmental concerns are not taken into account in economic activities or strategies. There is no institutional framework in place to improve this state of affairs.

Environmental policy

Deteriorating or insufficient public education and health services, authoritarian hierarchies and continuous censorship work against innovation, enhanced problem solving capabilities and growth. Their negative effects are offset only in part by income from rent, which itself also has various negative effects on competitiveness and other key aspects of sustainable development. The number

Education policy / R&D

of Internet users rose considerably from 4 in 1000 individuals in 2001 to 43 in 1000 individuals in 2004, but remains nonetheless limited. With only a few exceptions, no scientific research is conducted in the country. For the period between 1990 and 2004, the HDR estimated that Syria had only 29 researchers per 1 million inhabitants. While serving some interests, the absence of the rule of law and accountability in governance deters numerous investors. Regional political conflicts and repeated global disenchantment with emerging markets in general reinforce domestic (economic) retrenchment and its social consequences. Moreover, the international dimension of regional conflicts as well as the same general unease about globalization that is visible in many developing countries reinforces societal cleavages within Syria. Islamists interpret the Palestine issue and certain types of social change as Western attacks on, or corruption of, Muslim ways of life and therefore push for the increasing respect of what they consider Islamic values, a trend that in turn alienates Syrian Christians. At the time, these factors have conspired to render growth less rather than more sustainable.

## Transformation Management

### I. Level of Difficulty

Governance capacity is mainly constrained by the regime's pursuit of two at least partly conflicting objectives: the survival of the regime as a self-appointed unaccountable group of individuals and their personal enrichment as well as that of their supporters on the one hand, and economic growth and development in Syria on the other. Attaining the latter objective may impact positively as well as negatively on the former. Policies drafted and implemented by some technocrats in the government, including the deputy prime minister for economic affairs, are permanently delayed, truncated, and voided of their substance as a function of concerns about their potential negative effects on regime stability, and the material interests of its members and allies. Attempts to increase Internet access and at the same to police the Internet are just one illustration of the contradiction.

Structural  
constraints

To the extent that civil society traditions did exist, none of them have survived the 1963 coup or been able to re-emerge subsequently.

Civil society  
traditions

Ethnic, religious and social conflicts are largely latent at the moment, except for occasional explosions such as was the case in 2004 (see above). Widespread distrust across religious, linguistic, regional and kinship divides has a negative impact on attempts to manage economic, social and political change, which is perceived as threatening existing privileges or advantages. The leadership is committed primarily to regime survival, the material interests of its members and constituencies and finally to a degree of economic and political reform that serves these primary objectives. Regime security is the first priority. The uncontrollable outcomes of economic and political reforms condemn them to areas where their implementation is crucial for regime survival. Within these limits the regime is relatively efficient in implementing some reforms. Some technocrats in government and others close to the president undoubtedly follow closely the intended and unintended effects of policies. Other officials or members of the regime sometimes seem to operate in accordance with a paradigm unchanged by worldwide competition, globalization or post-cold war balances of power. However, a lack of immediate reflexivity has sometimes served regime interests, at least in the short term, for example in Lebanon after the assassination of Hariri.

Conflict intensity

## II. Management Performance

### 14 | Steering Capability

Insofar as the political leadership's various aims conflict, it exhibits a prioritization of regime survival over all other objectives. Reforms remain subordinate to this overall objective, but are pursued to the extent that they are absolutely necessary for, and compatible with, regime survival and welfare.

Prioritization

Implementation is more impressive than it appears at first sight. However, lack of appropriate human and material resources do negatively affect implementation of most policies and decisions. Similar shortcomings arise out of the divided loyalties that make most officials responsive not only to their administrative hierarchy but simultaneously to social networks including family, faith and tribe.

Implementation

Within the limits described above, the political leadership has demonstrated its ability to reflect upon past policies and to adapt them. The style of repression provides one example of this tendency, in the sense that highly visible harsh and brutal methods have been replaced with more subtle ones, partly based on new technology. The history of economic reform since the late 1980s provides numerous other examples. While Syria has never called on the international financial institutions for assistance, for example, it has modeled its macroeconomic stabilization program and other measures on similar programs elaborated and implemented by the World Bank and the IMF.

Policy learning

### 15 | Resource Efficiency

The resources employed in the service of any given task are often not adequate to achieve the ends pursued. Nonetheless, there are attempts to bring means in line with ends in economic management as well as in the repression or marginalization of opposition and dissent. Budgets nevertheless remain opaque, while government and the public sector are overstaffed and undertrained. Economic and human resources have not been allocated efficiently if efficiency is measured in terms of economic growth, human or sustainable development. However, resources have been allocated – and squandered – in ways that have contributed to regime consolidation. Indeed, one could argue, for instance, that private sector growth beyond the limits imposed by the regime, that is, growth of

Efficient use of assets

those parts of the private sector that are independent of the regime and its representatives, might have resulted in the emergence of competing centers of economic power that almost inevitably wield a degree of political power (or leverage), and that such a development could have reduced regime autonomy or even affected its survival.

To date, the regime has managed to reconcile its two main objectives; namely, regime survival and limited domestic reform. However, continuously high demographic growth, limited generation of additional resources and medium-term threats to rental income could defeat these attempts within a decade.

Policy coordination

The regime does not intend to contain corruption. Repeated anti-corruption campaigns or individual trials are solely aimed at opponents or disgraced former supporters. Corruption is favored by the regime, and sometimes forced on citizens in order to blackmail them into compliance.

Anti-corruption policy

## 16 | Consensus-Building

Neither the regime nor most of its allies in the PNF agree on a market economy and democracy as either short- or long-term aims. Instead, they seek to maintain crony capitalist arrangements that may be underpinned by rent and by some social policies financed by rent. The regime's remaining supporters – composed largely of workers and peasants – is highly skeptical of the market economy. Some small opposition forces favor a social-democratic style market economy different from the regime's "social market economy" described above. Most Islamists call for a market economy and for democracy, the latter though limited to what they consider compatible with Islam. It should be noted that Islamists are presently outlawed and persecuted.

Consensus on goals

The regime itself is the key anti-democratic veto actor.

Anti-democratic veto actors

Ever since the early 1980s, the regimes of Hafiz al-Asad and his son have by and large managed to avoid open conflict along linguistic, religious, regional or social cleavages. Repression, often violent, has been a key instrument in this. After the Kurdish unrest in 2004, the regime promised to address Kurdish concerns, and did indeed do so to a certain extent.

Cleavage / conflict management

The regime does not enable the participation of what is left of civil society in the political process but rather attempts to contain the emergence of a civil society.

Civil society participation

The regime has made no declared effort to bring about reconciliation with the victims of anti-opposition repression in the past. It has set free a number of oppositional figures who had been imprisoned for years or decades. It also allowed political exiles to return on condition to abstain from any political activity.

Reconciliation

## 17 | International Cooperation

The regime accepts international advice, funding and technical support to address purely technocratic issues of modernization, such as rationalizing the division of labor in the administration, installing new machinery or accounting procedures in public sector companies, and the use of information technology. More far-reaching recommendations of internal experts examining administrative reform or the administration of justice are ignored.

Effective use of support

The regime has generally presented its economic and political reform agenda as one entailing only limited change, and has never tried to raise great expectations. Consequently, its policies remain internationally credible.

Credibility

Relations with most neighboring countries are frequently tense. In these situations, bilateral and multilateral agreements involving neighbors are not always implemented. The trade embargo against Lebanon following calls for an international tribunal judging suspects in the Hariri assassination, for instance, violates previous bilateral agreements. Membership in the Arab League does not imply constant cooperation with other member states. However, Syria is not any worse an offender in this respect than most of its neighbors. By most accounts, it also has made serious attempts to bring the peace negotiations with Israel to a successful conclusion. The association agreement with the European Union, initiated in 2004, has not yet been signed because of new EU conditions.

Regional cooperation

## Strategic Outlook

Although some technocrats in the government and close to the regime are keenly aware of the urgent need to prepare the Syrian economy for the post-petroleum stage, serious doubts persist as to whether this transition will or can be managed successfully. Current economic reforms follow currently fashionable recipes for growth and development, but their implementation was begun late in the day, and they remain limited in scope and continue to be dragged out in time. As a matter of course, there is no guarantee that the reform agenda itself will translate into higher (foreign) investment, growth and employment. The aim of attracting \$34 billion in investments in the period from 2006 to 2010 is itself highly optimistic, considering present investment levels, political uncertainties in the Middle East region, and the wider domestic political and institutional setting.

More substantial and rapid economic liberalization in the sense of private sector growth (in particular relative to the public sector), including privatization, the generalization of market mechanisms in the allocation of resources, and corresponding deregulation would result in unwelcome social developments including emigration, apathy and unrest. It would also challenge present crony capitalist arrangements and the material interests of regime members and supporters.

Equally problematic for the regime in the short term, but more popular with the population at large, would be serious institutional and political reform. Though ultimately incompatible with guaranteed regime survival, it could very well partly and temporarily strengthen regime legitimacy, and pave the way for the long-term negotiated retreat of the present leadership and its transformation into one among several power centers within the country. Provided a minimal consensus exists among the actors concerned, the emergence of several competing power centers would result in a separation of powers of sorts. Such a polyarchy would in turn favor democratic rule.

Political and institutional reform would necessarily contribute to transforming the political regime, make the leadership more accountable, enhance participation and strengthen other liberties. Beyond political liberalization and possibly democracy it would also entail the separation of powers and therefore an independent judiciary able to ensure security of contract, and therefore provide the very basis for the growth and development-related mobilization of human and material resources.



Successfully managing such a transformation would involve serious, and possibly externally-mediated and guaranteed negotiations among Syrian actors, foremost among them the political leadership. At the same time, and partly by implication, it involves credible assurances by external actors not to confuse reform with removing the present incumbents. Rather than toppling the regime in Damascus, the aim should be to persuade it to reach a historical compromise with other political actors in the country.