

Syria

Status Index (Democracy: 3.00 / Market economy: 4.25) 3.63		Management Index 2.85	
HDI	0.721	Population	18.1 mn
GDP per capita (\$, PPP)	3,576	Population growth¹	3.1 %
Unemployment rate	8.9 %*	Women in Parliament	12.0 %
UN-Education Index	0.76	Poverty²	15-20 %
		Gini-Index	-
Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹ Annual growth between 1975 and 2003. ² Figure for 2002: Population living below \$1 a day (1990- 2003). * official data, actually 20 %.			

A. Executive summary

The Syrian state and economy remain stable despite certain ethnic tensions, the long-term lack of sustainability of the current economic order and severe external pressures. Syria remains an authoritarian regime with a state-dominated economy. However, While reformist segments of the leadership, aware of the need for change but determined not to sacrifice stability, has taken the initiative to make changes, there are not fully consolidated, as reformers have been forced to compromise with status quo interests at every turn. It has started to establish the rudiments of a more market-oriented economy, including, crucially, adherence to liberal international trade agreements. Political decompression, albeit without (indeed, perhaps as a substitute for) democratization, has persisted.

B. History and characteristics of transformation

The constraints on Syria's transformation to a more liberal system are rooted in its recent formation as a modern state. The post-independence rise of radical nationalism among the middle class, as well as land-hunger among peasants destabilized the semi-liberal oligarchical 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 class power of the old oligarchy and gave the Ba'th state control of the economy.

After a further period of instability, in which the Ba'thists struggled to keep state power while ideological and sectarian struggles were being waged within the party, the 1970 rise of Hafiz al-Asad to power provided for the consolidation of the regime. Power was concentrated in Asad's "Presidential Monarchy" achieved through a policy of balancing among the army, the Ba'th party, a largely Alawi-staffed security apparatus, and a new state-dependent private bourgeoisie

appeased through limited economic liberalization. Additionally a combination of repression, institution building, patronage and foreign policy legitimacy consolidated the state as a whole.

This regime had a built-in resistance to liberalization. The product of a populist movement against the bourgeoisie, its initial constituents—unionized workers, public employees, and small peasants—were threatened by liberalization while the regime's historic rival, the bourgeoisie, was most likely to benefit from and be strengthened by it. Recruitment of the core military elite from property-less minorities - especially Alawites, who used the state for social mobility - as well as reliance on an ideological party rooted in plebeian strata of society-institutionalized populism. The public sector is the main source of public revenue, and cannot readily be replaced by taxation of a private sector skilled in tax evasion. Elites that gained financially from smuggling or business payoffs to avoid regulation profited from state regulation of the economy.

The “social contract” – under which regime legitimacy was contingent on state provision of subsidized food, jobs and farm support prices—limited the potential for structural adjustment. This constraint was buttressed by a refusal – based on nationalist ideology – to conform to externally dictated change: in other words, those prescribed by the IMF.. Furthermore, the regime’s ability to dispense the patronage on which the whole “loyalty system” supporting it depended would have been risked by the government’s withdrawal from the economy. Moreover, while private investment depended on a stable, pacific investment climate, without a settlement with Israel this could not be established. This, in turn, also prevented rent-dependent national security state from being dismantled.

Nevertheless, the exhaustion of Syria's statist strategy of development forced the regime to embark on several waves of *infitah* – that is, an "opening" or liberalization of the economy. These did not acquire sustained momentum, however, as pressures for reform were periodically relieved by rent windfalls – oil revenues and aid from other Arab countries. While Syria's first *infitah* in the 1970s achieved little more than the recycling of oil money, the second, which took place between of the middle of the 1980s and 90s had a more profound impact. The private sector was no longer seen as the junior partner of the public sector but as the driving force with the ability to pull the economy out of its crisis. From the late 1980s onwards, the share of the private sector in production output, current investment, foreign trade, employment and GDP outgrew and then exceeded that of the public sector.

Sustained liberalization, however, required that the state move away from its initial popular constituency and foster a new partner in the private bourgeoisie. This, in turn required reconstruction of an entrepreneurial bourgeoisie, which, assuming it were willing to make investments, could provide a viable alternative to the public sector. For its part, the public sector was prepared to reach a *modus vivendi* with the state, as it had acquired some power to push for further economic

liberalization and rule of law. In Syria, the bourgeoisie remained largely commercial and rent seeking, its industrial wing weak and foreign partners absent. For the bourgeoisie to become a privileged partner and acquire the confidence for sustained investment, the gap between the state elite (dominated by the Alawi minority) and the largely Sunni private business class would have to be bridged. To be sure, alliances forged through both business deals and marriages are amalgamating parts of these groups into a new bourgeoisie; but they do not yet form a cohesive capitalist class. Hence, the state continued a policy of balance between the bourgeoisie and its initial plebeian constituencies, which has resulted, in turn, in a compromise between statist populism and a thorough turn to market capitalism. This middle-of-the-road approach, however, was compatible with crony capitalism, in which the politically connected new class continued to be rent-seeking and exploited state-granted import monopolies and contracts that would be threatened by the competition unleashed by a more open and transparent market. Crony capitalism required limited political liberalization but not rule of law and not democratization. This scenario is changing in only small increments, if at all.

C. Assessment

1. Democracy

1.1. Stateness

The state enjoys an effective monopoly on the use of force over its territory, although recent outbreaks of violence (for example, between Druze and Sunni tribes in the south and among Kurds in the northeast) have suggested a decline in a formerly complete control of the security forces.

All citizens are accorded formal equality, although clauses referring to the Arab character of Syria implicitly question the status of Kurds; Arabic is the only official language. In practice, furthermore, sectarian affiliations are manipulated in the political process, with the minority Alawis often seen to benefit from favoritism. Although Syria was long considered an artificial state, enjoying limited loyalty from its population, after thirty 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.

Syria is a secular state, although provisions requiring the president to be a Muslim and designating Islamic law as a main source of legislation makes the equal status of all religions relative. This is congruent with the fact that 90% of Syria's population is Muslim. There are, however, significant religious and ethnic minorities that enjoy greater protections compared to many other Middle Eastern 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 that accord minorities considerable autonomy in such matters.

Government administration is impressive considering its size and penetration of society. The Ba'th party and bureaucracy penetrate every village, factory and school. However, it is far less effective in the competence of its staff and its capacity to get things done. 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.

1.2. Political participation

Formal competitive elections exist but play a negligible role in determining the ruling elite. Constitutionally, sweeping powers are vested in the president whose ultimate strength derives from support by the armed and "security" forces. Presidential elections are in fact referenda in which the voters endorse the single candidate who is officially chosen by the elite of the official ruling Ba'th Party; in the only instance of succession, they endorsed the deceased president's nomination of his son as his successor. Since the 1990 general elections, so-called independent candidates who are thoroughly screened by security agencies may contest one-third of seats in the unicameral parliament. 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, one-half of the total number of seats necessarily going to the Ba'th Party. This change in the electoral law reflected an attempt to enlarge the regime's social base rather than as a sign of democratization.

Since the death of the dominant president, Hafiz al-Asad, the regime has been composed of several "centers of power" which share governance, notably the Presidency, the regional command of the Ba'th party, the commanders of the armed forces and security apparatus, and the council of ministers. Informal power centers, such as the extended Asad and Makhoul families, wield great influence. While the 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 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 other than those in the NPF remain illegal albeit tolerated. 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 in prison. Even the extremely rare vote of no confidence in an individual minister amounts to no real challenge, as the cabinet is no more than an implementing authority.

Associations are licensed and monitored by the regime. During the Damascus spring after Bashar al-Asad's assumption of power in 1970, a "civil society movement" of pro-democracy debating clubs sprang up spontaneously but these activities were largely stopped by the regime when they attacked its legitimacy. The media is state owned except for a handful of party-owned or private newspapers sporadically tolerated. The Internet has become an arena for limited debate and limited dissent is voiced in state-owned outlets, but what would be needed to make the press a vehicle of reform - exposure of the illicit profits of crony capitalists and politicians - remains taboo.

1.3. Rule of law

With the legislature and the judiciary dominated by the regime, constitutionally as well as effectively, there is no conventional separation of powers, a precondition for the rule of law. However, there is an effective separation between centers of power, notably the president and party leadership.

The absence of an independent judiciary allows "security" forces not only to enforce but also to transgress the law. 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 generally less used. However, high profile opponents continue to be arrested even as others are released from jail.

Systemic corruption at elite levels has been the norm since the 1970s, as part of the patronage system by which loyalty has been secured, with only the president himself thought to be above the use of office for private gain. Existing legal penalties for abuse of office have been selectively enforced, during "anti-corruption campaigns". These campaigns target those who go beyond tacit limits to self-aggrandizement or who fall out of favor or against middle level bureaucrats. However, fear of legal penalties has not noticeably constrained the use of power to acquire wealth and of wealth to gain influence.

While formal rights and liberties exist under complex and often-contradictory law codes, the judiciary is politicized and vulnerable to corrupt influence. In addition, 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 are. Citizens who refrain from political opposition enjoy many everyday freedoms and personal security.

1.4. Stability of democratic institutions

Democratic institutions do exist. They incorporate significant constituencies and they have contributed to the stabilization of the state; but they are not liberal-democratic, hence they are an alternative to liberal democracy. The smooth June 2000 presidential succession engineered by the state establishment, in spite of the regime's seeming dependence on the personality of the deceased top leader, was minimal evidence of a shared elite stake in regime stability; but it also showed that Syria's state structures were, to a degree, institutionalized.

The generation of Syria's political elite that assumed power in the 1970s had no commitment to Western style democracy. However, they argued that they had built an alternative "popular democracy" in which the ruling party acted as a channel of upward political mobility from the villages and created or co-opted syndicalist associations representative of various sectors of society. Under Bashar al-Asad, a new generation of elites is more receptive to the need for some political liberalization, but democratization is a distant and low priority, with economic reform seen as logically precedent (imitating the Chinese and avoiding the Soviet model). Liberal Ba'thists argue that the Ba'thi political system is capable of initiating economic reform and that, as this advances, political liberalization would be widened, which would then further democratization.

1.5. Political and social integration

The Ba'th party, bridging urban-rural gaps and incorporating a cross-sectarian alliance, is the major instrument of integration in Syria; although its integrative capacity has declined as patronage has replaced ideology as its main cement. The small parties allied with the Ba'th in the NPF incorporate historically declining segments of non-Ba'thist political activists. Even though opposition activists expected that clause 8 of the Syrian constitution, which designated the Ba'th the ruling party, would be amended to permit greater party pluralism, members of the old guard like Vice President Khaddam believed this would imperil stability. 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 major excluded group and mounted a major insurrection in the early 1980s; its defeat has demobilized this sector of society. Universal military service and national education, overcoming previous center-periphery gaps, have also contributed to national integration.

Interest representation and aggregation outside parliament, and other regime-dominated syndicalist organizations (such as official trade unions) is only possible via clientele networks. However, these organizations, notably the peasant union, have some history of successfully lobbying for their constituents, for example in obtaining higher farm prices or more recently resisting their removal.

However, they are generally instruments of regime control rather than channels of pressure from below.

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 paternalistic or outright authoritarian procedures. Demand for democratization is concentrated between a thin layer of middle class intellectuals and a minority of the private bourgeoisie; therefore, the democracy movement, such as it was, could not break through the regime's encapsulation of the masses and mobilize broad support.

Civic self-organization including non-political cooperatives, charities and, in particular the pooling of resources by extended families, is well developed in Syria. Society has by no means been "atomized" by the Ba'th, but it has been depoliticized. How far such organizations could substitute for the regime in bridging rather than reinforcing societal cleavages is, however, debatable. Economic pressures reinforce vertical divides in society, with individuals falling back on their families, wider kin and on religious charities.

2. Market economy

2.1. Level of socioeconomic development

The economic reforms of the late 1980s and early 1990s contributed to substantial income rises benefiting private sector entrepreneurs. However, the failure of crony capitalism to invest in significant job-creating enterprises and the need of a regime eager to co-opt private business in order to create a favorable investment climate severely limited trickle-down effects. In distributional terms, the gap widened primarily between haves and have-nots, but also between the earners of wages and salaries in the private sector on the one hand and the public sector on the other. The economic downturn from the middle 1990s worsened the lot of the majority of Syrians, particularly the middle class. There have since been several salary increases in the public sector, but public sector workers normally must still work multiple jobs.

Agriculture has continued to enjoy 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 and gasoline provide a safety net of sorts. 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, Syria's earlier socioeconomic achievements had provided a momentum reflected in still rising scores on the Human Development Index (HDI) which improved from 0.580 in 1980, 0.634 in 1990, 0.665 in 1995 and 0.691 in 2000, though still ranking 108th of 173 countries.

2.2. Organization of the market and competition

The public sector share of the GNP has consistently fallen proportional to the private sector; whereas the public sector constituted 50% to 60% of the industrial GDP in the 1970s, its share declined to less than 40% as private industries boomed in the 1990s. Yet the state remains pivotal to the economy and its dominance can only be gradually eroded. The public sector remains the main source of public revenues and the primary investor and economic stimulator, with its investment budget effectively channeling a sizeable amount of national resources into the public sector. Because the public sector also supplies contracts and intermediate goods at low cost to the private sector, their relation is symbiotic, not adversarial. State intervention remains substantial, for example, price controls on key commodities. Finally, while the private sector has rapidly boomed in such tertiary sectors as trade, housing, construction and tourism, the three key productive sectors of the economy, agriculture, energy and industry, remain state-dominated.

Agriculture, which is partly state subsidized and controlled, though remains private, directly generates 30% of the GDP and almost half of Syria's export earnings. The hydrocarbon sector provides another half of Syria's exports and state revenues and around one-fifth of the GDP. Thus, the growth of the private sector relative to the public sector has not entailed the commensurate growth of markets as mechanisms for resource allocation. A large informal underground economy operates. Whereas, the reformist government of Bashar al-Asad is trying to introduce an institutional framework for the market, this incremental effort remains quite incomplete and the dominant role of the state only somewhat reduced.

Far from discouraging monopolies, the regime seems to see crony capitalist monopolies as a first stage in a re-launch of Syrian capitalism. Successive waves of economic liberalization have generated new groups of crony capitalists; after 2000, some were sponsored during Mustafa Miro's premiership, but the more powerful faction is currently from among the president's cousins, the Makhlouf's, who have acquired public sector management contracts and near monopolies in new areas, notably mobile phones, seemingly at the expense of the Sunni bourgeoisie.

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, 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. The regime moved toward unification of the three exchange rates that used to apply to different types of transactions and currency convertibility has increased. Syrian adhesion to the

Arab Free Trade Agreement is already opening the Syrian market while the signing of the Euro-Mediterranean agreement will begin a process of reductions in the tariffs currently protecting the market from foreign competition.

The public sector banking system traditionally serviced the public sector, with private investors having very irregular access and dependent on private networks or foreign banks. However, several private banks, joint ventures between Arab banks and Syrian investors, opened in 2003, their operating capital is small and they may be more effective in exporting capital or facilitating trade operations than in funding Syrian investment. Although creation of a stock exchange has been muted, it initially faced ideological resistance from Ba'thists who saw it as little different from a lottery and as yet none has been created, although private companies have been able to launch sales of their shares.

2.3. Stability of currency and prices

The Syrian central bank enjoys no independence from government; but since the 1980s, the Ministries of Finance and Economy have exercised firm control over the money supply with priority on controlling inflation after the burst of inflation in the expansionary 1970s led to a drastic relative fall in the income of the regime's own public sector constituents. The Syrian pound nonetheless continued to depreciate gradually vis-à-vis the U.S. dollar and other major currencies until, despite episodic attacks on its value, it was stabilized after 2000 at the relatively realistic rate (one U.S. dollar to about 50 Syrian pounds). Consumer prices rose heavily in the late 1980s and early 1990s but in the latter part of the decade inflation fell to nearly 0%, although the Bashar government's attempt at Keynesian pump priming and drought in 2003 led again to price increases.

In the 1970s, the regime pursued a policy of inflationary financing of economic development with deleterious consequences for price stability; since the 1980s, it has pursued a cautious fiscal policy with budgets balanced or in surplus in recent years. Compared to many third world states, the Syrian government eschewed the massive borrowing from Western lenders but it did incur significant debt to the Eastern bloc, particularly for military equipment. Total public and publicly guaranteed debt stood at roughly \$22.5 billion in 2000, some \$16 billion of it for military equipment. Syria has been in practice able to negotiate debt settlement with eastern European countries and Russia entailing forgiveness of some 70 to 90% of the amount. Syria's foreign debt in 2005 was under 10% of gross domestic product and Syria, as such, does not suffer from the high debt burden that have given international financial institutions leverage over the economies of most of its neighbors. In the period since 2000, the country has lived within its means, with the trade balance either slightly negative or positive.

2.4. Private property

Property rights are defined by law and in the Constitution that 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 competitors of regime protégés.

There is a large, if fragmented, private sector that accounts for more than 60% of the GNP, (that figure includes private sector agriculture, parts of which is more properly considered cooperative or mixed in ownership). Since the 1990's Law 10, private companies are permitted and encouraged in virtually all fields and enjoy tax holidays (although still requiring non-transparent official approval). All sorts of licenses and authorizations governing economic activity are granted by administrative fiat. The regime is adamant that the public industrial sector will not be privatized, at least until the private sector is robust enough to absorb job seekers and those who would be displaced. Rather, the regime is experimenting with contracting the management of public sector firms to private management. In fields such as trade, public sector monopolies have been transferred to private companies.

2.5. 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 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 fifteen 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 most basic needs, requiring middle class families to work multiple jobs.

While formerly rigid class lines were broken down by the revolution, leading to substantial social mobility, new lines of inequality crystallized around access to state resources, which was 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 standard of living in villages has however risen substantially over the decades.

2.6. Economic performance

The current economic system is widely seen as unsustainable. Syria has the lowest savings rate in the Middle East (10.4%), owing to capital export in a country where state banks funnel a tiny fraction of private accumulation. Foreign direct investment rose from some \$70 million in 1990 (prior to the new investment law) to some \$170 million in 1993 (afterwards) and \$250 million in 1994, but then declined, reaching a mere \$217 million in 1997 to 1999. The accumulated stock of Foreign Direct Investment (FDI) in 1998 was only 8% of Syria's total GNP. The further incremental liberalization Bashar al-Asad sponsored after his succession was not enough to encourage the significant new private investment needed to kick-start the economy. Foreign direct investment in 2000 reached \$1.338 billion (still only 3.2% of gross capital formation) but dropped dramatically to \$150 million in 2003. The public industrial sector has resisted recurrent efforts at reform and it 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, 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 (for example in a not untypical year, 2000, it stood at 20.7% of the GNP). For a long time rent included resources from the Eastern bloc and Arab oil producers, the latter a function of Pan-Arab solidarity behind Syria's struggle with Israel; but these resources dried up with the end of the Cold War and the 1990s peace process. For a brief period, Syria benefited from fees earned on the covertly reopened Iraqi oil pipeline and from the Iraqi market generally, but the U.S. invasion of Iraq ended this. Syria is now almost exclusively dependent on Syria's own petroleum export earnings, but petroleum production has peaked and it is set to decline.

In the half decade (1990-1995) following Syria's receipt of rent for its stand in the Gulf War and the influx of investment stimulated by its 1991 liberalization of investment laws, the economy grew 7% per year and GNP per capita at 4.3%; but when these inflows were exhausted, in part because of the lack of follow-up economic liberalization measures needed to sustain a favorable investment climate (for example, allowing the operation of private banks and a stock market), GNP growth fell to 2.2% in 1996, 0.5% in 1997 and -1.5% in 1998. It stood at 1.5% in

2000, rising to 2.8% in 2001, 3.1 in 2002 and falling to 2.5% in 2003 (because of drought and the cut-off of trade with Iraq). Since the middle 1990s, GDP per capita (PPP in current U.S. dollars) has stagnated, as economic growth barely keeps up with population growth. These official rates may understate real economic levels since they exclude or undercount the enormous informal economy.

2.7. Sustainability

Environmental considerations have been largely absent from economic planning and regulation; Syria is also likely to face increased shortages of water on which its agricultural prosperity depends. However, a new environment agency has been formed, indicative of some growth in environmental consciousness

Syria has invested in a developed transport infrastructure. Earlier investment in the expansion of equal access to public education has given way to declining investment in public facilities and a turn to private provision. A very modest amount of practical research, for instance, in agriculture, is conducted in Syria.

3. Management

3.1. Level of difficulty

Syria does not face severe societal or ecological constraints on governance. It enjoys a relatively educated and industrious workforce, a diversified economy and a good infrastructure. The main constraint is a high population growth rate beyond the capacity of the economy to absorb into productive employment.

Formal civil society is controlled by the regime, through a network of syndicalist organizations under regime leadership, while an informal civil society of neighborhoods, friendship and patronage networks are strong. However, the regime has tended to see bourgeois civil society as a threat, rather than a partner. This is true despite the urgings of opposition political forces who say that the regime would be strengthened by standing up to external threats by reaching a pact with it.

Syria's mosaic society within an artificial state makes it potentially vulnerable to communal strife, although a shared Syrian identity, a long history of tolerance and the cross-sectarian coalition incorporated into the regime has, since the Islamic uprisings of the late 1970s and early 1980s, contained and eased communal cleavages. There remains little trust across these divides and intermarriage the exception to the rule. Increasing interest-based links between Sunni and Christian business people and their Alawi political patron protectors may not require closer personal and family relations.

Profile of the Political System

Regime type:	<i>Autocracy</i>	Constraints to executive authority:	1
		Latest parliamentary election:	05.09.2003
		Effective number of parties:	3,6
1. Head of State:	<i>Bashar al Assad</i>	Cabinet duration:	12/01-08/03
Head of Government:	<i>Mustafa Miro</i>		
2. Head of Government:	<i>Naji al-Otri</i>	Cabinet duration:	09/03-10/04
3. Head of Government:	<i>Naji al-Otri</i>	Cabinet duration:	10/04-present
		Number of ministries:	34
		Number of ministers:	34
Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = $1 / (\sum p_i^2)$; p_i is the share of parliamentary mandates controlled by party i . Number of ministries/ ministers denotes the situation on 1 January 2005.			

3.2. Steering capability

Over the long term, the regime has displayed a high level of consistency in pursuit of goals. But, these have not been liberal and have centered on regime survival and the struggle with Israel where Hafiz al-Asad gave Syria a weight in international affairs well above what a small state might otherwise expect. While concentration on foreign policy sacrificed efficiency in management of the economy, the regime proved capable to steer the incremental liberalization. This process has 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 has 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 agenda. Initially Bashar showed considerable deftness in shifting Syria's international links from the Soviet Union and Eastern bloc to Western Europe and the United States (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. However, the reforming president has not fully consolidated presidential power and he has to share policy-making with other power centers such as the Ba'th party, which can veto his initiatives. Bashar has been able to get formal acquiescence from the party for his reforming initiatives and has been able to appoint reformist technocrats in key ministries, such as economy, telecommunications and higher education. However, he has not acquired a free hand in the formation of governments that remain dominated by a majority of Ba'thists (though some are liberal reformist Bathis). More worrying, he has proved unable to protect some of his protégés, who, given crucial command posts of the economy, such as industry and economy or foreign trade

but lacking power bases, fell from power when they challenged vested interests; and he has done nothing to deter the crony capitalist activities of his own relatives. Although reform has thus proceeded slowly, and in such a way as not to overly threaten vested interests, the presidency has been a source, albeit not always a consistent one, of reforming initiatives. Reform has been possible, despite the several external threats (for example, from the United States) which allow conservatives to argue against new initiatives.

Parliament and the president have promulgated a multitude of laws meant to put in place the framework for a market economy; but many have gone wholly or partially un-implemented. Bashar argues that you cannot drive an old, broken-down car very fast. Initiatives that have made a difference include: the abolition of economic security courts, often used to harass opposition businessmen, private sector access to foreign exchange formerly reserved for the public sector, encouraging domestic private industry; the liberalization of exchange controls and the unification of Syrian's multiple exchange rates; the opening of private banks; the contracting of state-owned companies to private sector management; and free trade agreements with the Arabs and the European Union that are set to be phased in.

The leadership has in past displayed considerable capacity to adapt to the environmental pressures to which it has been constantly subjected. Even leading "old guard" figures, such as Vice President Abdul Halim Khaddam, acknowledge that the statist economy cannot provide citizens their basic needs or prevent Syria from falling further behind Israel and who therefore advocate a Chinese-style adaptation of "socialism" to the market. Syria is reforming on its own initiative, aware that long-term threats (demographic growth the decline of the oil economy) make the current economic system unsustainable. The debates within the ruling party itself as to how Ba'thist identity can be adapted to the age of globalization are indicative that a watershed may be looming.

3.3. Resource efficiency

Longer-term economic efficiency (notably profitability) has regularly been sacrificed to political criteria (satisfaction of constituents, national independence). Productivity by the overstaffed and under-qualified political appointed bureaucracy is very low. Budgeting is not transparent. According to the president, the major constraint on reform implementation is the absence of efficient, trained cadres. As such, he has given priority to educational reform and to recruiting a critical mass of qualified people into his administration. International advisors are leading reforms in the financial administration and judiciary, crucial sectors for economic management and rule of law. The Ba'th party officially declared it would withdraw from day to day interference in state administration and

economic matters that have been thought to retard reform; but since this could weaken its ability to dispense the patronage on which loyalty to the system depends; it will not be, in practice, easy.

The fragmentation of power at the center between the presidency and party means reformists have no dominant power center; Ba'th institutions organizing the beneficiaries of the status quo have not been significantly weakened. The lack of agreement on a detailed, staged strategic plan of reform (as opposed to a general willingness to adapt) means policy takes the form of muddling through and investors therefore lack confidence in the reform process.

Although Bashar embarked on an anti-corruption campaign in the waning years of his father's presidency, his ability to sustain this has since declined. Corruption has not lessened, and, indeed, given the absence of accountability to a strong president and the increasing overlap of the state and private sectors, it may have increased. Bashar 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) and the regime-supportive Sunni bourgeoisie whose corrupt stranglehold on the economy deters productive investment.

3.4. Consensus-building

There is consensus on the need for reform, but not on its extent. Syria still seeks its own road to development that at present does not imply Western style democratic capitalism. Until recently, there has been a consensus on preserving a strong public sector and a regulated private sector that prevent the country from losing independence and to protect what is seen as the defense of the social achievements of the revolution. Now however, there is a consensus that integration into the world capitalist system is inevitable. While liberal critics insist that the reform window of opportunity is closing, most Syrians would agree that reform should not sacrifice the interests of the popular classes and must avoid a Soviet-like collapse.

As to political change, democratic forces are dispersed and small while the main concerns of the masses are less political liberties than the negative impact of economic liberalization on their livelihoods. The chaos in neighboring Iraq, rather than inspiring an opposition movement that would welcome democratization through regime change, has led the Syrian public to prioritize order.

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 "young Turks" were friendlier to the reforms he wanted than were the old guard.

In 2004, Syria experienced major unrest in the Kurdish populated areas of eastern Syria, in part encouraged by the autonomy enjoyed by Iraqi Kurds and the fraying of the regime's alliances with Iraq 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 and has promised to consider Kurdish grievances - arguably an improvement on previous silence on the matter.

The regime has sought to stimulate civil society as a support for its reform program, provided it is not politicized. Over 20 non-governmental organizations (NGOs) have been recently formed, many of them charities that include one or two members with clear government connections on their advisory boards. Nevertheless, at the same time, the regime sharply restrains autonomous civil society development.

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, this threatened to snowball into a wider critique of the regime. The threat included harming the legacy of his father (from which he derived his own legitimacy) and putting the spotlight on the corrupt activities of regime barons. When this occurred, the old guard and security forces insisted Bashar rein in the opposition. This shut off a potential route by which he might have restored the regime's faltering legitimacy and consolidated his power on behalf of reform. Nevertheless, the restraints he imposed on the security apparatus have remained in place. Human rights organizations, though illegal, are handled with kid gloves compared to the past. Civil society activists have been slowly re-emerging. Petitions signed by thousands of intellectuals calling for an end to the state of emergency, indicate that the "barrier of fear" has probably been permanently broken, although activists have been ineffective in mobilizing wide public support. Some key opposition figures, briefly arrested, emerged from jail chastened and calling for reform within the system and through support of Bashar.

The political leadership rejects opposition claims of past injustices and considers raising such issues to be a threat to stability.

3.5. International cooperation

Syria is a member of the United Nations (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 United States, which, unconstrained by a Soviet counterpart, is seen to act without restraint. Syria has negotiated an agreement of association with the European Union, which is seen by reformers as a mechanism for accelerating reform in the face of vested interests

and by the regime as a certain shield against U.S. hostility. This agreement has, however, been obstructed by European states that wish to use it to extract political concessions from Syria over its non-conventional missile deterrent force and its presence in Lebanon. Syria is often seen to not want 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. Nevertheless, Syria is now more open to friendly cooperation over internal reform than at any time since 1963.

The government tries to present itself as a credible partner and it has good relations with the European Union, but it is considered a pariah state by the United States.

Syria has increasingly engaged positively at the regional level, particularly with Turkey, although it has outstanding differences with the Iraqi occupation regime. Syria participated in the Madrid conference in 1991, came close to reaching a peace agreement with Israel. The failure of peace locks Syria into an unresolved conflict with Israel although Bashar has urged Israel and the United States to resume the peace process.

4. Trend of development

4.1. Democratic development

Since the 2000 succession of Bashar al-Asad to power, the limited political liberalization begun under his father has continued and is probably irreversible. Rather than a stage in the transition to democracy, it is better seen as an attempted substitute for it. The regime remains an authoritarian one based on the military and a single party system. There has been a certain pluralization of power within the regime between various centers of power but the checks each puts on the other seems to result in paralysis and even reduced accountability for corrupt behavior, although it has also arguably put some constraints on the use of repression. Greater access to previously excluded groups, notably business, and the decompression of control over society is meant to co-opt and appease opposition, without transforming the regime.

4.2. Market economy development

Indicators of human development (HDI) have remained stable or increased slightly in the last few years despite falling public investment in health and education. Life expectancy was about 70 and literacy 76%.

There have been incremental improvements in the institutional framework for the market, notably the opening of private banks. But the lack of a secure investment

climate, especially rule of law, continues to stimulate the export, rather than re-investment of large amounts of private capital whose repatriation the regime seeks.

Syria has made no breakthrough to capitalist takeoff, although it faces no immediate economic crisis and has significant financial reserves. The most modest recovery Syria staged in the early 2000s was knocked back in 2003 by the war in Iraq, but seemed to recover in 2004. However, modest growth in GNP barely keeps ahead of the growth of the employment age population.

Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004
Growth of GDP in %	-2	2.8	3.6	2.5	3.6
Export growth in %	8	21		-22	
Import growth in %	7	11		-25	
Inflation in % (CPI)	-3.9	3	0.6	5	5
Investment in % of GDP	20.7	19.4	22.6	13.6	
Tax Revenue in % of GDP					
Unemployment in %	20+ est				20+ est
Budget deficit in % of GDP	-1.3				
Current account balance in million \$	1640	4810	1440	-72	

Sources: CIA World Factbook; World Bank, World Development Indicators, Aug 2004; Syria Report, Oct 2003, May 2004

D. Strategic perspective

Incremental economic liberalization is likely to continue and it could substantially accelerate if the provisions of the Euro-Mediterranean agreement are operationalized. U.S. threats and economic sanctions may retard this process. Although friendly dialogue with the European Union has strengthened the hand of Bashar in reining in the security forces, hostile external pressure, such as that from Washington and the UN resolution on withdrawal from Lebanon, strengthens hard-line opposition to political liberalization. Continued political decompression, (but not democratization) is possible if external pressures do not significantly increase.