

BTI 2012 | Syria Country Report

Status Index	1-10	3.90	# 107 of 128	
Political Transformation	1-10	3.18	# 115 of 128	➔
Economic Transformation	1-10	4.61	# 91 of 128	➔
Management Index	1-10	3.17	# 113 of 128	

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

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	20.4	HDI	0.632	GDP p.c.	\$	5285
Pop. growth ¹	% p.a.	2.0	HDI rank of 187	119	Gini Index		35.8
Life expectancy	years	76	UN Education Index	0.534	Poverty ³	%	16.9
Urban population	%	54.9	Gender inequality ²	0.474	Aid per capita	\$	11.6

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The Syrian regime and economy has experienced various ongoing pressures which periodically threaten to de-stabilize it, but has so far shown a tenacious capacity to survive. The regime endured a period of severe external pressures and still suffers from U.S. economic sanctions. The country has been hard hit by the decline of the state-run economy and oil revenues, and by its inability to generate jobs for a youthful population. Syria remains an authoritarian regime with a state-dominated economy. However, power has shifted from party apparatchiki to the reformist technocrats surrounding the president, who are aware of the need for change but determined not to sacrifice stability. The business class enjoys increasing influence but remains without political power. The regime has incrementally but irreversibly deepened the bias to a market economy, bringing about adhesion to international trade agreements, the opening of private banks and new investor-friendly laws. Reforms have stimulated enough investment, savings and tax revenues to keep the economy fairly stable in the face of dwindling oil reserves, but drops in investment levels call in question the long-term sustainability of its course. Political liberalization, mooted in the early 2000s, quickly stalled, and democratization has not been on the agenda, yet the increases in inequality and corruption accompanying economic liberalization have weakened the regime's traditional support base and stimulated calls for accountability. The events in Tunisia and Egypt in early 2011 have kickstarted unrest in Syria, with the city of Daraa becoming a focal point for brutal clashes between security forces and demonstrators. However, there has been one "victory": President Bashar al-Asad announced the lifting of the martial law, in force since 8 March 1963, on 27 March 2011.

History and Characteristics of Transformation

The constraints on a liberal transformation in Syria are rooted in its recent formation as a modern state. The post-independence rise of radical nationalism and populism among the middle class and peasantry destabilized the semi-liberal oligarchic regime, deterred investment and paved the way for the Ba’thist coup of 1963. This initiated a period of “revolution from above” in which nationalization of big business and land reform demolished the economic power of the old oligarchy and gave the Ba’th state control of the levers of the economy. The 1970 rise of Hafiz al-Asad to power ushered in the consolidation of the regime. Asad concentrated power in a “presidential monarchy” achieved by balancing the army, the Ba’th party, a largely Alawi-staffed security apparatus and a new state-dependent private bourgeoisie appeased by limited economic liberalization. Additionally, a combination of repression, institution building, patronage, and foreign policy legitimacy consolidated the state as a whole.

The exhaustion of Syria’s statist strategy of development forced the regime to embark on several waves of *infatih* – the “opening” of the economy – which did not achieve sustained momentum as pressures for reform were periodically relieved by rent windfalls from oil revenues and foreign aid. While Syria’s first *infatih* in the 1970s largely helped to recycle oil money, under the second *infatih*, beginning in the mid-1980s, the private sector was accepted as a partner of the public sector. The private sector’s share in production output, current investment, foreign trade, employment and GDP outgrew and then exceeded that of the public sector. A certain amalgamation, through intermarriage and business partnerships between the largely Sunni bourgeoisie and the state elite, dominated by the Alawi security forces, generated a “military–mercantile complex,” the core of a new upper class. At first the state pursued a policy of balance between the bourgeoisie and its initial plebeian constituencies, steering a middle course between statism and populism and making a decisive turn towards market capitalism that would risk social stability. The regime had a built-in resistance to full liberalization which, however, is gradually being overcome. The ruling Ba’th party, once an ideological party rooted in plebeian strata, institutionalized populism, but has declined into a patronage network and been marginalized from policy-making. The public sector was the main source of public revenue but as it has declined the regime has moved to increase its tax extraction capacity. The government is renegeing on the “social contract” under which regime legitimacy was once contingent on state provision of subsidized food, jobs and farm support prices. The regime’s patronage capacity now depends more on granting market monopolies than on access to state resources. The move to a market economy depends on a private bourgeoisie with the confidence to invest and ultimately replace the public sector. While this is constrained by the absence of rule of law, a crony capitalist class fostered by the regime is growing in strength. This new, politically connected class continued to be rent-seeking, exploiting state-granted import monopolies and contracts that would be threatened by competition in a more open and transparent market. However, market measures have deepened and the needs of investors have been prioritized. This crony capitalism

requires limited political liberalization but not rule of law or democratization. Syria claims to want to follow the Chinese model, but the influx of Gulf-capital investment into the tertiary sector and the continuing limited capacity for industrial exports, have led many to see the regime slipping instead into the Dubai model.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

The state enjoys an effective monopoly on the use of force over its territory. However, Syria is open to penetration by trans-state forces, both from migration and the spread of ideas, and is exposed to highly unstable neighbors, Lebanon and Iraq. Occasionally conflicts in these countries have spilled over in the form of terrorism on Syrian soil. The country has absorbed over a million Iraqi refugees and is host to a large Palestinian refugee population. However, the regime remains in control of the situation. There is a large, disciplined army and multiple security services that monitor the multitude of potential threats faced by the country. Regime control capacities have, however, always depended on carrots as well as sticks, and its ability to co-opt potential opposition has declined with the decline in rent available.

Although Syria was long considered an artificial state enjoying limited loyalty from its population, after 30 years of Ba’thist state-building, a Syrian identity has been constructed (albeit Arab in content) and the boundaries of the contemporary state are accepted as the normal framework of politics. All citizens are accorded formal equality, although constitutional clauses referring to the Arab character of Syria implicitly question the status of Kurds; Arabic alone is the official language. In practice, moreover, sectarian affiliations are manipulated in the political process, and the minority Alawis often benefit from favoritism.

Question
Score

Monopoly on the
use of force
8

State identity
7

Syria is a secular state, although the equal status of all religions is compromised by provisions requiring the president to be a Muslim and Islamic law to be the main source of legislation – congruent with the fact that 90% of Syria’s population is Muslim. There are, however, significant religious and ethnic minorities that enjoy greater protections than in many other Middle East states by virtue of the Ba’th’s character as, in some ways, a regime of minorities. Personal status matters remain largely governed by rules specific to the various faiths, and minorities enjoy considerable autonomy in such matters. The regime uses a combination of co-optation, divide and rule, and exclusion to manage the proliferating but divided Sunni Islamic civil society.

No interference of religious dogmas

7

Government administration is impressive by its size and penetration of society. The party and bureaucracy penetrate every village, factory and school. The administration delivers basic services at a reasonable rate. But the competence of its staff and its capacity to get things done are less than ideal. The administrative apparatus is subservient to regime interests and at the same time it is frequently colonized “from below” by local, kin or other special interests. The president’s reforms are often obstructed by bureaucratic inertia and sabotage.

Basic administration

6

2 | Political Participation

Formal competitive elections under universal suffrage are regularly held but play a negligible role in determining the ruling elite, whose ultimate strength derives from support by the party, armed forces and security services. Presidential elections are in fact referenda in which the voters endorse the single candidate who has been officially chosen by the elite of the ruling Ba’th party. There has only been one incident of a succession, when they endorsed the deceased president’s nomination of his son, Bashar, as his successor. A referendum approved a second seven-year term for the president in 2007. Since the 1990 general elections, one third of seats in the unicameral parliament may be contested by “independent” candidates who are thoroughly screened by security agencies. The remaining two thirds are reserved for candidates of the National Progressive Front (NPF), a coalition of the Ba’th and small pro-regime parties, while one half of the total number of seats necessarily goes to the Ba’th party. This change in the electoral law reflected an attempt to enlarge the regime’s social base rather than a sign of democratization.

Free and fair elections

2

After the death of the dominant President Hafiz al-Asad on June 10, 2000, several competing centers of power shared governance, notably the presidency, the regional command of the Ba’th party, the commanders of the armed forces, the security apparatus and the council of ministers. However, the new president, Bashar al-Asad, had by 2005 consolidated the presidency as the center of authority in the regime. Power shifted from party apparatchiki to a new group of Western-educated reformist technocrats around the presidency and cabinet. Informal power centers,

Effective power to govern

2

such as the extended Asad/Makhlouf families, wield great influence. While the government (council of ministers) is formally accountable to a (formally) elected parliament, in reality it answers to the president and party formally, and informally to mukhabarat (security police) barons.

The martial law which was in effect after 1963 was not supposed to be “applied” except in actual time of war, and the regime promised to lift it on 27 March 2011. While the fear of the security forces that had so deadened political life from the 1980s onwards appeared to have lifted after the succession of Bashar al-Asad, these forces continue to arbitrarily enforce frequently shifting “red lines” on political activity. Party freedom is severely constrained. The Ba’th party is the only party with an administrative and mobilizational apparatus; as the dominant party it enjoys numerous constitutional privileges, although it shares ministerial portfolios with its NPF allies. Parties outside the NPF remain illegal, although tolerated. Hopes that a substantially liberalized party law might be approved have so far been disappointed, with the only alteration being the admission of another small regime-aligned party, the Syrian Social Nationalist Party (SSNP), to the NPF. The most credible opposition force, the Muslim Brotherhood, remains proscribed. Associations are licensed and monitored by the regime. Faced, in the spring of 2011, with the most large-scale popular demonstrations in decades, the regime responded with lethal force, killing scores.

Association /
assembly rights
2

The media is state-owned except for a handful of party-owned or “private” newspapers, many of the latter vehicles of crony capitalists or the security services, which are, within well-known “red lines,” tolerated. The internet has become an arena for limited debate, and limited dissent is voiced in state-owned outlets, but the exposure of the illicit profits of crony capitalists and politicians – precisely what would be needed to make the press a vehicle of reform – remains taboo. Since the 1990s, repression has been eased in various respects. A large number of political detainees, who in some cases had been held for decades without charges, were released, exiles could return on certain conditions, and torture was less generally used but by no means ended. But high profile opponents continue to be arrested even as others continue to be released from jail. Nevertheless, the post-2000 relaxation of the grip of the security forces has expanded scope for debate and criticism of the government, particularly in the pervasive informal arena of talk, as long it does not take the form of overtly public political challenges to regime legitimacy and avoids making attacks on individual power holders.

Freedom of
expression
2

3 | Rule of Law

The executive, legislature and judiciary are formally differentiated, each with its own powers and jurisdictions, but the ruling party colonizes all three institutions and the executive dominates the other two branches. There is thus no conventional separation of powers, a precondition for the rule of law. Parliament has been the forum for some lively debates on economic issues and has censured individual ministers but has never actually challenged regime policy. Deputies who unwisely transgressed the red lines found themselves stripped of parliamentary immunity and sent to prison. Even the – extremely rare – vote of no-confidence in an individual minister amounts to no real challenge as the cabinet is just an implementing authority.

Separation of
powers
2

The judiciary is weak and colonized by the ruling party. Civil cases take such an excessively long time to be settled that they provide no effective enforcement of contract. Special security courts are used to try political offenses. The absence of an independent judiciary allows crony capitalists and security barons to act in an arbitrarily way, vitiating almost entirely the ideal of rule of law.

Independent
judiciary
2

Systemic corruption at elite levels has been the norm since the 1970s – part of the patronage system by which loyalty has been secured. Existing legal penalties for abuse of office have been selectively enforced during various “anti-corruption campaigns” against those who went beyond tacit limits to self-aggrandizement or aggravated middle-level bureaucrats or who fell out of favor, but fear of legal penalties has not noticeably constrained the use of power to acquire wealth and of wealth to gain influence. While Bashar al-Asad used the old guard’s corrupt peccadillos to undermine and eliminate the apparatchiki he inherited from his father, he has tolerated, if not actively allowed, a similar growth of corrupt crony capitalism to consolidate the loyalty of an emerging business stratum.

Prosecution of
office abuse
3

While formal rights and liberties exist under complex, often contradictory legal codes, the judiciary is politicized and vulnerable to corrupt influence, and redress of grievances typically rests on access to informal clientele connections. It remains practically impossible to sue the government or regime representatives, a fact that also deters domestic and foreign investors who are less well-connected than others. Citizens who refrain from political opposition enjoy many everyday freedoms and personal security.

Civil rights
2

4 | Stability of Democratic Institutions

Institutions do exist; they incorporate significant constituencies and have contributed to the stabilization of the state, but they are not liberal-democratic, and hence are an alternative to liberal-democracy. The smooth June 2000 presidential succession was engineered by the state establishment, in spite of the regime's seeming dependence on the personality of the deceased top leader, and provided minimal evidence of a shared elite stake in regime stability while also showing that Syria's state structures were, to a degree, institutionalized. The president's consolidation of power over intra-regime opposition through legal means (such as official retirements) and without resort to violence, also proved this.

Performance of democratic institutions

2

The previous generation of Syria's ruling elite was socialized in a period when democracy was discredited in the developing world. There remains considerable commitment to the rules and practices of the single party/corporatist system, which they created and which the former President Hafiz al-Asad elaborated to a "popular democracy," in which the ruling party acted as a channel of upward political mobility from the villages and created or co-opted syndical associations representing various sectors of society. The current generation headed by his son, Bashar, formally values democracy but insists that conditions in Syria are not right for its full implementation; nevertheless, the president has said that constructive criticism and acceptance of the opinions of others should be valued as long as red lines such as the preservation of national unity against communal conflict, criticism of the president and/or his family and the security services are observed. During the spring 2011 protests, he wavered between acknowledging public grievances and warning that sedition (*fitna*) would not be tolerated.

Commitment to democratic institutions

2

5 | Political and Social Integration

The Ba'th party, which bridges urban-rural gaps and incorporates a cross-sectarian alliance, is the major instrument of integration in Syria, although its integrative capacity declined first as it became cemented by patronage rather than ideology and then as it has been increasingly marginalized by the presidency and government. The small parties allied with the Ba'th in the NPF incorporate historically declining segments of non-Ba'thist political activists. Parts of the urban bourgeoisie, especially in Damascus, but much less so in other cities, are incorporated through clientele networks. The Islamist-minded traditional urban petit bourgeoisie was the largest excluded group and mounted a major insurrection in the early 1980s; its defeat has demobilized this sector of society.

Party system

1

Interest representation and aggregation outside parliament, and other regime-dominated syndical organizations such as the official trade unions are only possible via clientelistic networks. However, these organizations, notably the peasant union, have some history of successful lobbying for their constituents, e.g., in obtaining higher farm prices or more recently resisting their removal. But they are generally instruments of regime control rather than channels of pressure from below, and they appear to be ineffectual at defending the interests of their members in the face of the attacks on populist laws and welfare rights which have accompanied economic liberalization. A recent change in the labor law, which was adopted on 21 June 2009, to favor employers' ability to dismiss employees, signaled the declining influence of the trade unions, while the peasant union proved impotent to help farmers hit by the drought.

Interest groups
3

The vast majority of Syrians have not been exposed to any democratic practice. In families, in schools, at the workplace and in public affairs, consultation is the utmost concession under basically paternalistic or outright authoritarian procedures. Demand for democratization is concentrated in a thin layer of middle-class intellectuals and a minority of the private bourgeoisie, and the democracy movement, such as it was, could not break through the regime's encapsulation of the masses and mobilize broad support. The instability unleashed in Iraq and Lebanon by U.S.-sponsored regime change in the name of democracy promotion has to an extent discredited democracy among a citizenry that values stability. Nevertheless, there is little doubt that most Syrians would welcome a democratization of the regime, and particularly the end of martial law. Many have been inspired by the toppling of corrupt leaders in Egypt and Tunisia, and hope that greater political freedom in Syria is possible and would enhance the accountability of the ruling elite.

Approval of
democracy
n/a

Society has by no means been "atomized" by the Ba'th, but was de-politicized and penetrated. Formal civil society is controlled by the regime, through a network of syndical organizations under regime leadership, including worker and peasant unions, women's and youth organizations and professional syndicates. Non-political cooperatives and charities are well developed in Syria. Informal civil society groups of neighborhoods, friendship and patronage networks, and the pooling of resources by extended families, are strong.

Social capital
4

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Socioeconomic
barriers
3

Syria is a middle-income country whose socioeconomic levels have risen in spurts interspersed with periods of stagnation. Redistributive reforms benefited workers, peasants and the salaried middle class in the 1960s and 1970s, and provided a momentum reflected in still rising scores on the HDI which improved from 0.580 in 1980, 0.634 in 1990, 0.665 in 1995 and 0.691 in 2000, 0.74 in 2007 and 0.589 in 2010, thus ranking 111 out of 169 countries. Life expectancy at 74 is well above the average of 66 for transitional countries, but Syria's relatively low public expenditures on health (less than 2% of GDP) may be putting this at risk. Freezes on public sector wages combined with inflation beginning in the late 1980s narrowed or impoverished the salaried middle class while new policies favoring investors and the corruption of officials and crony capitalists led to substantial income rises for the few at the top. The rise of the new rich has accelerated following Bashar al-Asad's market reforms. There have since been several salary increases in the public sector, but public sector workers must still normally work multiple jobs. According to the Arab Human Development Report, Syria had one of the biggest rises in income inequality in an Arab state in the past decade, with its Gini index of inequality increased from 33.7 (in 1997) to 37.4 (in 2004) – a gap which is likely to increase if the rising conspicuous consumption of the new rich is an indicator. Cuts in the public sector hurt women especially as they are disproportionately employed there. Syria scores 0.42 on the Gender Equality Index, below the average of 0.53. Ninety-six per cent of the population has access to sanitation and 86% to improved water. Military expenditures are far lower than they were at their height in the 1980s but are still high, reaching an average 4% of GDP.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	40405.0	52581.9	53934.5	59147.0
GDP growth	%	5.7	4.5	6.0	3.2
Inflation (CPI)	%	3.9	15.7	2.9	4.4
Unemployment	%	8.4	-	-	-

Economic indicators		2007	2008	2009	2010
Foreign direct investment	% of GDP	3.1	2.8	4.8	2.3
Export growth	%	1.4	-2.3	-19.0	5.7
Import growth	%	11.3	2.5	-10.5	8.3
Current account balance	\$ mn.	459.6	472.0	-1029.5	-367.4
Public debt	% of GDP	44.1	38.2	31.2	27.5
External debt	\$ mn.	5515.0	5191.1	5112.0	4728.6
Total debt service	\$ mn.	680.0	691.5	630.4	630.2
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	12.3	11.2	12.0	10.1
Public expnd. on edu.	% of GDP	4.9	-	-	-
Public expnd. on health	% of GDP	3.2	3.1	2.9	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	4.1	3.8	4.0	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

Syria's move toward a market economy continues unabated, with economic reforms taking place under the label of a "social-market economy" although they are little different to neo-liberal international prescriptions. While the state remains pivotal to the economy, its dominance is gradually being eroded. Changes in the regulatory framework continue to move the Syrian economy closer to international market standards. The government continued to improve the investment climate, lowering the upper rate of tax for companies and individuals from 63% to 28% and the highest rates of tariffs from 255% to 60%. Syria's investment law allows unrestricted repatriation of profits, dividends and invested capital, while foreign workers can remit up to 50% of their earnings. The exchange rate has effectively been unified and restrictions on access to foreign exchange for current transactions mostly eliminated. The main risks remain systemic corruption, possible extortion of investors by powerful political actors and bureaucratic obstacles. In its 2009 Doing Business survey, the World Bank noted a solid improvement in the regulatory environment in Syria, which moved up from 145 to 137 out of 181 global

Market-based
competition

4

economies. The country's ranking as regards the ease of starting a new business improved by 47 places, moving from 171 to 124, as the number of official procedures required were cut by a third and the time needed to complete them slashed from six weeks to 17 days.

Far from discouraging monopolies, the regime seems to see crony capitalist monopolies as the first stage in the relaunch of Syrian capitalism. Successive waves of economic liberalization have generated new groups of crony capitalists. Some were sponsored by long-serving prime ministers but the current most powerful faction is represented by the president's cousins, the Makhloufs, who have acquired public sector management contracts and near-monopolies in new areas, notably mobile phones, seemingly at the expense of the Sunni bourgeoisie. In fields such as trade, public sector monopolies have been transferred to private monopolies.

Anti-monopoly
policy
2

Foreign trade has historically been state-controlled. Public sector bodies imported commodities for the public sector or public consumption. Since the 1980s, the role of private importers has inexorably expanded, although, being subject to licensing, it takes the form of private monopolies by well-connected rent seekers. While foreign exchange used to be reserved for the public sector, private sector access to it has steadily increased and controls, including punitive laws, over its use by the private sector, have been relaxed or abolished. Syrian adhesion to the Greater Arab Free Trade Agreement (GAFTA) and a bilateral trade agreement with Turkey (plus intensified negotiations with Egypt, Iran, Lebanon and Jordan) are already opening up the Syrian market and leading to tariff reductions. On 10 October 2001, Syria applied to join the WTO, indicating its intention to make trade liberalization irreversible, but was barred from any negotiations by U.S. and Israeli reservations. In May 2010 President Barack Obama renewed U.S. economic sanctions against Syria, but the WTO established a working party on 4 May 2010 to examine the country's application. Syria was granted WTO observer status – a move emblematic of its gradual reintegration into the world market. This has had costs: In the period since 2000, the trade balance has been either slightly negative or positive, but with external demand for non-oil exports weakened by the global economic downturn suffered by Syria's major export partners, the increase of food imports due to drought and Syria's exposure to increased trade liberalization, the trade deficit reached its highest ever level, soaring from \$3.9 billion in 2008 to \$5.9 billion in 2009. Turkish and Chinese imports have exposed the strategically important textiles industry to tough competition, with up to 80 textile factories in Aleppo reportedly closing. Luckily, buoyant tourism, remittances and inward investment spelled a positive current-account balance in 2008 and 2009. Syria's delay in signing the EU Mediterranean partnership agreement reflects not a reconsideration of its strategic decision to integrate into the world market but a realization of the potential damage that could be inflicted on Syrian industry by the hasty tariff reductions that it prescribes – tariff reductions that will not result in a corresponding opening up of

Liberalization of
foreign trade
5

Europe's agricultural market to Syrian exports. Trade liberalization has recently slowed as damage to Syrian industries prompted the government to increase customs duties on countries suspected of unfair trade practices. Syria still ranks 104 of 125 countries on the Global Trade Facilitation Index of the World Economic Forum and also ranks low in competitiveness.

The public sector banking system traditionally serviced the public sector, with private investors having very irregular access and being instead dependent on private networks or foreign banks. However, since 2003 private banks, joint ventures between Arab banks and Syrian investors, have begun opening. A new 2010 banking law allows foreign investors to acquire up to 60% of Syrian banks. Fourteen private banks have experienced significant growth in deposits and lending, with bank assets in the country topping \$40 billion by 2010. The rapid growth in private bank credit prompted the IMF to recommend strengthened supervision of the sector. New private money exchange bureaus have also been licensed. Although the creation of a stock exchange initially faced ideological resistance from Ba'athists who saw it as little different from a lottery, the stock market was finally opened, eight brokerage firms have been formed and trading is buoyant. Syria's mostly family-run private firms are being encouraged, by a tax amnesty, to adopt the transparency practices needed to raise capital on the newly established stock market, but they remain distrustful of the government.

Banking system

4

8 | Currency and Price Stability

The Syrian central bank enjoys limited independence and until recently did not have a coherent monetary policy that would adjust interest rates to restrain inflation or promote economic growth. Its powers have now been strengthened but it is questionable whether its capacity approaches international standards. Still, the government has shown a crude capacity to manipulate money supply. In the 1970s, the regime pursued a policy of inflationary financing of economic development with deleterious consequences for price stability and the living standards of the salaried middle class; since the eighties and nineties it has pursued a cautious fiscal policy with budgets balanced or in surplus in recent years. Consumer prices rose heavily in the late 1980s and early 1990s but in the latter part of the decade inflation fell to nearly 0%. The Bashar government's attempt at Keynesian pump priming combined with drought in 2003 and resulted in price rises, with big spikes in 2006 and 2008 (15.7%). But by 2010 inflation had been muted (2%). The Syrian pound, despite episodic attacks on its value, was stabilized after 2000 at the relatively realistic rate \$1 to about SYP 50

Anti-inflation /
forex policy

7

The main threat to Syria's fiscal stability has been the decline in the oil revenues on which the government relied for as much as 70% of state income at the beginning of the decade. Oil earnings now account for just 20% of state income, with

Macrostability

7

compensatory improvements in tax collection and decreases in subsidies partly filling the gap. Syria's 2008 budget posted a deficit of SYP 44 billion (or 2% of the country's GDP), rising to SYP 226 billion in 2009 (or about 5.5%), which the IMF considered appropriate to mitigate the impact of the global recession. It was expected to rise to 6.5% in 2010 before stabilizing in 2011. The national debt was 30.8% of GDP at the end of 2008, and was expected to fall to 25% by 2014, with the introduction of VAT and further subsidies reform. As for foreign debt, Syria previously incurred significant debt to the Eastern Bloc, particularly for military equipment, with foreign debt of roughly \$22.5 billion in 2000. Syria reached bilateral debt settlement with Eastern European countries and Russia entailing forgiveness of some 70% – 90% of the amount. The 2005 foreign debt was under 10% of GDP, and the finance minister claimed that Syria had reduced its foreign debt to \$5.3 billion in 2008. Syria, as such, does not suffer from this high debt burden. Its short-term financial position is relatively stable. Funding for the budget was 98.5% domestically raised in 2009. The government is believed to have accumulated hard currency reserves of about \$17 billion. Its gold reserves of \$775 million are the 53rd largest in the world. In April 2009, the OECD raised the country's credit rating from seven to six, the first positive revision in more than a decade. Syria's sovereign risk rating has been upgraded from CCC to B with a stable outlook, according to the Economist Intelligence Unit.

9 | Private Property

Property rights are defined by law and in the constitution which allows for public, private, cooperative and mixed sectors. The days of outright nationalization or sequestration of property are long gone but, in absence of the rule of law, numerous more subtle methods are applied to erode the rights of regime opponents and those who compete with regime protégés. Economic security courts, formerly used to harass opposition businessmen, have been abolished and bureaucrats enjoined not to obstruct businessmen. Investor confidence was damaged when Syrian courts ruled against an Egyptian telecom firm in a dispute with a Syrian firm controlled by the president's family. According to the Property Rights Index, Syria ranked 11 out of 17 in the region and 84/129 globally.

Property rights

4

Until recently, the public sector was the main economic stimulator via its investment budget, and the three key productive sectors of the economy, agriculture, energy and industry, remained state-dominated. However, the public sector share of the GNP has consistently fallen proportional to the private sector. Whereas the public sector constituted 50% – 60% of industrial GDP in the 1970s, its share declined to around 30% as private industries boomed in the early 1990s. While the regime has ruled out privatization of the public sector, the state's declining inability to absorb the losses of public sector firms is inspiring tentative

Private enterprise

5

moves to contract their management to the private sector, close loss-making firms, form public–private partnerships and accord public sector managers the autonomy to operate on the market. It is likely that such privatization by stealth will deepen crony capitalism. Since Law 10 in the 1990s, private companies are permitted and encouraged in virtually all fields, and enjoy tax holidays, although they still require non-transparent official approval. All sorts of licenses and authorizations governing economic activity are granted by administrative fiat. The private sector is fragmented into thousands of small family-owned enterprises, with few public corporations. Private sector development has also been concentrated in tertiary sectors like trade, housing, construction, and tourism.

10 | Welfare Regime

The social leveling carried out by the Ba’thist “revolution from above” effected a significant redistribution in agrarian property, opened education and public employment to the lower strata and established certain welfare entitlements including labor rights and subsidized food. The middle class benefit from rent control and public housing. There are insurance and retirement schemes for public sector workers and employees, officials, and especially for military officers. Basic health care exists for the majority of the population and state education is free; however, this has been eroded over the last 15 years because of a substantial decrease in funding, pushing those able to pay towards private medical care inside and outside the country. Similarly, state education is complemented with private lessons and the well-off prefer foreign universities to local ones. Recently, four private universities have been opened for the children of the elite. Those unable to pay suffer in terms of health, life expectancy and formal education. Open unemployment officially amounts to less than 10% of the labor force but is no doubt far higher – perhaps 25% – in reality. There is also significant underemployment. Moreover, most wages and salaries fail to cover anything beyond basic needs, requiring middle class families to work multiple jobs. Agriculture enjoys support prices but the government has put ceilings on the volumes of product entitled to them. Price controls or subsidies for basic consumption commodities such as bread provide a safety net of sorts but have been decreased or removed on items such as petrol and heating oil. Deteriorating public education and health services and the negative impact of public sector shrinkage on female labor participation work against social inclusion and equality. However, as the state withdraws from its former welfare responsibilities, hundreds of privately funded charities and NGOs have mitigated social distress.

Formerly rigid class lines were broken down by the revolution, and the standard of living in the villages rose substantially over the decades, leading to substantial social mobility, while new lines of inequality crystallized around access to state

Social safety nets
4

Equal opportunity
4

resources which were unequally distributed according to political (and to a degree sectarian) affiliation. The growth of corruption allowed state elites to enrich themselves while, as inflation mounted, the publicly employed middle class found their livelihoods under attack. The opening of private universities and businesses will enhance the prospects of the well-off and Westernized urban segments of the population, but the erosion of public universities, the decline in public sector employment and the contraction of the party and army as channels of upward mobility is likely to cut social mobility for the have-nots. The exception may be some Alawis who will continue to enjoy privileged access to the army and security services. On the Gender Equality Index, Syria ranked 7 out of 17 in the MENA region and 47/80 globally; on inheritance practices Syria ranked first of 17. Women's rights have, however, been a matter of contestation, with conservative Islamists proposing a revised personal status law that would have reversed previous gains; only the mobilization of protest by women pushed this off the agenda.

11 | Economic Performance

Syria's economic system was, at the beginning of the millennium, unsustainable, with one of the lowest savings rate in the Middle East (10.4%), owing to capital flight and negligible FDI –the accumulated stock of FDI in 1998 was only 8% of Syria's total GNP, chiefly concentrated in the oil industry. The public industrial sector has resisted recurrent efforts at reform and appears to lose rather than generate capital: Syria has one of the lowest labor and firm productivity levels in the region due to obsolete technology, high surplus labor (25% overstaffing in the core textile industry), weak technical and marketing skills and management which lacks autonomy or financial resources to invest in innovation and export promotion. Syria has been able to sustain its development drive largely because of the rent at the disposal of the government from oil revenues and Arab foreign aid, although worker remittances and informal transfers to families from the holdings of Syrians abroad also help keep the economy afloat. Rent has allowed the government to sustain investment and gross capital formation at a reasonable level (e.g., in a not untypical year, 2000, it stood at 20.7% of GNP), but rent has also sharply declined as aid and oil production slumped and capital formation as a percentage of GDP began falling, reaching only 16.3% in 2008. Partly filling the gap, FDI has gradually risen, spurred by the liberalization of investment laws and excess liquidity in the Gulf owing to recent oil price rises and regime efforts to court Syrian expatriate capital. A mere \$217 million in 1997 – 1999, FDI reached \$1,338 million in 2000 (still only 3.2% of gross capital formation) but dropped dramatically to \$150 million in 2003, the time of the Iraq war. Then it rose steadily from \$400 million in 2004 to around \$2.1 billion in 2008 and \$1.5 billion in 2009. As a percentage of GDP, however, its 2% – 3% remained well below averages of 5% in transitional states. Syrian growth rates have fluctuated between boom and bust,

Output strength

7

largely reflective of its receipt of rent and oil prices in the region. After a sharp recession in the second half of the 1980s, between 1990 and 1995 Syria's receipt of rent rose following its support of the Gulf War and there was an influx of investment stimulated by its 1991 liberalization of investment laws, resulting in the yearly growth of the economy by 7% and GNP/capita by 4.3%; but when these inflows were exhausted, GNP growth fell to 0.5% in 1997 and -1.5% in 1998. In the 2000s, there was a modest recovery, rising from 1.5% in 2000 to 2.8% in 2001, 3.1% in 2002 and 2.5% in 2003 (because of drought and the cut-off of trade with Iraq). Recovery began again in 2005 at rates between 4% and 5% per year, reaching 5.2% in 2008 with the influx of investment, and dropping, with the global economic downturn, to 4% in 2009. The economy was expected to grow by 4% in 2010 and 5.5% in 2011. This is unlikely to be sustained unless investment levels increase. Since the mid-1990s, GDP per capita (PPP in current US dollars) stagnated as economic growth barely kept up with population growth and only recently has the former started to exceed the latter, climbing from \$4,187 in 2006 to \$4,737 in 2009. These official rates may understate real economic levels since they exclude or undercount the enormous informal economy.

12 | Sustainability

Environmental considerations have been largely absent from economic planning and the expansion of population and agriculture have led to soil and water deterioration. Syria also faces water shortages. A new environment agency has been formed, indicative of some growth in environmental consciousness. Syria ranks 56 of 163 countries on the Environmental Performance Index.

Environmental
policy
3

Syria's earlier investment in the expansion of equal access to public education was paralleled by a decline in quality as the expansion in numbers outpaced resources and political criteria overshadowed merit in recruitment of faculty. In the 1980s and 1990s there was declining investment in public facilities and, since 2000, private universities of uneven quality have proliferated. Besides public universities in Damascus, Aleppo, Homs and Latakia, Al-Jazeera private university was opened in Aleppo in late 2007; in addition, some 15 other private institutions exist throughout the country. Professors' salaries in public universities are insufficient to live on and teacher/student ratios are very high. Online education provision has begun. Syria scores 0.77 on the UN Education Index, near the average for transition countries (0.76), as is Syria's expenditure on education as a percentage of GDP (4.9% in 2007). The 83% literacy rate is slightly above the 80% average. Gross enrollment rate in primary education is 100% and 74% in secondary education. Female access to education approaches that for males. A very modest amount of practical research, e.g., in agriculture, is conducted in Syria.

Education policy /
R&D
3

Transformation Management

I. Level of Difficulty

Syria faces significant constraints on governance. Ecologically, the country suffers from increasing water shortage. Its sensitive geopolitical position between unstable Iraq and Lebanon and adjacent to a powerful Israeli enemy means government energies are preoccupied with external challenges. On the positive side, the regime aims to take advantage of Syria's location to make it a regional transit and energy transmission hub. The sectarian/ethnic mosaic requires constant management. While Syria does not suffer extreme poverty and enjoys a relatively educated and diligent workforce, it suffers from a high population growth rate which the economy does not have the capacity to absorb into productive employment.

Structural
constraints

6

Previous to 2000, civil society was tightly constrained: Workers, peasants, youth and women were organized in regime-sponsored syndicates and the associations of the professions were brought under tight government control when they sided with the opposition in the 1980s. Cooperatives and charities of various kinds survived. In the 1990s, the regime conceded increasing scope to elements of Islamist civil society to develop, on condition that they refrained from political activity. The liberal Sufi Kufitariyya and the women's al-Qabaysi movements acquired significant influence in society. During the "Damascus spring" after Bashar al-Asad's assumption of power, a civil society movement of pro-democracy debating clubs sprang up spontaneously, an indication of its potential among the educated middle class. The regime, seeking to revive pro-reform civil society volunteerism, has encouraged officially aligned NGOs including the Syrian Young Entrepreneurs, rural development groups and women's charities. Numerous Islamic educational and welfare institutions have proliferated as the state has retreated from its welfare responsibilities. Economic pressures reinforce vertical divides in society, with individuals falling back on their families, wider kin and on religious charities.

Civil society
traditions

9

Syrian society is an ethnic and religious mosaic contained within an artificial state, making it potentially vulnerable to communal strife. However, communal cleavages have been contained and eased since the Islamic uprisings of the late 1970s and early 1980s by a shared Syrian identity, a long history of tolerance and the cross-sectarian coalition incorporated into the regime. The current main threat to social peace in Syria is cleavages between the Alawis and Sunnis. While the former

Conflict intensity

5

traditionally control the state and still enjoy privileged access to the army and security forces, the Sunni-dominated business sector is growing in influence, resulting in a certain tension between the two. This is mitigated by business and sometimes marital alliances formed between the two, with Sunni businessmen needing an Alawi political patron, but this can as easily lead to resentment as amity and social trust remains limited. The second underlying source of instability is Syria's Kurdish population. In 2004 Syria experienced major unrest in the Kurdish-populated areas in the east, in part encouraged by the autonomy enjoyed by Iraqi Kurds and the fraying of the regime's alliances with Iraqi Kurdish parties that had long enabled it to demobilize Syrian Kurds. The major source of Kurdish disaffection has been the denial of citizenship rights to some 100,000 Kurds who had settled in Syria under the French mandate. Although the security forces repressed the disturbances, jailing many Kurds, the president is widely thought to have mitigated the severity of the regime response; in 2011 citizenship was extended to stateless Kurds as a way of heading off their participation in protests. Cutting across such cleavages there is widespread resentment at the corruption and enrichment of crony capitalists surrounding the regime – this is a major issue in the anti-regime disturbances that erupted in spring 2011. These protests also showed considerable potential to spill over into sectarian conflict.

II. Management Performance

14 | Steering Capability

Over the long term, the regime has displayed a high level of consistency in pursuit of goals, but these have not always been liberal, and for a long time have centered on regime survival and the struggle with Israel, where Hafiz al-Asad helped Syria punch above its weight in international affairs. While this concentration on foreign policy sacrificed efficiency in management of the economy, the regime proved able to steer the incremental liberalization that enabled it to tap increased resources in the private sector and to foster new private sector constituencies, without conceding political power to the dependent bourgeoisie it created or wholly abandoning its initial popular constituents. After Bashar al-Asad's accession to power, economic reform was at the top of the regime's agenda and in pursuit of this, Bashar showed considerable deftness in shifting Syria's international links to Western Europe and the US (until 9/11). He and his associates in academic and business circles – for the most part young, with international experience – were well aware of the economy's structural inadequacies. Although reform has proceeded slowly, and in such a way as to not overly threaten vested interests, the presidency has been a source, albeit not always a consistent one, of reforming initiatives. In spite of high levels of

Question
Score

Prioritization
4

external threats and instability in neighboring Lebanon and Iraq, and U.S. economic sanctions which allow conservatives to argue against new initiatives, his regime has pressed ahead with the transition to private capitalism. As relations soured with the West, Syria deliberately sought new economic partners in Asia, Russia, Latin America and especially Turkey. When faced with popular disturbances in spring 2011, however, the regime showed little capacity to respond with substantive reforms, resorting instead to a traditional mixture of concession and repression.

A multitude of laws meant to put in place the framework for a market economy have been promulgated by the parliament and president, but many have gone wholly or partially un-implemented. Bashar argues that one cannot drive an old, broken-down car very fast and that the main problem is the absence of capable administrators – hence his first priority has been to retire older officials and recruit a new, better-educated, less ideological generation, and to relieve the state administration of the political control of the Ba’th party. A new generation of educated technocrats is taking charge and international advisors are leading reforms in the financial administration and judiciary, crucial sectors for economic management and rule of law. Nevertheless the bureaucracy is extremely unwieldy and vested interests are able to block or slow reforms.

Implementation
3

The leadership has in the past displayed considerable capacity to adapt to the environmental pressures to which it has been constantly subjected. Syria launched economic reform on its own initiative, aware that long-term threats – demographic growth and the decline of the oil economy – require a move to the market. In 2011, when suddenly faced with the challenge of learning from the failed response of other Arab regimes to the Arab Spring, it appeared to be too rigid to turn a possible liability into an asset by starting major political reform.

Policy learning
5

15 | Resource Efficiency

Longer-term economic efficiency (notably profitability) has regularly been subordinated to political criteria (satisfaction of constituents, national independence). Productivity by the overstuffed and under-qualified politically appointed bureaucracy is very low. Budgeting is not transparent. A major change since 2000, however, has been the systematic recruitment of foreign-educated technocrats into the senior bureaucracy. Bashar was able to appoint reform-minded technocrats in key ministries, such as economy, telecommunications, and higher education. More worryingly, he has proved unable to protect some of his protégés who, given crucial economic command posts such as industry, economy and foreign trade, fell from power when they challenged vested interests as they lacked their own support bases. Bashar has also done nothing to deter the crony capitalist activities of his own relatives. While the president has been able to dismiss incompetent or obstructive officials, recruitment of motivated and skilled

Efficient use of
assets
3

replacements has been more difficult. Another big change is the systematic improvement in Syria's tax collection capacity, with the introduction of a VAT system in 2011; IMF estimates predict that 3.9% of budget contributions can be realized by VAT during the first three years.

Until 2005, the president had not fully consolidated his power and had to share policy-making with other power centers such as the Ba'th party, which could veto his initiatives. Bashar was able to get formal acquiescence from the party for his reforming initiatives but he did not have a free hand in the formation of governments, which remained dominated by Ba'thists (though some are liberal reformist Ba'thists). Overt opposition to him has eased since the 2005 party conference in which a considerable number of the old guard was replaced by a new generation ostensibly loyal to the president. However, neither the presidency nor the cabinet is institutionally strong enough to systematically coordinate the centrifugal tendencies of individual ministries or override resistance from vested interests.

Policy
coordination
4

Although Bashar al-Asad embarked on an anti-corruption campaign in the waning years of his father's presidency, his ability to sustain this subsequently declined given the absence of transparent structures in the early years of his presidency and the increasing overlap of the state and private sectors. Bashar also made no direct assault on the new class of crony capitalists, the rent-seeking alliances of Alawi political brokers (now led by his own mother's family, the Makhloufs).

Anti-corruption
policy
2

16 | Consensus-Building

There is a consensus within the Syrian elite on the need to reform the system but not on the extent of this reform. Even leading old-guard figures such as Vice President Abdul Halim Khaddam acknowledged that the statist economy could not meet citizens' basic needs or prevent Syria from falling further behind Israel. Much of the ideological resistance to Syria's transition to a market economy was removed at the last party congress. Until recently, there was a consensus on preserving the strong public sector and regulated private sector that prevent the country from losing independence and also to protect the social achievements of the revolution. While liberal critics insist that the window of opportunity for reform is closing, most Syrians would agree that reform should not sacrifice the interests of the popular classes and must avoid a Soviet-like collapse. However, a consensus appeared to grow within the regime that integration into the world capitalist system was inevitable, although there is much less consensus on the extent, pace and direction of reform. While technocrats such as the Deputy Prime Minister for the Economy Abdullah Dardari pursue neo-liberal policies, others insist that Syria needs to craft a mixed social market economy that restricts the growth of inequality and preserves the welfare gains of the revolution, but these voices have been on the

Consensus on goals
3

defensive. As regards democracy, Syria still seeks its own road to development – one that does not, at present, imply Western-style democratic capitalism. The Chinese model in which economic development precedes democratization is regarded with approval. Economic reformers in the regime are no keener for democratization than their opponents because if the electorate were empowered they would be able to obstruct the neo-liberal reforms that threaten their social rights and standard of living. Others argue that capitalism cannot advance without movement toward rule of law and democratization.

Faced with resistance from vested interests in the regime, Bashar's strategy was one of incrementalism: retiring the old guard as it aged and promoting a younger generation, not only in front-line government posts, but in the centers of ultimate power, the army and security forces, which were personally beholden to him. It was, however, unclear whether the Syrian "young Turks" were more amenable to the modernization process than the old guard. The regime has also proved adept at both co-opting moderate Islamists to marginalize radicals and fostering a liberal-secular counter force to the Islamists. The Muslim Brotherhood, the most potentially powerful opposition group, has in recent years insisted on its commitment to democratic processes.

Anti-democratic
actors

1

There remains little trust across societal divides, although intermarriage remains the exception to this rule in Syria. Occasional outbreaks of violence, e.g., between Druze and Sunni tribes in the south, Alawis and Ismailis in Latakia and among Kurds in the north-east, suggest a potential for communal conflict which is, however, contained by the security forces. The regime has been able to manage a massive influx of Iraqi refugees and has promised to consider Kurdish grievances – arguably an improvement on its previous silence on the matter. The regime's approach to managing the protests of spring 2011 – besides pure brutality – was to concede only as much political reform as was necessary, while showing a willingness to escalate repression to match the scale of protest.

Cleavage /
conflict
management

4

The death of Hafiz al-Asad was said to break the barrier of fear that had hitherto restrained participation. While Bashar initially encouraged civil society to express constructive criticism, seemingly in an effort to foster forces which would strengthen his own position and reformist agenda, when this threatened to snowball into a wider critique of the regime – including the legacy of his father (from which he derived his own legitimacy) – and when it threatened to spotlight the corrupt activities of regime barons, the old guard and security forces insisted Bashar rein in the opposition. This effectively closed off a potential route to restoring the regime's faltering legitimacy and consolidating Bashar's power in the service of reform. For a brief second period opponents used the external threats to the regime, notably from the US, to open a space for contestation, human rights organizations were tolerated, and civil society activists organized petitions signed by thousands of intellectuals calling for an end to the emergency law, but once it regained its

Civil society
participation

2

confidence in managing external threats, the regime subsequently cracked down. Some key opposition figures, briefly arrested, emerged from jail chastened and calling for reform within the system and through support of Bashar. To fill the gap left by the repression of oppositional civil society, and its desire to marginalize the official civil society incorporated into worker and peasant unions, the regime has actively sponsored a managed, secular civil society among the educated supporters of the regime to help advance reform and it has simultaneously tolerated, co-opted and contained its growing Islamic counterparts on condition that the latter remain non-political. The scale of the spring 2011 demonstrations, however, suggested that the example of regime change in other Arab states had lowered the fear barrier once more.

The political leadership rejects opposition claims of past injustices and considers the raising of such issues to be a threat to stability. The massive repression at Hama in 1982 cannot be discussed, and Kurdish political demands are not legitimized. However, on a more informal level, Sunni business society has been rehabilitated, and the regime discourse which once regarded it as an opportunity to be exploited, now champions its entrepreneurial contribution to economic growth. This has gone a long way to bridge the gaps between the regime and the privileged classes produced by the revolution. On the other hand, the regime has been unwilling to seek reconciliation with the Muslim Brotherhood, except to co-opt individuals who renounce opposition politics.

Reconciliation

3

17 | International Cooperation

Syria is increasingly more open to friendly cooperation for internal reform than at any time since 1963. It has long welcomed the assistance of the UNDP and often consults with the World Bank and IMF who issue regular reports on Syria's economic progress, with recommendations that are taken seriously in Syria. Western-educated technocrats, many with experience in the U.N. system, such as Deputy Prime Minister Dardari, are in senior political posts. The EU and several European governments have provided assistance in the development of Syrian business, administrative and judicial reform, and with sponsorship of NGOs. Syria sought membership in the WTO in 2001 and has been given observer status and negotiated a partnership agreement with the EU. Perhaps the most important initiative of the government has been the wide-ranging partnership with Turkey – both political and economic – by which the regime seeks to absorb modern business and administrative practices from a friendly partner.

Effective use of support

4

The government tries to present itself as a credible partner, but Syria is often seen to reject international friends because it is unwilling, on nationalist grounds, to embrace their advice as a package and attempts to tailor its relations to its own national interests in the face of a homogenizing globalization. As such, its relations

Credibility

4

with the Western-dominated international community have been ambivalent. Syria is a member of the UN and puts a high value on international legitimacy which it sees as the only shield of a small power against its more powerful neighbor, Israel, and a superpower, the US, which, unconstrained by a Soviet counterpart, is seen as a threat. Syria is alarmed at what it sees as the increasing ability of Western powers to use the UN as a political tool, as seen in its intervention in Lebanon and in the Hariri tribunal. Syria's reform efforts are hindered by US economic sanctions (enacted in 2004 and annually renewed since), which also have repercussions on Syrian's relations with businesses in Europe. The sanctions imposed by the US are deterring investors, in particular in flagship sectors such as telecommunications and the oil industry, which needs to use expensive, advanced extraction technology. In a slight easing of sanctions, the US lifted the ban on airline parts, software and hardware equipment but otherwise their enforcement has been tightened. The fining of DHL by a US court for dealing with Syria sends a chilling message to international businesses. Syria negotiated an agreement of association with the EU which was seen by reformers as a mechanism for accelerating reform in the face of vested interests and by the regime as a certain shield against US hostility. However, this agreement was not concluded because of efforts by European states to make it conditional on political concession from Syria regarding its non-conventional deterrent force and its presence in Lebanon, and also by growing Syrian awareness of the potential economic damage it might do to Syrian industry.

Syria has engaged positively at regional level, particularly with Turkey, but it has major differences with Iraq, Egypt and Saudi Arabia, even while trying to cooperate with the latter. Syria participated in the 1991 Madrid conference and came close to reaching a peace agreement with Israel. The failure of peace locks Syria into an unresolved conflict with Israel, although Bashar al-Asad has urged Israel and the US to resume the peace process. During its period of isolation from the West, Syria moved close to Iran. It now seeks to balance between various regional actors and to act as a link between the Arab world and the non-Arab Middle East. Generally, Syria has sought to diversify what appeared to the regime to be an over-dependence on Europe by encouraging investment relations with Turkey and the Arab oil states, and strategic relations with Iran. The regime seeks to make Syria the hub of transit and pipeline traffic across the region, implying an increased regional integration of its economy –this marks a substantial reversal of the autarchy sought in pre-2000 policy.

Regional
cooperation
4

Strategic Outlook

The Syrian regime has proved quite adept at managing its foreign relations, even when under extreme external threat. It managed to demonstrate both to the West and to regional powers like Saudi Arabia that it was better to work with than against the regime, whether the goal was to stabilize Lebanon or Iraq. Under Obama, the US ceased to promote regime change although the détente remained cautious. Until and if a settlement is reached with Israel over the Golan Heights and the question of Palestine, however, Syria remains caught between an economic policy that seeks integration into the world capitalist system and a nationalist foreign policy that creates obstacles to such integration.

Incremental economic liberalization is likely to continue and could substantially accelerate if U.S. sanctions were lifted. Although the regulatory and legal framework for a market economy has been significantly advanced, macroeconomic management is successful and effective, the creation of private banking and a stock market, and investor friendly laws all contribute to the advance of the market, risks for investors from the weakness of rule of law and the judiciary, bureaucratic obstruction and the political advantages enjoyed by crony capitalists remain obstacles to the sustained economic lift-off that the regime needs. The withdrawal of the state from its former role as main investor has resulted in declining gross fixed capital formation. Moreover the regime has neglected the social costs of reform paid by the less privileged sectors of society, including its own former constituency, a neglect that could threaten political stability.

This is underlined by the spread of demonstrations against the regime inspired by the Arab intifadah that started in Tunisia in December 2010. Significantly, after spreading into Syria, these protests did not initially call for the overthrow of the president. However, the regime's heavy-handed response carries the risk of substantial de-legitimation. Despite the fact that the coercive apparatus has a high stake in regime maintenance and that there is no viable alternative candidate to the president within the regime, the control capacity of the regime has clearly been severely tested. Political reform is possible if the regime can reach a deal with moderate opposition forces to broaden inclusion in the system. There are very significant barriers to more thorough democratization, however: In a mosaic society, the risk that competitive elections would turn on sectarian grounds, dis-empowering the current Alawi ruling elite, is high; nor can neo-liberal economic policies combined with a crony capitalism which enriches few and impoverishes many, go along with a substantial empowerment of the citizenry. Possible ways forward could include some sectarian sharing of high office, as in Lebanon and Iraq, or the granting of free parliamentary elections from which a prime minister with real powers might emerge, with the president, backed by a military council, opting to reign above politics, rather than to rule. This would require considerable statesmanship and willingness to run risks, and is unlikely to come about if external pressures do not resist the temptation to fish in troubled waters.