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Syria: the politics of economic liberalisation

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Economic liberalisation is on the agenda of every Middle Eastern state. However, actual liberalisation typically lags behind global trends and nowhere more so than in Syria. The dominant explanations of liberalisation or resistance to it approach the issue from opposing sides. One sees economic crisis forcing liberalisation on the state: although the exceptional availability of rent in the Middle East may dilute the dictates of economic rationality they must, in the long run, prevail. A rival political–cultural approach sees the Middle East's 'neo-patrimonial' rentier states as intractable obstacles to liberalisation; they sacrifice economic rationality to the politics of patronage and foster dependent, rent-seeking bourgeoisies unable to push liberalisation.[1]

Both approaches capture part of the picture but can, if exaggerated, fall into economic or cultural determinism which either insists the Middle East must inevitably join a uniformly liberalised global market or is disqualified, by reason of culture, from membership in it. A combined approach which sees liberalisation policy as an attempt to reconcile economic and political rationality has greater explanatory power; thus, Steven Heydemann's study of Syrian liberalisation argues the compatibility of political rationality and limited economic liberalisation.[2]

This paper will similarly argue that Syrian economic policy is determined by the regime's long-term need to balance political and economic rationality. However, analysis of such 'systemic requisites' is only a starting point and the particular balance arrived at by a regime can only be understood by an analysis of two 'intervening variables', class interests and the political process. To greatly oversimplify, liberalisation policy is shaped by a conflict of social forces—bourgeoisie, bureaucracy—channelled through a political process in which a relatively autonomous state elite has the last word. This paper provides an outline of the conflicting social forces and a snapshot of the political process in the early 1990s.

Forces for and obstacles to economic liberalisation

State interests and autonomy: obstacles to liberalisation

Resistance to economic liberalisation seems naturally embedded in the logic of Syria's authoritarian–populist 'minority' regime. The state's emergence out of a

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revolution led by plebeian minorities, in which the formerly dominant classes were levelled, new rising elements mobilised, and submissive elements of the bourgeoisie later incorporated into the regime coalition, enabled the regime to balance conflicting social forces in Bonapartist fashion, giving it relative autonomy from society.

This Bonapartist state possesses a formidable machinery of power. Policy-making power is concentrated in a presidential monarchy, resting on huge civil and military bureaucracies, whose chains of command are reinforced by patronage and kinship. A Leninist-like party incorporates a constituency, notably in the village, while the regime's control of a large public sector and its access to rent (such as petroleum revenues and Arab aid) buttress its autonomy, especially of the bourgeoisie. Rent has eased pressures on the regime to foster private sector capital accumulation and gives it patronage resources to keep a segment of the bourgeoisie state-dependent. The regime's autonomy has enabled it to shape its policies according to *raison d'état*, putting its own interests over those of a dominant class.

One of these interests is to defend its revenue base and the public sector remains a crucial revenue source which cannot be replaced as long as the private sector can evade taxes. The regime must also satisfy the interests of core political elites. The fact that the elite is dominated by formerly propertyless minorities, especially Alawites, who use the state as a ladder of advancement, while the private economy is dominated by the majority Sunni community, gives the regime an exceptional stake in a large state role in the economy. Elites who have been enriched on smuggling or pay-offs from business to evade regulations profit from state regulation of trade. Elite corruption, which fosters arbitrariness and opportunities for riches from illicit activities, deters productive private investment; but eradicating these parasitic activities would mean attacking the regime's own core. Finally, the regime cannot ignore its 'sub-elite': the party apparatchiki and bureaucrats who staff the very structures of the state have ideological and material stakes in the state's economic role.

The regime's popular or mass base also constrains it. The product of a populist movement against the bourgeoisie, it must protect its popular constituencies, but these—unionised workers, public employees, and small peasants—are the forces most likely to be threatened by economic liberalisation while the regime's historic rival, the bourgeoisie, is most likely to benefit. Thorough economic liberalisation, therefore, requires a new alliance between state and bourgeoisie, an outcome delayed in Syria because of a certain mutual reinforcement of state/private and Alawi/Sunni cleavages. Since coming to power, Asad has used limited economic liberalisation to advance a *modus vivendi* with the bourgeoisie. But this aimed to protect his autonomy by balancing the bourgeoisie with his populist constituency rather than sharing power with Syria's business class.

Finally, the struggle with Israel funnels state revenues which might otherwise stimulate development into the military, diverts private investment into short-term speculative ventures, and deters foreign private investment. Thus, the potential 'triple alliance' of state, domestic and international capital, the engine of capitalist development elsewhere, is stunted in Syria.[3]

Economic crisis and pressures for liberalisation

While Asad sponsored some limited liberalisation in the early 1970s, renewed and stronger pressures for economic liberalisation grew out of the economic crisis of the mid-1980s. This crisis was rooted in the very nature of the regime's statist–populist strategy of state formation. This strategy peripheralised the private sector, (pushing it largely into tertiary activities or into capital export), while failing to make the public sector a dynamic engine of capital accumulation. Public sector failure stemmed from bureaucratisation (which produced inefficiencies in planning and management) and from politicisation (which subordinated the logic of capital accumulation to political objectives such as patronage, job maximisation, and production of low priced consumer commodities). This reflected the regime's original inclusionary strategy of bringing the lower strata into politics on its side, a strategy which tends to foster mass consumption over capital accumulation. Building a national power-base also dictated import substitution industrialisation which, in Syria as elsewhere, produced dependency on imported parts, machinery and raw materials before development of the export capacity needed to earn foreign exchange, thereby precipitating balance of payments difficulties. However, access to plentiful oil rent fuelled an economic expansion which sustained the regime's political strategy in the 1970s.[4]

When rent declined along with the fall of global oil prices in the 1980s, the weakness of this strategy was revealed. Thus Syria's trade imbalance deteriorated from −5.5 billion Syrian pounds (LS) in 1977 to LS −12.2 billion in 1987, while Arab transfers fell from $1.8 billion in 1981 to $500 million between 1986 and 1988. The resulting fiscal and foreign exchange crises forced austerity—cutbacks in public spending—and a consequent declining ability of the state to finance investment, jobs and contracts. In 1986 foreign exchange dried up, factories dependent on imports closed, and shortages fuelled 100% inflation. Debt mounted while per capita income fell 4.5% from 1980 to 1988.[5] The state could no longer sustain its excessive size and economic functions and began to turn to the private sector to reverse the economic decline. In return, business had to be given concessions: thus the door of economic liberalisation began to open.

Reconstruction of a bourgeoisie: requisite of liberalisation

Liberalisation cannot go far without the reconstruction of an entrepreneurial bourgeoisie which, being willing to invest, can provide a viable alternative to the public sector and acquire the power to push for liberalisation against statist vested interests. In the Syrian case, a bourgeoisie appears to be in the process of reconstruction but this is incomplete.

The state helped give birth to a new bourgeoisie. The power elite was, itself, embourgeoised through corrupt activities or business on the side. The development expenditures of the expansive 1970s also fostered a state-dependent private bourgeoisie of agents, importers and contractors. The Damascene wing of the old merchant class accommodated itself to the regime and took advantage of similar opportunities, while the influence of the anti-Ba'th landed 'aristocracy' declined.[6]

The emergence of a so-called 'military–mercantile complex' of Alawi officers and Damascene Sunni businessmen constituted the core of an alliance between the 'new' state and 'old' private bourgeoisies. Seale suggests Asad deliberately sought in this way to give his regime a class underpinning needed for stability, but these groups have yet to amalgamate into a new dominant class.[7] Certainly, the former sharp antagonism between the state and the upper classes was bridged as the political elite acquired a stake in new inequalities. There is a marriage of convenience between the two. The Sunni bourgeoisie needs political connections to evade regulations or get privileges and contracts. Alawis need the Sunnis for their access to the Western market and Gulf investment money. The Alawis are enriching themselves in business, not just politics, and they monopolise the oil servicing sector and shipping. There are capital partnerships between Alawi money and regime-allied Sunni tycoons. Sunni capitalists are confident that the regime is inexorably committed to liberalisation and no longer fear nationalisations, if only because so many sons of Alawi security barons have gone into business. But there is also a perception that business success requires political connections or pay-offs; the relation of less favoured and smaller business elements to the Alawi barons still resembles the payment of mafia-style protection money. The cultural gap with the Sunnis is kept alive by continual migration from the countryside of poor Alawis with harsh accents and rural ways who attach themselves to Alawi patrons in power. The still limited incidence of intermarriage between the Alawi political elite and the Sunni business elite suggests a persistent lack of social trust. The regime is trying to legitimate itself by co-opting members of old Sunni families into government but, while the Alawis want to keep the upper hand, the Sunnis are looking for full partnership. As such, it is better to speak of an uneasy alliance of rival bourgeois class fragments than a new unified bourgeoisie.

Moreover the private bourgeoisie is still politically weak and has by no means 'captured' the state. It is divided between the pro-regime new bourgeoisie and elements of the older bourgeoisie still unreconciled with the regime. The private bourgeoisie has not forged alliances with other classes beyond the urban *petite bourgeoisie*, for much of the workers and peasants remain incorporated by the regime and unavailable. Thus, the private bourgeoisie currently lacks the power to push for more economic liberalisation than the regime wants.

Nor is the bourgeoisie necessarily united on economic policy or an unabashed promoter of economic liberalisation. It largely accepts the regime's strategy of incremental liberalisation, being happy with the new opportunities to get rich and with the current political and currency stability. Politically connected elements want a continued role for the state as a source of contracts and monopolies. While the Chamber of Commerce tends to favour free trade, the Chamber of Industry values the opportunities for high profits from local manufacture of the large range of goods whose import is prohibited or which carry heavy tariffs. Economic rationalisation is retarded by alliances between state and private sector elements to exploit the public sector, such as by diverting publicly produced yarn, hoarding it and selling it privately. The bourgeoisie is thus partly rent seeking, although historically many bourgeoisies start this way and this does not preclude a later participation in liberalised markets. The Syrian bourgeoisie does welcome greater access to foreign partnerships and the opening of fields formerly reserved for the state to private investment. More market-orientated new industrialists from the ranks of the *petite bourgeoisie* have created medium sized factories in fields such as clothing and plastics. Expatriate capital, accustomed to operating on the market, is also showing serious interest in Syria.

Elites, the political process, and economic liberalisation

A relative stalemate in Syria between the social forces—bourgeoisie and bureaucracy—which lean towards or against liberalisation (as well as their own ambivalence), has allowed the political elite, balancing between them, the autonomy to shape the extent of liberalisation according to its own ideology and interests.

Elite strategies and selective economic liberalisation

Incremental liberalisation is designed to reduce the state's economic burdens without damaging its interests, but is, nevertheless, real. A contraction of state intervention is widening room for the market: state monopolies in foreign trade and production have been reduced in favour of the private sector, the exchange rate liberalised and price controls relaxed. Austerity has cut state subsidies and public investment while a major new investment law, No 10 of 1991, welcomes private and foreign investment in industry, permits repatriation of profits, waives import duties and allows investors to import and bring in hard currency outside state channels. New projects get tax holidays and income tax has been cut from highly progressive rates to a range of 10%–45%.

An accumulation of incremental changes has produced this liberalisation of economic strategy. Ideological obstructions to liberalisation, of no small importance in a regime born of an ideological movement, have collapsed. As the political elite went into business on the side in the 1970s, and embourgeoisement altered its objective class situation, its commitments to socialism eroded. The economic crisis of the 1980s demonstrated the limits of statism.[8] As state patronage dried up, regime constituents with capital had an interest in diversifying their assets by going into private business. The collapse of communism in the 1990s discredited remaining ideologically-rooted hostility to liberalisation.

Economic constraints forced certain liberalising initiatives. As long as the state had abundant foreign exchange, it had little incentive to liberalise, but the balance of payments crisis of the 1980s provided an opening wedge for the private sector. For example, when the regime lost the foreign currency to pay for certain public sector-imported commodities it had to allow the private sector to import them. The inability of the state to import scrap metal to run the public iron and aluminium factories forced it to allow private importers to do so, and to process it for them, thus pressing state factories into the service of private business. The foreign currency crisis also forced the regime to shift towards an export-oriented strategy dependent on private sector participation. To ensure repatriation of sorely needed remittances by Syrians working abroad, the regime had to set the value of the Syrian pound at near-market rates. On the other hand an incremental strategy of liberalisation has been facilitated by the greater economic health of the early 1990s, resulting from a combination of previous austerity measures and an increase in oil revenues, Arab aid and foreign exchange.[9] The possible end of high economic growth in the mid-1990s, assuming these decline, will probably accelerate liberalisation measures. The regime, in short, cannot avoid some response to economic pressures.

However, if liberalisation was motivated primarily by *economics*, measures to increase capital accumulation, such as raising the interest rate and reforming the banking system, as well as privatising the public sector, would arguably be pursued more aggressively. Had liberalisation been merely a response to economic crisis, it could have been reversed when the crisis passed after 1990, but the most recent liberalisation initiatives, notably the private investment law, post-date the crisis. It is true, of course, that the collapse of the Eastern bloc showed Syria had to further integrate into the Western capitalist market; but Syria has, nevertheless, resisted IMF attempts to impose the dominant neoliberal version of economic rationality.

In fact, political motives—maximising regime autonomy and stability—have dominated economic policy making. Specifically, Asad's first domestic priority has been the internal stability needed to conduct a rational foreign policy, freely adapting his strategy to external threats and opportunities in the struggle with Israel. Asad's first (early 1970s) economic liberalisation measures were largely designed to accommodate the bourgeoisie to his regime, thus broadening the regime's political and economic base for the struggle with Israel. This effort was interrupted when the bourgeoisie's association with the Islamic rebellion allowed statists to argue that it was politically unreliable and it was resumed when the Islamic threat passed. By the late 1980s economic stagnation, particularly the inability to provide jobs for the growing educated middle class, had made it more politically dangerous to maintain the status quo than to alter it.

Economic policy is also closely linked to strategic opportunities and needs: statism was partly a function of bipolarity which facilitated the Soviet aid needed to build the regime's domestic base and buttress its autonomy of Western economic constraints. Conversely, the disappearance of Soviet power radically altered the conditions in which Syrian *raison d'état* must operate; by the 1990s Asad was convinced his foreign policy could no longer be pursued in opposition to the USA, the only remaining superpower, and detente with the West required some measure of internal liberalisation. Maintaining autonomy of domestic opposition to this realignment required further broadening of his base beyond the Ba'th party to the bourgeoisie; thus, the vulnerabilities of the statist economy may have been seen by Asad, not just as a threat, but also as an opportunity to diversify the regime's political and economic bases.[10]

So far, political and economic rationality have been reconciled through a strategy of *selective* economic liberalisation. Regime elites agree that long-term stability requires liberalisation. But they also agree that a Soviet-type collapse of the statist economy before a domestic market is fully in place must be avoided by a gradual transition. Nor does the regime make full integration into and competitiveness on the international market its first priority; rather its strategy is a division of labour in which the public sector continues to meet local needs and serve the regime's constituency while the private sector specialises in production for export. This diversifies the country's economic bases as well as enhancing the regime's ability to balance between bureaucracy and bourgeoisie.

This is not to say that economic calculations are absent from Syrian decision making. Nabil Sukkar, an independent Syrian economist who was enlisted in designing the regime's economic policy, argues that regime strategy is compatible with economic rationality. A strong state is needed to manage liberalisation. The proper sequencing of liberalisation is to expand the private sector before tackling reform of the public sector so as to have a dynamic private economy able to absorb the resultant unemployment. A second stage in encouraging the private sector is needed before privatisation, namely tax reform, banking reform and stabilising the balance of payments; the regime has only started on such reforms.[11]

The regime's cautious approach is partly shaped by its perception of the economic consequences of other *infitah* experiments, such as Egypt's, which it believes generated a worsening of trade and foreign exchange imbalances, mounting debt and dependency, rather than local industrialists and significant foreign investment. The regime prefers to assess the results of its current initiatives before moving to the next stage.

The policy process and economic liberalisation

President above the fray. President Asad ultimately approves policy and he has made the strategic decision for economic liberalisation. Yet his cautious, pragmatic nature, his disinclination to impose the specifics of economic policy or to be too far in front of the elite consensus in economic (as opposed to strategic) matters, has deterred a presidential intervention on behalf of a radical lurch towards the market. Most elite opinion favours some liberalisation, but is divided over its extent and pace and Asad is allowing this to be determined in good part by bureaucratic politics: an intra-regime struggle between liberalising 'technos' and statist 'politicos'. Failures of the statist economy enhance the political clout of the liberalisers, while better economic times increase the ability of politicos to defend the statist status quo. Asad is most likely to intervene in economic issues when the elite is stalemated or if an economic failure threatens the regime's political base—as in his recent dismissal of the electricity minister for failing to alleviate the power interruptions which irritate a broad spectrum of society.

Technocrats as liberalizers. Prime ministers and technocrat-ministers are most directly responsible for framing economic policy. The replacement of the Rauf al-Qasm government, which was committed to statist industrialisation, by that of Mahmoud al-Zoubi in 1985 improved the climate for liberalisation in the cabinet. But al-Zoubi is a conciliator, content to balance between factions. As such, the main force for liberalisation has been the Minister of Economy and

Foreign Trade, Muhammed al-Imadi. Although not a Ba'thist and once viewed in the party as a rightist, the support of the President has allowed Imadi to push for reform against the resistance of statists. In fact, Imadi was lured by Asad to return from his position with the Kuwait Gulf fund on the condition that he would be given real power over economic policy. But he has not had a free hand and has had to struggle for change. It is typical of such a personalised regime that Imadi uses selections from the president's speeches to justify innovations and fend off leftist critics.

Imadi has worked patiently, in stages, to promote liberalisation. He first opened tourism and then agriculture to joint venture (private–state) enterprises in the 1970s and 1980s. The foreign investment law is his latest initiative. Imadi's next project is a financial market law which he has pushed against Marxist parliamentary deputies who have attacked a stock market as little different from a lottery. In alliance with the Ministry of Industry, he has also pushed to make the public sector operate on the market for profit against the opposition of trade unions fearful of bankruptcy.

Imadi has promoted the liberalisation of foreign trade on the assumption that it can, as once before, be the engine of the economy.[12] He has pushed for Syria's fuller integration into the world capitalist market by successfully getting debt repayment exports to the former USSR suspended, steering exports westward and by pushing for Syrian membership in GATT; the latter has been opposed by the Central Bank, which fears the loss of tariff revenues, and by protectionist interests.[13]

Imadi has also, however, tangled with private commercial interests over trade and foreign exchange. Merchants and industrialists were content to export to the USSR in the late 1980s, but he required them to export a portion to the West to earn foreign currency. They wanted to finance imports through external credit facilities or their holdings abroad (from capital flight which was detrimental to the value of the Syrian pound), but he insisted they must pool foreign exchange earned from exports to finance imports. He sponsored Decree 905 of 1990 which, in permitting free imports of industrial spare parts and raw materials, abolished lucrative monopolies in this field.[14]

Imadi is, however, no neoliberal ideologue. Third World countries, he argues, need economic intervention by a strong state on behalf of more equal distribution and to undertake investment in infrastructure and strategic industries. Private economic interests should not be allowed to dominate economic policy. But private property is a social good and the private sector should be given much greater scope. His image of Syria's future is a regulated market economy with some state intervention and a slimmed down public sector run on the basis of profit.[15] Imadi's middle position between vested interests suggests he can be seen as an autonomous technocrat looking out for the state's economically rational best interest, rather than, as some suggest, a representative of the bourgeoisie, who, in fact, do not see him as their man.

Statist interests: party and bureaucracy. *Etatist* policies are defended by powerful interests such as party apparatchiki and trade unionists. This alliance is incarnated in the person of Izz ed-Din Nasir, an Alawi member of the Ba'th party Regional Command who heads the trade union confederation and is seen as a major opponent by private business. As economic crisis gave liberals ammunition to widen the scope for the private sector, he convened a 1989 conference of managers and labour leaders on reform of the public sector. The private sector was no good alternative, he insisted, to developing the public sector.[16] Unreconstructed party ideologues, though subdued by the collapse of communism, are still perceived by liberals as waiting to attack anyone associated with reforms which inevitably have costs and are by no means guaranteed to succeed.

But the Ba'th Party is not uniformly hostile to liberalisation. The party apparatchik nominally responsible for supervising economic policy (*rais al-maktab-al-iqtisad*), Rashid al-Ikhterini, is viewed by liberalisers as pragmatic. A senior party apparatchik with ties to the Damascene bourgeoisie, Ala ad-Din Abdin, expresses the new party line. 'We have to adapt to changes in the world', he says, but Syria does not want a Gorbachev-type collapse; rather, beginning with Asad's 1970 'corrective revolution', the regime has been making incremental changes. The party welcomes private sector growth to provide employment since the state sector can no longer absorb job seekers. But because business, driven by short-term profits, neglects the public interest, the state must invest in and control strategic sectors.[17] The function of the public sector is as much political as economic and profit is not the only criterion of performance: it must provide cheap popular commodities and is a source of taxes which cannot be expected from a private sector getting tax breaks to invest. This political conception of the public sector constrains the possibility that public sector managers will acquire the autonomy to run their firms on economically rational grounds.

Resistance to liberalisation is strong in the bureaucracy, too, especially among bureaucrats trained in Eastern Europe who are in charge of public agencies such as Aftomachine, the state machinery import company, which under liberalisation is threatened by private importers. That bureaucratic interests in protecting state revenue are often allowed to jeopardise integration into the world market and foreign investment is suggested by the tough stance of Syrian officials in recent disputes with Western export insurance companies, and their requirement that Western oil companies use the unrealistic official exchange rate of LS11.2 to the dollar. The State Planning Commission is a bastion of etatism. It has circulated a memo denouncing the IMF and World Bank as instruments of foreign capitalism. It rejects the IMF's comprehensive shock reform and insists Syria's own austerity programme proved itself by stabilising the value of the pound. It expects public investment will continue in the production of key popular consumption commodities and in infrastructure, utilities and strategic industries which either support the private sector or are too large for it to undertake. The Minister of Planning sees no threat to the public sector from private competition, believing that entrepreneurs will concentrate on light industries requiring little capital. Indicative of the decline of socialism, however, is the minister's view that liberalisation will eventually produce a market economy in which the planning commission may be dismantled.[18]

The public sector and liberalisation. The Ba'th's insistence that the public sector be the 'leading sector' (*qita' qa'id*), with the private sector a mere auxiliary, has been quietly dropped from regime discourse. There is, however, no move to privatise the public sector. The regime will, at a minimum, keep control over strategic sectors which dominate the heights of the economy and provide a revenue base. While this is sure to include sectors such as oil, cotton and perhaps banking, one party official included industries such as spinning and weaving. Nevertheless, reform of the public sector is on the agenda because many state enterprises are losing money and the government lacks the foreign currency to modernise them. As far back as 1974, Legislative decree 18 was supposed to give managers autonomy, free them from political pressures, and allow market forces to set production and prices. It was, however, obstructed by the bureaucracy: for example, the Ministry of Supply insisted that prices be set through negotiations with firms in which it defended consumer interests in keeping them low.

Many public sector managers have supported reform, complaining that bureaucratisation stifled all initiative and tied them up in red tape: for example, to get spare parts they had to issue tenders. Fixed prices for their products made it impossible to self-finance their firms, forcing them to work under capacity because of lack of spare parts or worn out and dated machinery. The General Organization of Food Industries (GOFI) recently threatened to export its output because local prices were set too low. Managers also want the right to hire and fire, free of pressures to employ job-seekers, and to provide financial incentives to improve labour performance. GOFI's general manager has recently welcomed private sector competition to absorb job seekers he does not want, but fears he will be stuck with the leavings of a private sector which can pay higher wages.[19]

Cautious but seemingly serious public sector reform has started. The central pricing system has been abandoned except for crucial necessities and public firms can, within certain profit margins, now set their own prices based on free-market exchange rates. They are expected to export to earn foreign exchange for the import of production requisites and are reimbursed at the near free market exchange rate (around LS42 = $1), rather than the official rate which long discouraged exports. Managers who can export support this change, but the head of a public road construction firm fears it will bankrupt him, since his wage costs and obsolete equipment prevent him from competing for reconstruction contracts in Lebanon and Kuwait. The down side for the public sector is that it must now use the near market exchange rate for imports, too, thereby quadrupling its costs. Though costs are partly being passed on in price rises, this has also spurred a more serious search by managers for local alternatives.[20] The Ministry of Finance is reputedly requiring profitability to advance loans to public firms. Private investment competing with public sector firms has been approved and a businessman with high political connections says the policy is to reduce subsidies to public sector firms and force them to compete with private firms; those that cannot will be allowed to go out of business.

The public sector continues, however, to lobby for state investment. It stagnated in the 1980s when there was little financing available from the Soviets or Arabs and many projects were left unfinished from the expansionary Kasm era. Public sector bureaucrats, however, received a share of the Gulf war windfall: the Deir ez-Zor paper plant is to be rehabilitated, steel plant investments made at Hama, and new fertiliser plants are planned. Some state companies are looking at joint ventures as the road to financing; Kuwait is funding new joint venture cement factories. Much new funding comes from loans which will have to be repaid; unless the public sector's reform makes it profitable, this expansion will, therefore, only increase Syria's indebtedness.

Joint private–public ventures are a substitute for open privatisation. In these, the state's contribution is likely to be land or factories while the private sector contributes capital and entreprenuership. The state retains some control and gets a share of the economic rewards, but the firms are run by businessmen for profit. According to a leading private businessman, this approach, avoiding the opposition of the trade unions, is Syria's special road to privatisation. Indeed, the provision by the state of large tracts of state-owned land to agricultural companies may amount to a *de facto* 'privatisation' of this land. Joint ventures are an intermediary stage which encourages the alliances between state and bourgeoisie on which further liberalisation depends. 'Privatisation by stealth' is also proceeding in some sectors, notably transport, where private minibuses have proliferated and the public bus network has been cut back and allowed to run down.

Political opening to the bourgeoisie. The major change in the political process since liberalisation is the bourgeoisie's increasing access to decision makers and hence influence in intra-bureaucratic politics. The Committee for the Guidance of Imports, Exports and Consumption which meets regularly under Prime Minister al-Zoubi, and on which the heads of the Chambers of Commerce and of Industry are influential, gives business institutional access. The Chambers are not mere government transmission belts but semi-official NGOs: while committed to the regime's economic strategy, they are not only able to press for implementation of liberalisation within that framework, but attempt to expand its parameters: thus, the Chamber of Commerce lobbies for a mixed sector bank to break the state monopoly and a legalised stock market, a symbolic blow at socialism. On a day-to-day basis its role is to protect business from arbitrary state interference.

Access to government is also personal: Badr ad-Din al-Shallah, head of the Damascus Chamber of Commerce, who won Asad's trust by keeping Damascus quiet during the Islamic disturbances of the early 1980s, acquired personal access to the president and his son, Ratib, has since taken over his role; as an old merchant family, the Shallahs are, nevertheless, perceived by Sunni society as 'clean', allowing them to mediate between state and bourgeoisie. The Shallahs' argue that, although state consultation with business is still irregular, the Chamber of Commerce is promoting the legal institutionalisation of liberal economic policy. They seek this through accommodation with statist interests; for example, they view privatisation as unrealistic and seek, instead, widened space for private business.

Greater bourgeois access does not confer real political power over the state;

indeed, state autonomy may be enhanced since it can balance competing 'popular' and 'bourgeois' interests. However, the regime's increasing dependence on private investment for foreign exchange, exports and job creation requires it to respond to investor demands. This, and better access, allows the bourgeoisie to exploit intra-regime cleavages by allying with the more liberal factions in the power elite or making their case directly to the president. A major recent victory was the bourgeoisie's ability to reverse the original official intention of limiting the privileges of investment Law No 10 to external investors.[21]

Obstacles to liberalisation: the politics of exchange rate and prices. Statist obstacles to liberalisation can be seen in policy making on foreign currency and the exchange rate. As foreign currency became scarce in the 1980s, the government reserved its own holdings for the public sector and sought to control a share of that in private hands. Yet it also needed to encourage exporters to earn foreign currency for serving private sector needs. At first, the state insisted all foreign currency be sold to state banks; but as it became ever scarcer, the private sector lost access to it. This stimulated the foreign currency black market and in the mid-1980s Law 24 criminalised private foreign exchange transactions, chilling the business climate. As this proved counterproductive, the regime stepped back and, in the late 1980s, allowed businessmen to keep 75% of the foreign currency they earned, provided they sold the rest to the state at near free-market rates. Thereafter, the value of the pound for most private sector transactions was pegged at the 'neighbouring country' near free-market rate. However, the only legal way for private business to get foreign exchange remains exporting or tourism and, as such, many businesses can only get it on the black market.

Despite the government's encouragement of private business, Law 24 remains on the books, although it is not enforced. It is widely seen as a major deterrent to investment and businessmen want a total freeing of currency transactions. But the government fears this could drive down the value of the pound, lead to big price increases and a loss of control over the economy. Some believe the law is an opportunity for security barons to extort pay-offs from business. The regime's desire to maintain control of foreign exchange has also deterred it from allowing private or even joint venture banks from opening; but since state banks cannot adequately service investors, the banking transactions of local businessmen may be diverted to Lebanon.[22]

Another major constraint on liberalisation is the populist 'social contract', by which government legitimacy depends on providing a minimum level of welfare, notably affordable food.[23] In 1991, as part of currency liberalisation, the Ministry of Economy required customs on imported goods to be levied at the new LS42 to the dollar rate rather than the old LS11.2 to the dollar official rate. The government supposedly needed the increased customs revenue in order to raise salaries of public employees. Importers insisted custom duties had to be reduced or the price of imports would soar and in fact they withheld goods or raised prices, 'wiping out' the effect of public employee pay increases. Discontent swept the salaried classes, who viewed the regime and merchants in a cynical collaboration at their expense. Despite its effort to raise business confidence, the regime reverted to populist rhetoric, blaming 'exploiting merchants' and dispatching Ministry of Supply price control squads against shops in poor income neighbourhoods. Asad himself ordered the customs re-evaluation rescinded. The Ministers of Economy, Finance and Supply held a press conference apologising for their 'mistake' and appealing to shopkeepers not to raise prices. The ministers thought they were empowered to rationalise the economy but they were made scapegoats for the political backlash of such policies. In 1993 the rate of exchange for customs was increased to LS23 to the dollar, a compromise which is a step back from a rational unification of multiple exchange rates.

Despite this episode, the Ministry of Supply, which a few years ago strictly enforced price controls, is being curbed. The Ministry used to put the fear of social repercussions from price rises over economically rational decisions which led to evasion by merchants, discouraged production, or, in the case of the public sector, resulted in losses; it also continued to fix prices for imported commodities at the official exchange rate long after it became unrealistically low. Now, however, it must set prices according to the market rate. For example, prices of medicines, which used to be fixed on the basis of the official exchange rate for imported requisites, are now calculated on the basis of free-market rates, raising them perhaps four-fold.

The populist policy of cheap bread for the urban poor and subsidised fertiliser and support prices for the regime's peasant constituency nevertheless remains highly resistant to liberalisation. The state is committed to purchasing grain at favourable support prices but to selling bread below these prices; to the extent this has been financed by domestic borrowing, it is inflationary and self-defeating as an income support measure. However, the head of the state wheat trading and processing company, *Huboob*, rules out privatisation of the grain trade or elimination of subsidies: 'control of grain procurement and the production of cheap bread is the foundation of the state and no politician would jettison this social responsibility'.[24] Although bread prices have been raised, subsidised bread is still widely available. Membership in GATT could, however, require cutting farm support prices for the regime's rural constituency. Political populism and capitalist development are, in the long run, pulling policy in opposite directions.

Outcome: revitalisation of a capitalist road to development?

Private investment has responded favourably to economic liberalisation, at least as measured by the proliferation of private sector imports and exports, of new small and medium businesses and of investment licences, and by the inflow of capital and increase in bank deposits. By 1994, $1.78 billion had been invested in 474 firms under Investment Law No 10. For the first time since the 1960s nationalisations, private investment has exceeded the state investment budget. The private sector, which had only accounted for about 35% of gross fixed capital formation from 1970–85, climbed to 52% of the total in 1989 and 66% in 1992. In part because of this, the stagnation of the 1980s gave way to yearly

GNP growth rates exceeding 8% from 1990–93 and continuing at a somewhat lower rate into the mid-decade.[25]

There is, however, reason to be sceptical of the ability of private investment to move much beyond tertiary or small consumer industrial enterprises. The agricultural investment companies which were supposed to be the cutting edge of a new state–business partnership have either failed to raise much capital or are simply covers for speculative ventures. Similarly, Law No 10 gave birth to a multitude of bogus car rental agencies as covers for importing private cars. Most private sector industrial growth has taken the form of a proliferation of small enterprises to avoid—among other things—unionisation under a labour law that gives workers in bigger firms extensive rights. Money is still exported instead of accumulated internally because interest rates are too low and a stock market lacking. All this deters the natural expansion of small industries into larger scale firms and channels capital into commerce where risks are lower and profits quicker. Nor is it clear whether private industry is internationally competitive: private manufacturing exports have plummeted since the 1992 suspension of export agreements with the former Soviet Union. Austerity has given way to an import boom which is again driving up the balance of payments deficit.[26]

It may be economic as well as political wisdom for the regime to proceed cautiously with liberalisation for it is questionable—given the greater opportunities and lesser risks outside Syria—how far private capital is prepared to make big investments in long-term productive commodity-producing sectors. Nevertheless, as safety values such as external aid and oil revenues reach their limits, economic health will require that private investment pick up the slack. Arguably, the investor confidence this requires will remain limited as long as the state is seen as arbitrary and unprepared to foster internationally accepted conditions of capital accumulation. As such, more political liberalisation, putting greater power over policy in the hands of the bourgeoisie, may be essential to the success of economic liberalisation.

Conclusions

Syria's economic liberalisation is rooted in an economic crisis, specifically a 'crisis of accumulation' aggravated by the 'overdevelopment' of the state. State autonomy of the dominant classes was purchased in part through legitimacy deriving from redistributive and nationalist policies which diverted resources into consumption and the military, while patrimonial strategies subverted public sector accumulation. The economic logic of accumulation was subordinated to the political logic of state formation. This strategy eventually exhausted itself and forced the regime to tolerate reconstruction of a capitalist class to replace the state as the main engine of accumulation and to initiate economic liberalisation. The easing of economic pressures in periods when rent has been plentiful, such as the early 1990s, has facilitated a strategy of *selective* liberalisation, but in the long run the demands of economic rationality are likely to intensify.

Nevertheless neither economics nor class interests have dictated a mechanical transformation of economic policy any more than patrimonialism has wholly obstructed such change. In a relatively autonomous regime like Asad's, elites have some scope to decide the balance of liberalisation and statism. They have incrementally liberalised as they perceived economic opportunities (to mobilise hidden local or expatriate capital) or as economic pressures (eg foreign exchange crises) narrowed their choices. They have not, however, decided exclusively according to an economic logic. Nor does class interest dictate thorough economic rationalisation for, while the elites' embourgeoisement was paralleled by increased receptivity to liberalisation, their ability to extract rent through state controls dilutes their interest in it.

The dominant consideration, in fact, has been regime political interests. These require a middle way: while long-term durability requires fuller integration into the world market, short-term stability requires that this be carefully managed, and defending regime autonomy means preventing any one social force—bourgeoisie or bureaucracy—from achieving dominance. Behind this defense of autonomy and reinforcing the incrementalism of liberalisation is, arguably, the long time-period it takes to overcome communal barriers to the amalgamation of the old and new bourgeoisies needed to give the regime a stable dominant-class social base.

Where political/security needs and economic rationality conflict, the former are put first, but when there is debate over their compatibility, the extent, pace and design of liberalisation is shaped by 'bureaucratic politics'. Liberalising 'technos' such as Imadi have championed economic rationality against statist 'politicos' wishing to subordinate it to the patronage interests of regime constituencies and to restrain inegalitarian consequences of the market likely to fuel mass discontent. Liberalisers were strengthened in intra-elite politics by the economic crisis, and by the partial reconstruction and political incorporation of a bourgeoisie able to offer an alternative to statism; politicos are strengthened in periods of economic growth and expanded state revenues.

In conclusion, the Syrian case suggests that the state retains more autonomy, even in a situation of economic crisis, than economic analyses often suggest. Moreover, there is greater compatibility between state autonomy and economic rationality than the neo-patrimonial view admits. The assumption that either capital accumulation or power maximisation must dominate policy is not borne out, because social forces with an interest in each logic have political access, while balancing these competing logics is, for the regime, a higher rationality than the pursuit of one to the total neglect of the other. The balance of political forces will shape each country's specific—by no means wholly liberal—adaptation to the global market.

Notes

[1] A sophisticated analysis which links economic crisis and policy changes is Huda Hawwa, 'Linkages and constraints of the Syrian economy', in Youssef Choueiri, *State and Society in Syria and Lebanon*, Exeter: University of Exeter Press, 1993, pp 84–102. An excellent variant of the political approach is Jean Leca, 'Social structure and political stability: comparative evidence from the Algerian, Syrian, and Iraqi cases', in Adeed Dawisha & I William Zartman, (eds), *Beyond Coercion: The Durability of the Arab State*. London: Croom Helm, 1988, pp 164–202.

[2] See Stephen Heydemann, 'The political logic of economic rationality: selective stabilization in Syria', in H J Barkey (ed), *The Politics of Economic Reform in the Middle East*, New York: St Martin's Press, 1992, pp 11–37.

[3] See the analysis of the state in Raymond A Hinnebusch, *Authoritarian Power and State Formation in Ba'thist Syria: Army, Party and Peasant*, Boulder CO: Westview Press, 1990, pp 120–155. For a complementary analysis of the regime, see Yahya Sadowski, *Cadres, Guns and Money: The Eighth Regional Congress of the Syrian Ba'th*, MERIP Reports 134, July–August 1995.

[4] Thus, GDP grew at an annual rate of 8.2% in 1970–75 and 6.8% in 1977–80. However, savings covered only about one half of the investment fuelling this growth; the balance was financed by external aid or borrowing or deficit financing. This imbalance was reflected in public finance. For example, in 1976 domestic resources financed only about 62% of public expenditures on government and development, while deficit financing (22.5%), external borrowing (8.9%) and Arab transfers (6.6%) covered the balance. Clawson estimates Syria received $20 billion in civilian aid between 1977 and 1988. These data have been collated from World Bank, *Syrian Arab Republic Development Prospects and Policies*, Washington DC, 1980, Vol 2, p 18, Vol 4, p 48; and Patrick Clawson, *Unaffordable Ambitions: Syria's Military Buildup and Economic Crisis*, Washington, DC: The Washington Institute for Near East Policy, 1989, pp, 14–17, appendixes 4 and 5.

[5] At the end of 1986 the mere $144 million in the treasury was enough for only two weeks of imports. GDP yearly growth dropped to 1.5% from 1980 to 1986 and from 1983 to 1987 was at a negative 2.9% yearly. Debt as a percentage of GNP rose from 10.8% in 1980 to 25% in 1988. Data on the economic crisis were compiled from the following sources: World Bank, *Syrian Arab Republic*, Vol 1; ix; World Bank, *World Development Report 1990*, pp 224–25; Clawson, *Unaffordable Ambitions*, ch 7–8, Table 1; Syrian Arab Republic Central Bureau of Statistics, *Statistical Abstract*, 1989, pp 490–491, 1991, pp 424, 485; *The Middle East*, December 1988, p 27, January 1990, p 24. For data on Syria's austerity programme, see Heydemann, 'The political logic of economic rationality', pp 17, 25–31. For a comprehensive analysis of the economic crisis, see Volker Perthes, 'The Syrian economy in the 1980s', *Middle East Journal*, Vol 46, No 1, 1992, pp 37–58.

[6] Volker Perthes, 'The Syrian private industrial and commercial sectors and the state', *International Journal of Middle East Studies*, Vol 24, No 2, 1992, pp 207–230.

[7] Patrick Seale, *Asad: The Struggle for the Middle East*, Berkeley: University of California Press, 1988, p 457. For other analyses of the relation between state and class see Eberhard Kienle, *Entre jama'a et classe: Le pouvoir politique en Syrie*, Ethnizität und Gesellschaft, Occasional Papers, Nr 31, Berlin: Verlag Das Arabische Buch, 1992, and Syed Aziz al-Ahsan, 'Economic policy and class structure in Syria, 1958–80', *International Journal of Middle East Studies*, 16, 1984. For an interpretation of the class base of the regime which emphasises the increasing weight of the bourgeoisie in the regime coalition in the 1980s, see Fred Lawson, 'From neo-Ba'th to Ba'th nouveau: Hafiz al-Asad's second decade', *Journal of South Asian and Middle East Studies*, Vol xiv, No 2, 1990, pp 1–21.

[8] Nabil Sukkar, 'The crisis of 1986 and Syria's plan for reform', in Eberhard Kienle (ed), *Contemporary Syria: Liberalization Between Cold War and Cold Peace*, London: Academic Press, 1994, pp 26–43.

[9] Austerity measures in the late 1980s produced a current account surplus of $1.222 million in 1988. Growth rates of 7–8% GNP per year in 1990–93 were fuelled in part by an increase in oil revenues from $500 million in 1988 to $2.15 billion in 1992 and by a resumption of aid—some $2 billion was promised—by Saudi Arabia and the Gulf states as a reward for joining the Gulf coalition against Iraq. Economic Intelligence Unit, *Syria: Country Report*, 2nd quarter, 1994.

[10] The use of economic liberalisation to serve political autonomy is emphasised in Neil Quilliam, 'Syria: adjusting to the new world order', Working Paper, University of Durham Centre for Middle East and Islamic Studies, 1994; and Isabelle Daneels, 'Syrian foreign policy: between rational actor and regime legitimacy', MA dissertation, University of Durham Centre for Middle East and Islamic Studies, 1994.

[11] Discussions, Nabil Sukkar, Damascus, 1994.

[12] Dr Mohammed al-Imady, *Syria's Experience in Trade Liberalization and Policies of Economic Reform*, Damascus: The Ministry of Economy and Foreign Trade, 1994, p 3.

[13] Economist Intelligence Unit, *Syria: Country Report*, 1st quarter, 1994, pp 27–28.

[14] Imadi, *Syria's Experience in Trade Liberalization*, p 14.

[15] Interviews, Dr Imadi, Damascus, January 1992, July 1994; also, Dr Muhammed al-Imadi, *dawr al-qita' al-kass wa al-mushtarak fi amaliya al-tanmiya* (The roles of the private and joint sectors in the process of development), Damascus: Ministry of Economy and Foreign Trade, 1986.

[16] *Tishrin*, 4–5 December, 1989.

[17] Interview, Ala ad-Din Abdin, Damascus party secretary, January 1992.

[18] Interview, Sabah Baqjahji, Minister of State for Planning, January 1992.

[19] Unpublished confidential interviews with public sector managers, 1990.

[20] Imadi, *Syria's Experience in Trade Liberalization*, p 18.

[21] Sylvia Polling, 'Investment Law #10: which future for the private sector?', in Kienle, *Contemporary Syria*, p 20.

[22] *Ibid.*, p 22.
[23] *The Middle East*, September 1991, pp 20–22.
[24] Unpublished confidential interviews with public sector managers, 1990.
[25] Economic Intelligence Unit, *Syria: Country Report*, 2nd quarter, 1994, p 3; Syrian Arab Republic Central Bureau of Statistics, *Statistical Abstract*, 1993, p 503; Polling, 'Investment Law #10', p 14; Eberhard Kienle, 'The return of politics? Scenarios for Syria's second Infitah', in Kienle, *Contemporary Syria*, pp 120–128; unpublished economic analyses, US Embassy, Damascus, 1994; Belgian Embassy, Damascus, 1994; and United Nations, *World Economic and Social Survey 1996*, New York, 1996.
[26] The current account surplus of $1762 million in 1990 had become a deficit of about $360 million in 1993 and was projected to double in 1994. Economic Intelligence Unit, *Syria: Country Report*, 2nd quarter, 1994, pp 3, 6.