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THE POLITICAL ECONOMY OF ECONOMIC LIBERALIZATION IN SYRIA

When the Arab world's authoritarian-populist/etatist regimes first emerged, they were perceived by Marxist and modernization theorists alike as potentially forging the strong states needed by late developers to pursue national development. Three decades later, the conventional wisdom sees these states as obstacles to development and statism is in retreat. Even in Syria, where the Ba^{c}th institutionalized statist ideology more effectively than elsewhere, economic liberalization has proved inescapable.

Explanations for economic liberalization in these states fall into two categories. One sees economic crisis as forcing liberalization. Neoliberal economists see it as an inevitable concession to economic rationality. Theories of the rentier state imply that declines in rent may force the state to reduce its economic role. Marxist theorists see a crisis of state capital accumulation as generating irresistible pressures that a bourgeoisie can exploit to bring about liberalization; the state must ultimately serve the requisites of capital accumulation, and since the public sector fails at it, a reconstructed capitalist class takes over.

A second variety of explanation focuses on political motives. The state may use limited economic liberalization to co-opt the bourgeoisie or to head off economic threats to its political support, but is unlikely to pursue the thorough liberalization that would jeopardize its use of the economy for patronage and to keep society dependent. What might be called the "neopatrimonial model" views an elite political culture that subordinates the economy to political power as an intractable obstacle to economic rationality.[1]

Each of these views undoubtedly captures an opposing side of reality. This study will pursue a political-economy approach that tries to reconcile economic and political explanations.

THE BA^{c}TH STATE AS OBSTACLE TO ECONOMIC LIBERALIZATION

Syria's postindependence capitalist expansion had, by the mid-1950s, reached a plateau beyond which development seemed to require an increasing role for the state and major social reforms, which the agrarian-commercial bourgeoisie obstructed. The Ba^{c}th revolution, which overthrew the old regime, grew out of this crisis. The

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TABLE 1. *Pre- and postreform (1970) agrarian structure*

	Prereform		Postreform	
Holdings (in hectares)	%Agrarian population	%Land owned	%Agrarian population	%Land owned
Large (100+)	1.0	50.0	0.5	17.7
Medium (10–100)	9.0	37.0	15.4	58.7
Small (<10)	30.0	13.0	48.0	23.6
Landless	60.0	0.0	36.1	0.0

Source: Raymond A. Hinnebusch, *Peasant and Bureaucracy in Ba^{c}thist Syria: The Political Economy of Rural Development* (Boulder, Colo.: Westview Press, 1989), 110.

radical Ba^{c}th (1963–70) regime cut short capitalist development and institutionalized powerful obstacles to its revival. It created a Leninist party-state that incorporated those social forces that had either paid the costs or enjoyed few of the benefits of capitalist development—intellectuals, the salaried middle class (including sectors of the military), rural minorities, workers, and peasants. The Ba^{c}th also carried out a revolution from above that ignited a protracted class war with the bourgeoisie. Through land reform, nationalizations, and government control over the market, the regime demolished the economic bases of the bourgeoisie; the big latifundia were broken up and industrialists left businesses or emigrated. Education and state employment rapidly expanded the salaried middle class while agrarian reform transformed a large part of the landless proletariat into a small-holding peasantry. This fluidization of the formerly rigid class structure, indicated in Tables 1 and 2, spawned or broadened social forces dependent on or beholden to the Ba^{c}th state.

This created the social terrain for the rise of a "Bonapartist" state under Hafiz al-Asad (1970–). Asad consolidated state power in a "presidential monarchy" through his command of the institutional pillars of the regime—Ba^{c}th Party, army, and bureaucracy—by adopting a patrimonial strategy of placing personal Alawite clients at the strategic levers of the military-security apparatus, and by building an alliance with Sunni military officers and party politicos. A major innovation was a détente with the Damascene bourgeoisie based on a limited liberalization of trade. The political elite ceased to take sides in social conflicts and balanced above the various social forces. Policy making under Asad was shaped less by class or sectarian interests than by *raison d'état*: defense of the legitimacy, capabilities, and resource base of the state. The regime sharply controlled political access for all social forces, yet—a reflection of its populist origin—worker and peasant leaders enjoyed representation in regime councils while the private bourgeoisie had little institutionalized access. The aid and oil "rent" at the disposal of the state enhanced its autonomy from society and serviced clientalist ties with it.[2]

Believing that capitalism was exhausted, the radical Ba^{c}th had made the public sector the core of the economy and the main engine of investment, and this continued until the late 1980s. Gross fixed capital formation in the public sector grew from S £170 million in 1963 to S £1,262 million in 1976, while in the private sector it

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TABLE 2. *Indicators of change in Syrian class structure, 1960–70*[a]

	1960		1970	
	no.	%	no.	%
Industrial & commercial bourgeoisie	19,750	2.2	10,890	0.7
Rural bourgeoisie	39,640	4.5	8,360	0.6
Salaried middle class	132,530	15.0	234,930	16.0
Traditional petty bourgeoisie	110,900	12.5	216,090	14.7
Working class	159,720	17.9	257,380	17.6
Small peasantry	243,460	27.4	608,540	41.5
Agricultural proletariat	182,720	20.5	130,400	8.9

[a]Economically active population estimated by class.
Source: Adapted from Elizabeth Longuenesse, "The Class Nature of the State in Syria," *MERIP Reports* 9, 4 (1979): 4.

grew from S £355 million to only S £655.2 million.[3] In the 1970s, the public and private sectors each produced roughly half of net domestic product (NDP). However, the state regularly accounted for more than 60 percent of gross fixed capital formation.[4] Much of nominally private agriculture was in state-dependent cooperatives—85 percent of the small peasants controlling one-third of the cultivated surface.[5] In industry, the public sector towered over a multitude of small undercapitalized enterprises: 98 percent of the 40,000 private manufacturing enterprises employed less than ten workers. In 1984, public industry employed one-third of the labor force in industry but produced 78 percent of gross output.[6] Thus, the state controlled the heights of the economy while the bourgeoisie, particularly its industrial wing, was confined to the periphery and deprived of many capital accumulation opportunities.

In this state powerful obstacles to economic liberalization became institutionalized. In a regime that emerges from populist revolution key constituencies are likely to be threatened by liberalization, while liberalization's agents and beneficiaries are historic regime rivals. The ruling elite, whether as Alawis or Baᶜthists, is loath to concede control of the economy—a source of both wealth and power—to private or foreign enterprise of which it remains distrustful. Socialist ideology was routinized in the party, and legitimated a wide array of interests—public sector managers, bureaucrats, trade unionists, the cooperatives—which have opposed any wholesale abandonment of statist and populist policies. However, a part of the *sūq* bourgeoisie, under the banner of radical Islam, long refused détente with the regime; when it led an antiregime uprising in the early 1980s, the regime smashed it and reinforced statist control of the economy. A full-scale revival of private investment, at least in long-term productive fields, cannot advance far without some political liberalization; but this could bring antiregime mobilization, especially by Islamic radicals, or restore power to the Sunni bourgeoisie at the expense of the politicized military and the Alawis who dominate it. Creating an investment climate suitable for a capitalist alternative to statism required revocation of populist rights on which support of the regime by its constituency rested. Elite corruption creates a climate of uncertainty

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and opportunities for riches from illicit or nonproductive activities that deter investment in productive national capitalism; but eradicating the parasitic activities of regime insiders could threaten the regime itself. Finally, the regime's central preoccupation with the struggle against Israel made continued control over societal resources indispensable. The military absorbs a large portion of public revenues that might otherwise stimulate capitalist development, and the conflict diverts private investment from productive fields into short-term speculative ventures and makes Syria ineligible for foreign private investment on a serious scale. The potential "triple alliance" of state, domestic, and international capital—the engine of capitalist development elsewhere—has thus been stunted in Syria. Since the mid-1980s, however, many of these obstacles to liberalization have been gradually eroding.

THE VULNERABILITIES OF THE STATIST ECONOMY AND PRESSURES FOR LIBERALIZATION

Growing economic pressures have forced the regime into a creeping liberalization of the economy. The public sector, the heart of the economy, is afflicted with bureaucratization and politicization, which deprive it of dynamism. Planning authorities cannot impose a coherent plan against ministerial empire building and political patronage. Overcentralization allows plant managers little operational authority to enhance efficiency. Low pay, political appointments, and rapid turnover mean a lack of quality experienced managers. There are no efficiency standards, and because output targets are usually unrealistic, managers cannot be held to them. There is a scarcity of technical staff because once cadres acquire expertise and experience in public industry, they move to the higher paying private sector. Workers are negligent, obsessed with personal benefits, and unwilling to cooperate with managers in solving problems. They are unmotivated because low wages force many to work second jobs and wages are tied to seniority, not skill or productivity. Because wages for skilled workers are higher in private industry, skilled workers depart and public industry becomes the refuge of the unskilled. Excess labor is typical because of a state policy of maximizing employment, the use of the public sector to provide political sinecures, or obsolete equipment. Similar problems exist in matching output to markets: firm managers have little freedom to adjust to changing market conditions, and export agencies are habituated to a bureaucratic rather than a merchandising orientation. Low export capacity means bottlenecks in access to foreign exchange, spare parts, and raw materials, and that many plants operate at low capacity while obsolete, undermaintained equipment breaks down.[7]

Given this multitude of defects, it is scarcely surprising that the financial performance of public industry has been weak. In fact, enterprise plans concentrate on the volume of production, not profitability. There is little control of costs, "big gaps" in accounting, and hardly any cost–benefit analysis, which could measure the efficiency of different operations or investments. Factories try to simply mark up prices sufficiently over costs to give a 10 percent return on investment. But social policy may dictate otherwise: some industries such as fertilizer, some textiles, and sugar have had to sell their product at prices near or below cost, resulting in low profits or losses. Apparent profitability in public manufacturing (whether as a per-

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TABLE 3. *Sources of public expenditures (%)*

Sources	1966–76	1976	1980–87
Domestic resource mobilization	70.4	62.0	68.3
taxes	28.7	23.9	26.1
nontax income	41.7	38.1	42.2
fees	9.1	2.5	n.a.
public-sector surpluses	32.6	35.6	n.a.
Deficit financing	9.9	22.5	7.3
External borrowing	6.6	8.9	n.a.
Aid (mostly Arab transfers)	13.1	6.6	24.4

Sources: World Bank, *Syrian Arab Republic Development Prospects and Policies* (Washington, D.C.: World Bank, 1980), 4:48; Patrick Clawson, *Unaffordable Ambitions: Syria's Military Build-up and Economic Crisis* (Washington, D.C.: The Washington Institute for Near East Policy, 1989), appendixes 4 and 5.

centage of sales or assets), hovered around the 4–7 percent range in the 1968–75 period.[8] The result is that industries have, at best, been able to self-finance replacement and some modest modernization. But public-sector surpluses have been insufficient to finance major upgrading or the building of new plants. Major investment had to be financed by external loans and aid and internal-deficit financing. In 1974 when major modernization of textiles began, profits covered only 65 percent of investments and in 1975 only 27 percent. Moreover, capital:output ratios for public investment have generally not been efficient; from 1971 to 1976 the private sector seemed to use investment capital more than twice as efficiently as public industry: the Incremental Capital Output Ratio (ICOR) in public industry was 5.14 compared to 2.28 in the private sector. Investment efficiency steadily worsened in the 1980s, slipping from \$3 of investment to \$1 (3:1 ratio) of new output (ICOR = 3.0) in 1971–76 to a 10:1 ratio (ICOR = 10) in the 1980s. This was due to poor management, the long gestation of many large projects, notably big irrigation schemes, and the numerous bottlenecks, power breakdowns, and foreign-exchange scarcities, which reduced the capacity of the new plants.[9]

The central fact of Syrian political economy is that the public sector has failed to become an engine of capital accumulation powerful enough to finance the state's many commitments. This reality can be seen in an acute public finance resource gap. As Table 3 suggests, over the period of Baᶜth rule, domestic resource mobilization has covered only about two-thirds of total public expenditures on government, defense, and development. Taxes covered only about 25 percent and relative tax performance may have declined over the period, indicative of the tenuous hold of the state over the private-sector economy and its inability to capture a share of the big windfall profits made by speculators in the 1970s and 1980s. Nontax revenues, of which public-sector surpluses are the major component, were therefore of critical importance to the state; public-sector surpluses appear to have financed more than one-third of all expenditures and amounted to an average of 9.1 percent of total GDP from 1966 to 1976. Total government revenues were about 25 percent of GDP, above the 20 percent average for middle-income countries, but below

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TABLE 4. *Investment and savings (% of GDP)*

Year	Savings	Investment
1963–67	11.4	13.6
1968–72	14.2	19.5
1973–76	13.4	26.3
1977–86	10.4	23.1
1987–88	4.1	13.7

Sources: World Bank, *Syrian Arab Republic*, 2:18; Syrian Arab Republic Central Bureau of Statistics, *Statistical Abstract*, 1989, 480–81; *Statistical Abstract*, 1984, 564.

Egypt's 39 percent.[10] Nevertheless, resource mobilization has fallen well short of the state's ambitious development plan; for example, public-sector surpluses were to finance only 54 percent of the ambitious fourth 5-year plan (1976–80), and of this much was oil revenue rather than the profits of industry.[11] The deficit in the budget has been filled by a combination of resources. Arab transfers have made up a large proportion, growing from about 13 percent in the early regime years to nearly 25 percent in the 1980s. The balance has had to be financed by domestic or foreign borrowing. Deficit financing has varied from 9.9 percent of the total budget in 1966–76 to a high of 22.5 percent in 1976, when Arab aid dipped. External borrowing (e.g., from suppliers) has also helped fill the gap. The importance of external sources can be seen by a comparison of domestically raised savings and investment levels.

As Table 4 shows, savings have never been enough to maintain high rates of investment. In the 1960s savings covered a larger proportion than later, but the regime could mount only relatively modest investment levels. In the 1970s and 1980s when a big investment drive got underway, the gap between it and savings widened precipitously: between 1973 and 1986 savings covered barely one-half of investment. The accompanying government deficit financing soon fueled inflation.

Up to the mid-1980s, overall economic growth rates were a respectable 3.7 percent per capita per year from 1965 to 1986, better than the 2.6 percent average for middle-income less developed countries (LDCs). Indeed, as Table 5 indicates, until the 1980s the growth rate was better than in the pre-Ba^{c}th era. But it varied considerably over time. Although the 1960s were a period of structural instability, growth was nevertheless a respectable 5.5 percent of GDP yearly; the 1970s were a period of boom until a number of factors combined to bring growth to a halt in the 1980s.

For a period, notably in the 1970s, the Ba^{c}th state was able to combine economic and bureaucratic expansion, relying heavily on aid extracted from the Arab states, the West, and the USSR. Clawson estimates Syria received $20 billion in civilian aid ($14 billion of it in the form of grants) between 1977 and 1988. Moreover, it earned $10 billion in worker's remittances and $25 billion in export earnings.[12]

The state sector claimed the lion's share of these resources. Military spending (if including the estimated value of Soviet arms deliveries) may have increased from

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TABLE 5. *Annual growth of GDP (%)*

1953–63	4.6	1980–83	4.7
1965–70	5.5	1983–87	–2.9
1970–75	8.2	1987–90	4.9
1977–80	6.8		

Sources: World Bank, *Syrian Arab Republic*, 1:ix; Clawson, *Unaffordable Ambitions*, Table 1; *Statistical Abstract*, 1989, 491; ibid., 1991, 485.

$1.8 billion in 1977 to $5.4 billion in 1984, amounting to 30 percent of GDP.[13] Public-sector expansion was manifest in a second wave of import-substitute industrialization; the proportion of the labor force in public industry grew from 24 percent in 1970 to 31 percent in 1984, while the state encroached on formerly private sectors in internal trade and construction.[14]

At the same time, détente with Syrian and Arab capital and limited liberalization of trade opened Syria to Western imports and revitalized the private sector. Private light industry and construction, protected from the competition of large capital and fueled by state expenditures, flourished. Syrian employment in the Gulf and the inflow of remittances leavened the economy. The dual public and private engines of the economy drove an impressive economic expansion in the 1970s: real GNP grew 8.2 percent in 1970–75 and 6.8 percent in 1977–80, although much business took the form of real estate speculation and import–export operations, which widened consumption rather than commodity production. The regime's dual public–private sector strategy protected its populist constituency—cooperatized peasants, public-sector workers—from bourgeois encroachment, thereby limiting the possibilities of surplus extraction by private capital. But it also co-opted others who benefited from trade liberalization, state contracts, or work abroad. The state was able to avoid any decisive choice between statism and private capitalism.

The regime's economic policy was less "state capitalist"—seeking to maximize accumulation—than "neomercantilist"—one that promotes economic development but as an instrument of state formation. During the radicals' war with the bourgeoisie, the regime deployed an "inclusionary" and redistributive policy to mobilize a mass constituency, but this fostered consumption at the expense of accumulation. Import-substitute industrialization, viewed as essential to building a base of national power, increased consumption and dependency without developing a strong productive state sector able to export. Asad's drive to build a maximum-sized coalition required rewards for a wide range of actors. The regime simultaneously supported an enormous army and a huge employment-generating bureaucracy. The trade liberalization that had appeased the bourgeoisie in the 1970s also fueled a consumption boom at the expense of savings. The Ba^{c}thist "democratization" of patronage widened the net of corruption from a few families to a larger portion of the population. The result was a gap between the multiple commitments of an overdeveloped state and its resources. In short, the economic logic of accumulation was subordinated to the logic of state formation—of militarism, populism, and patronage.

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Syria's economic expansion, being so dependent on external rents linked to petroleum, was very vulnerable to a decline in oil prices or in relations with the Arab oil states. Inevitably, a fall in the very high levels of aid the country enjoyed took place, most precipitously when the money pledged at the 1978 Baghdad Conference ran out in the late 1980s. Arab transfers fell from $1.8 billion in 1981 to $500 million between 1986 and 1988. Bureaucratic overdevelopment had meanwhile taken place, creating a state too large for the country's economic base. Growth was maintained for a period in the early 1980s only at the cost of increased dependency and imbalance in Syria's external economic relations. The growth of internal income and consumption that was stimulated by redistribution, the import of spare parts and machinery accompanying import-substitute industrialization, and the inability to export (given internal demand and often noncompetitive products), as well as an increased food import bill from an exceptional number of bad agricultural years, all translated into a growing balance of payments deficit, which reached S £2–4 billion a year in the early 1980s. The drying up of Arab aid and the plummeting value of the Syrian pound translated into a chronic foreign exchange crisis. For example, at the end of 1986 there was only $144 million in the treasury—about two weeks' worth of imports. Debt as a percentage of GNP increased from 10.8 percent in 1970 to 25 percent in 1988, interest payments from $6 million to $119 million, and long-term debt service as a percentage of GNP from 1.7 to 2.6 percent. Syria accumulated a $3.3 billion civil debt and a $15 billion military debt. In 1988 Syria paid back to the Arab states and lending agencies $9.6 million more than it received in aid, but still fell $210 million in arrears to the World Bank, which cut off development assistance. From 1986 to 1991 Syrian businesses exported £800 millions per year in goods to the Soviet Union for debt repayment.[15]

These imbalances forced austerity measures, and these cut the balance of payments deficit in half in 1987 and again in 1988. But austerity rippled through the economy and it was most damaging to the regime's core constituencies. The state budget, the major source of investment in the economy, was flat for years, but defense took up to 50 percent of it. Nevertheless, after inflation local spending (excluding arms purchases) on the army may have dropped two-thirds from 1984 to 1987, forcing demobilization of reserves and eroding the real pay of soldiers. State factories closed for lack of parts and materials, resulting in an industrial depression hurting organized labor. The scarcity and cost of agricultural inputs squeezed peasant incomes. Subsidies on bread and fuel were curbed, driving up prices. Public hiring and wages were frozen, pushing down real wages. The plummeting value of the Syrian pound, commodity scarcities, and government deficit spending resulted in inflation of 50–100 percent yearly at the end of the 1980s. The inability of pay increases to keep up with inflation may have cut the real income of civil servants by 50 percent in the period 1984–1988. Thus, austerity whittled at the foundations of populism and signaled a step back from the overdevelopment of the state.[16]

Economic stagnation afflicted Syria throughout the 1980s. While production grew 8.7 percent from 1965 to 1980, it dropped to 1.5 percent from 1980 to 1986,[17] with the growth taking place outside of agriculture and industry. The economy was actually shrinking in the period 1983–87 (Table 5), with GDP falling 9.3 percent in 1987 alone. The combination of stagnation and high population growth translated into a drop in real per capita income of about 4.5 percent from 1980 to 1988 and 15

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percent from 1983 to 1987.[18] The decline in foreign assistance in 1987–88 was accompanied by dramatic falls in both savings and investment, which were bound to affect future growth negatively (see Table 4).

This "crisis of Baᶜthism" began to create a more favorable climate for the private sector. As the fiscal crisis forced the regime to reduce its economic responsibilities and the public sector stagnated, the regime needed to find a private-sector alternative. It became more sensitive to the supposedly enormous expatriate and "hidden" local capital, which could potentially be mobilized. The regime's efforts to encourage the private sector were so much more serious that some businessmen spoke of a "second infitah" in the late 1980s.[19] Austerity also generated a greater receptivity toward free enterprise among the state's own constituency: many "Baᶜthi" families with one foot in the village and the other in the party or government office were compelled, as state expenditure contracted in the 1980s, to diversify their resources by setting up petty businesses, often from capital accumulated working in the Gulf. In the early 1990s, the collapse of communism, threatening to deprive the public sector of East European aid, technology, and export markets, further undermined the viability of statism; the private sector seemed best equipped to break into and be competitive on alternative world markets.

Economic pressures on the state were eased by a new influx of rent in the 1990s. New high-quality oil fields started to produce, but of the 380,000 barrels a day being pumped in mid-1989, 200,000 were consumed internally. Syrian oil earnings were about $500 million in the early 1990s and could rise to $1 billion in the mid-1990s. This would provide enough surplus to pay for Syria's austerity level imports without aid, but would not get the country quickly out of debt. Nevertheless, oil exports increased steadily in the 1990s, and there are sizable natural gas reserves. A second economy, based on a great deal of money in private hands, and the smuggling of commodities and foreign exchange (much of it financed by remittances of Syrians abroad) seems to keep the private-sector economy going.[20] Finally, Syria reportedly received $2 billion for its participation in the anti-Iraq Gulf War coalition. The combination of austerity and new rent went some way toward reducing the budget and trade deficits and toward stabilizing prices and the value of the pound in the early 1990s. The latter permitted the government to bring the official exchange rate closer in line with market rates, a main ingredient of liberalization. Long-term economic rationality dictated further liberalization, but the regime was coping with the crisis well enough that economic pressures could not, in themselves, force a change in policy. Social forces with an interest in change would have to become strong enough to outweigh entrenched populist/statist interests, and this would require the emergence of a new, reconstructed and liberal-minded bourgeoisie. Economic crisis is most likely to force liberalization when accompanied by such a change in the balance of class power.

THE CHANGING BALANCE OF CLASS POWER: EMBOURGEOISED ELITE OR REVITALIZED BOURGEOISIE?

By the late 1970s, the formerly radical state became the pole around which various fragments of a "new bourgeoisie" began to form. The political elite used office to acquire illicit wealth and went into business on the side, while the private

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bourgeoisie found opportunities to buy political influence. The channeling of massive external revenues through the state, expended in contracts with and purchases from private and foreign firms—often presided over by commission-charging agents—fueled a growing linkage between the state and private capital. Within the elite, the Alawis and the Damascenes were best situated to profit. The enrichment of the Alawi elite turned a deprived radical-minded group into a privileged elite with a stake in the abuses enveloping the state. Most recently, children of the elite, including Alawis, have started private companies; having been raised privileged, they feel a part of the upper class and lack their parents' fear of the Sunni bourgeoisie. A kind of "military–mercantile complex" gave the regime a new class underpinning, while differentiating it from its populist constituency.[21]

Simultaneously, a stronger private bourgeoisie that was ready to reach a détente with the regime began to emerge. The influence of the anti-Ba^{c}th aristocratic landed bourgeoisie had radically declined and its younger generations had made profits in new business, which muted their antiregime resentment. The agrarian-industrial Aleppine bourgeoisie, which suffered heavily from nationalization and land reform, had long been hostile to the regime, but the government policy of paying manufacturers to export goods to repay the Soviet debt created new "Syrian-pound millionaires" among them. A key Damascene section of the merchant class whose assets were invulnerable to nationalization survived the socialist era and accommodated itself to the regime. Closer to the center of power, to corrupt connections, and to regime expenditure, it prospered under Asad and is in the vanguard of partnerships with officers and politicians. The old bourgeoisie was joined under the Ba^{c}th by a thin stratum of extremely well-connected operators who have thrived on political connections. Tycoon Mustafa al-Aidi parleyed personal connections into a fortune on commissions from an aircraft deal (for which he was imprisoned under the radical Ba^{c}th) and has invested it in the chain of Sham hotels. He gets lucrative servicing contracts in the petroleum sector, which bring in the hard currency necessary for diversified business operations. Saeb al-Nahas could become Syria's Osman Ahmad Osman. Beginning as the prime local agent for auto companies, he invested in tourism and transport and is a partner with Gulf capital in international banks and investment companies. A Shi^{c}i, he deals with Iran and is reputedly involved in the arms trade. He has pushed semiprivatization schemes, in which the state turns firms in which it retains part ownership over to private management. He has moved from services into joint industrial ventures with Arab capital. New manufacturers emerging from the petite bourgeoisie, such as the Seif brothers, have showed that productive enterprise can flourish within Syria's regulated economy. Expatriate capitalists, such as Omran Adham, are holding out the prospect of investment in Syria to lure the regime into greater liberalization.

So long as private control of the means of production remains so limited and fragmented and the bourgeoisie remains isolated from other classes within the regime, the bourgeoisie will lack the power to force more economic liberalism than the regime wants. The amalgamation of the Alawi and Sunni political and economic elites into a reconstructed bourgeoisie has yet to mature fully. Moreover, the bourgeoisie presents no common front in favor of liberalization since some sectors benefit from the monopolies their connections permit in an overregulated economy and others would be destroyed by the global competition that would result from full

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trade liberalization. The public sector provides contracts and subsidized inputs. Other segments of the old bourgeoisie, particularly industrialists who have lost their assets to nationalization or new would-be industrialists who resent state constraints on their opportunities, favor liberalization but often continue to reject accommodation with the regime and thus have no influence over it.[22] The bourgeoisie as a whole certainly favors selective liberalization.

In fact, the modus vivendi between state and business that would be needed to make liberalization more than a temporary palliative appears firm. By the 1990s, important sectors of business were convinced of the seriousness of the economic liberalization.[23] The regime's current strategy depends on eliciting support and investment from the bourgeoisie without giving it enough power to threaten the power elite. Toward this end, the bourgeoisie, long shut out of policy circles, is winning increasing access to decision makers through organizations like the chamber of commerce. Badr ad-Din Shallah, long-time head of the Damascus Chamber of Commerce, has spoken on behalf of business interests at the highest levels. Al-Shallah won Asad's trust by keeping the Damascus *sūq* quiet during the Islamic disturbances of the early 1980s, yet is still perceived by Sunni society as "clean." The Shallahs' claim that the current probusiness line is permanent and is gradually being institutionalized in legal advances, although state consultation with business is still irregular. They seek accommodation with statist interests, viewing privatization of the public sector as politically unrealistic and seeking instead widened space for private business. While access gives little real political power, it helps to coopt a bourgeoisie that values stability over political change. Moreover, as the regime increasingly depends on private investment, it must respond to the demands of investors. The chamber of commerce is making unprecedented demands for a mixed-sector bank to break the state monopoly and for a legalized stock market, a symbolic blow at socialism; the policy climate appears favorable to both projects.

ELITES AND SELECTIVE ECONOMIC LIBERALIZATION

The rough balance at the start of the 1990s between rising forces for economic liberalization and weakened but entrenched interests opposed to it has allowed the top elite some autonomy to shape economic policy according to its own changing ideologies and interests; the result has been selective liberalization.

The elite's ideology has undergone a transformation corresponding to the change in its objective situation. The socialist commitments of an embourgeoised elite have largely dissipated. The economic troubles of the 1980s reduced hostility to the private sector and led Asad to back a widened role for it.[24] The collapse of communism in the 1990s discredited much of the residue of ideologically rooted hostility to liberalization. Indicative of the seeming permanence of the ideological change is the fact that the revival of the economy in the 1990s has not brought a resurgence of socialist rhetoric.

Under Asad the parameters of economic policy have always been framed by *raison d'état*; just as statism was partly a function of bipolarity and Soviet aid, the disappearance of Soviet power radically altered the conditions in which Syrian *raison d'état* must operate. Asad is no liberal but he is convinced Syria's goals can no longer be pursued in opposition to the only remaining superpower, the United

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States, and he knows détente with the West requires some internal liberalization. Although he has been unwilling to promote the complete unraveling of the statist system he helped construct, he is broadening his base beyond the party, army, and Alawi *jamāᶜa* to the bourgeoisie, which looks to him to push liberalization against the resistance of the state. Asad is thus sustaining his Bonapartist autonomy by balancing above rival social forces; given the rough stalemate between obstacles to and pressures for liberalization, his tilt toward liberalization is decisive. But he has left the extent and means of liberalization to the political process, and the result has been struggles of bureaucratic politics between statist and liberalizing factions.

A wide spectrum of elite opinion has come to favor some liberalization, but is divided over how much. All agree a Soviet-type collapse of the statist system before a market is in place must be avoided by a gradual transition. Statist development has lost much credibility, but there is still a widespread perception in officialdom that the private sector is only interested in short-term high-profit enterprise and that the state must therefore continue to regulate the economy and undertake some large-scale long-term investment. As such, the state still wants to supervise and tailor economic change. There is as yet no move to privatize the public sector that gives the regime a crucial economic base—without which it would be wholly dependent on a distrusted bourgeoisie, long a political rival reluctant to invest or pay taxes. But the ideological insistence that the public sector must remain the "leading sector," and private business a mere temporary auxiliary in an ongoing "socialist transformation," has been quietly abandoned.

The liberal wing of the elite is made up of technocrat-ministers such as Muhammed al-Imadi, the minister of economy and foreign trade, the most consistent advocate of greater liberalization. It has been greatly strengthened by the decreased credibility of etatism and broadening elite embourgeoisement. Party apparatchiks and trade unionists defend a public-sector role in strategic sectors, and as a tax base for the state. They are committed to the "social contract," by which the state guarantees a minimum level of welfare, notably jobs and affordable food in return for political loyalty. Cheap bread for the urban poor and fertilizer for the regime's peasant constituency appear to be political necessities whatever the cost to the treasury. But the party is not uniformly hostile to liberalization and welcomes private-sector investment as a source of jobs and foreign exchange. Nor is Imadi a free-market ideologue; having been educated in the development theory of the 1960s, he affirms the need for a state role in the economy.

In practice, policy alterations are forging a modus vivendi between state and bourgeoisie that may sustain further liberalization. The regime now welcomes private investors as full permanent partners in development. The public-sector import monopoly on many commodities has eroded and the private-sector share of foreign trade has widened rapidly. Joint public-private companies, so far most developed in tourism and agriculture, are meant to give investors confidence and generate common interests between state and private elites. Although the state retains a share of assets and some control in the companies, management is in private hands and the companies are exempt from state planning and regulation.[25] According to a leading private businessman, this approach—avoiding the opposition of the trade unions—is Syria's special road to privatization. Indeed, the provision of tracts of state-

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TABLE 6. *Indicators of Syrian economic health in the 1990s*

	1989	1990	1991	1992	1993
Real GDP growth (%)	−9.0	7.3	11.6	7.0	7.5
Price inflation (%)	n.a.	19.4	7.7	15.0	17.0
Current account (U.S. $ in millions)	1,222	1,762	699	−81	−360
Oil production (barrels/day)	405	455	510	550	550
Public investment (S£ in millions)	17,435	19,972	24,253	30,134	n.a.
Private investment (S£ in millions)	16,373	24,423	31,739	57,490	n.a.

Sources: Economic Intelligence Unit, *Syria: Country Report* (2nd quarter, 1994), 3; Embassy of Belgium, "Trends in the Main Industrial and Commercial Sectors in 1993," Damascus, unpublished report.

owned land to the agricultural companies may amount to a de facto "privatization" of this land. A major new investment law—Law no. 10 of 1991—welcomes foreign and private investment in industry, permits repatriation of profits, waives import duties and taxes, and allows investors to import and bring in hard currency outside state channels. Highly progressive income tax rates have been slashed.

Accumulated liberalizing initiatives since the mid-1980s have stimulated the private sector. Private-sector exports as well as imports greatly expanded. The number of private businesses grew from 220,000 in 1981 to about 370,000 in 1988 and industries employing more than 10 workers doubled from 890 to almost 1,800.[26] Reversing preliberalization trends, private investment has significantly exceeded the state investment budget in the 1990s; bank deposits have soared. By 1994, $1.78 billion dollars have been invested in about 474 new firms under Law no. 10.[27]

Much of the new investment is in the tertiary sector, including bogus car-rental firms set up to get around the state car-import monopoly. Private-sector exports have recently been stalled by a loss of East European markets. Most private-sector industrial growth has taken the form of a further proliferation of small enterprises because fear of government regulation, populist labor law, and the absence of financial markets deter their natural expansion. Others are consumer industries manufacturing under European license, which can recoup their investments quickly.[28] The regime's current modest political decompression has been sufficient to elicit such investment, but the business confidence needed for long-term productive investment is limited as long as the state is seen as arbitrary. This can only be addressed by greater political liberalization and particularly an enhanced rule of law.

Nevertheless, the more friendly business climate that limited reforms created has played a significant role in breaking through Syria's economic stagnation, as Table 6 indicates. Indeed, a miniboom pushed up real growth per year to 8 percent over the 1990–94 period. Inflation is at manageable levels and the rate of exchange is stable. After some years of a trade surplus, a deficit has started to rise as investment revives, but the high level of Syrian assets indicates a strong overall balance of payments position.

In some ways, Syria's political economy is reverting to its precrisis 1970s period. The state investment budget has revived and large doses of Gulf capital are apparently

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TABLE 7. *Gross fixed capital formation by type of ownership*

Year	Private (%)	Public (%)
1963	46	54
1970	30	70
1975	29	71
1987	50	50
1992	66	34

Source: Statistical Abstract, 1993, 503.

still flowing in. Perhaps because of this rent revival, no major new liberalization measures have been taken since 1991. The difference from the 1970s is that private-sector investment now plays a much larger role, as Table 7 indicates, and Arab funds take the form of investments more than transfers to the treasury; decision makers know that further reforms are needed to sustain investment flows, but they will continue to be incremental and selective.

CONCLUSION

Late developers like Syria may need a strong state to initiate national development, but when state expansion exceeds certain limits, it becomes counterproductive. Economic liberalization is ultimately driven by a crisis of accumulation aggravated by the "overdevelopment" of the state. The populism, nationalism, and patrimonialism deployed to build the autonomy and capabilities of the state have negative side effects—increased consumption, corruption, and patronage—that subvert economic rationality in the state sector. Anticapitalist ideology and regulations peripheralize the private sector, diverting its resources abroad or into tertiary or speculative activities. The state then encounters a resource crisis. The public sector cannot accumulate capital or earn foreign currency through exports, and the state cannot extract taxes from a hostile and evasive private economy. Reliance on rent to fill the gap makes the state very vulnerable to shifts in the international markets or international relations.

Economic stagnation puts mounting pressure on the regime for a change of course, but does not mechanically dictate a liberalization of policy. Economic liberalization in authoritarian populist regimes is deterred by the fact that those who normally bear the costs of liberalization—public employees, workers—are part of the regime coalition, while the beneficiaries are historic rivals. Liberalization requires the re-emergence of a reconstructed bourgeoisie incorporated into a reconfigured regime coalition. Indeed, the embourgeoisement of the power elite and revival of the private sector as an alternative to statism has created a modus vivendi between the state and bourgeoisie, although communal cleavages have delayed the amalgamation of the old and new bourgeoisies. Nor does the bourgeoisie, highly state-dependent, yet have an interest in full scale liberalization. But as the bourgeoisie becomes more autonomous, it presumably becomes the agent of economic rationality and assumes much of the function of capital accumulation.

The changing balance of class power and the conflicting requisites of economic and political rationality are reflected, albeit dimly, in bureaucratic politics between

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liberal "technos" and statist "politicos." Liberalizers were strengthened by the need for private-sector help in resolving economic and fiscal crises. The regime responded to the demands of economic rationality, partly opening its economy to the world market and widening the scope for the private sector. Political rationality meant eschewing the radical liberalization that would jeopardize its statist/populist base and make it wholly dependent on the bourgeoisie.

Syria's path appears to be a delayed replication of Egypt's, but political and social factors have slowed the process: Sadat had a political interest in undoing Nasser's work, but Asad had helped build the Ba^{c}th state; the Ba^{c}th Party incorporates populist/statist interests far more effectively than Egypt's ruling party, the ASU, ever did; Syria remains engrossed in the Arab–Israeli conflict; and the amalgamation of the state and private bourgeoisies in Syria is delayed by the Alawi–Sunni communal cleavage. Underlying political economy dynamics, however, are driving the country toward the same sort of mixed economy we see in Egypt.[29]

The Syrian case suggests that neither the Marxist view that economic crisis and class interest force liberalization or the opposing view that the patrimonial state is incapable of reform captures the whole reality. In the short run, the logic of power creation and that of economic rationality in populist regimes may be opposed, as the neo-patrimonial model argues, but this may only mean that development unfolds in alternating phases in which one logic is dominant, exhausts itself, and the pendulum swings back toward the opposite. State formation is historically the first priority, but if the subversion of capital accumulation goes too far, it threatens the state itself, while economic/class forces generate powerful pressures for a swing toward economic rationality.

This does not result from a capture of the state by the capitalist class. Rather, policy makers, balancing social forces, enjoy relative autonomy to shape selective liberalization compatible with regime stability. The balance between state and market at any given time is determined, not by some unalterable economic necessity or political irrationality, but by a political process involving change in elite ideologies, bureaucratic politics, and regime coalitions. Over the long run, however, political economy—the requisites of capital accumulation, rent, the incorporation of interests into the state—sets the broad parameters of this process.

NOTES

[1]For a sophisticated version of the Marxist analysis, see Sami Farsoun and William Carroll, "State Capitalism and Counter-Revolution in the Middle East: A Thesis," in *Social Change in the Capitalist World Economy*, ed. Barbara H. Kaplan (Beverly Hills, Calif.: Sage Publications, 1978). The rentier state is exhaustively dissected in *The Rentier State*, ed. Giacomo Luciani and Hazem Bablawi (London: Croom Helm, 1987). A neopatrimonial argument is made by Jean Leca, "Social Structure and Political Stability: Comparative Evidence from the Algerian, Syrian, and Iraqi Cases," in *Beyond Coercion: The Durability of the Arab State*, ed. Adeed Dawisha and I. William Zartman (London: Croom Helm, 1988), 164–202. For an argument similar to the one in this paper that political and economic rationality have not necessarily been irreconcilable in Syria, see Steven Heydemann, "The Political Logic of Economic Rationality: Selective Stabilization in Syria," in *The Politics of Economic Reform in the Middle East*, ed. Henri Barkey (New York: St. Martins Press, 1992), 11–39.

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[2]Raymond A. Hinnebusch, *Authoritarian Power and State Formation in Ba^{c}thist Syria: Army, Party and Peasant* (Boulder, Colo.: Westview Press, 1990), chap. 5.

[3]World Bank, *Syrian Arab Republic Development Prospects and Policies* (Washington, D.C., 1980), 4:48.

[4]Ibid., 4:54, 166; SAR, *Statistical Abstract*, 1989, 508.

[5]Raymond A. Hinnebusch, *Peasant and Bureaucracy in Ba^{c}thist Syria: The Political Economy of Rural Development* (Boulder, Colo.: Westview Press, 1989), 177.

[6]SAR, *Statistical Abstract*, 1989, 77, 170–71.

[7]Yehia Arudki, *al-Iqtiṣād al-Sūrī al-Ḥadīth* (The Modern Syrian Economy) (Damascus: Ministry of Culture, 1972), 1:243–376; Ministry of Industry, *Wāqi^c al-ṣinā^{c}a fī Sūriyā* (Facts on Industry in Syria) (Damascus, 1973); Abdul Muhied Daqqaq et al., "Dirāsa ^{c}an al-taṣnī^c al-zirā^{c}ī" (Study on Agricultural Industrialization) (Damascus: Working Paper of the Agricultural Symposium, 1977); Karam Odeh, "Food Processing and Agro-Industries in the Syrian Arab Republic." (Damascus: 1977); Hinnebusch, *Peasant and Bureaucracy*, 163–69.

[8]World Bank, *Syrian Arab Republic*, 4:180–81.

[9]Ibid., 1:63; Patrick Clawson, *Unaffordable Ambitions: Syria's Military Build-up and Economic Crisis* (Washington, D.C.: The Washington Institute for Near East Policy, 1989), 36.

[10]World Bank, *Syrian Arab Republic*, 4:100.

[11]Ibid., 101.

[12]Clawson, *Unaffordable Ambitions*, 14–17.

[13]Ibid., 10–11, 18.

[14]Günter Meyer, "Economic Development in Syria since 1970," in *Politics and the Economy in Syria*, ed. J. A. Allen (London: School of Oriental and African Studies, 1987), 40–62.

[15]World Bank, *World Development Report* (Washington, D.C., 1988); *The Middle East*, December 1988, 27; ibid., January 1990, 24.

[16]Clawson, *Unaffordable Ambitions*, chaps. 7–8; *The Middle East*, July 1989, 34–35; Heydemann, "The Political Logic of Economic Rationality," 17, 25–31; Völker Perthes, "The Syrian Private Industrial and Commercial Sectors and the State" (Paper presented to the Middle East Studies Association, Austin, Tex., 1990), 5.

[17]World Bank, *World Development Report*, 224–25.

[18]SAR, *Statistical Abstract*, 1989, 490–91.

[19]Perthes, "Syrian Private Industrial Sectors," 5–6.

[20]Clawson, *Unaffordable Ambitions*, 41–42; *The Middle East*, October 1986, 37–38; December 1988, 30; July 1989, 34–35.

[21]Patrick Seale, *Asad: The Struggle for the Middle East* (Berkeley: University of California Press, 1988), 456, quoting Sadek al-Azm.

[22]Völker Perthes, "The Syrian Private Industrial and Commercial Sectors and the State," *International Journal of Middle East Studies* 24, 2 (1992).

[23]Economist Intelligence Unit, *Syria: Country Report* (No. 2, 1990), 4.

[24]Seale, *Asad*, 452.

[25]Hans Hopfinger, "Capitalist Agrobusiness in Syria's Socialist Economy" (Paper presented to Middle East Studies Association, Austin, Tex., 1990).

[26]Perthes (1990), "Syrian Private Industrial Sectors," 5–8, 15–16.

[27]Economist Intelligence Unit, *Syria: Country Report* (2nd quarter, 1994), 11.

[28]Perthes (1990), "Syrian Private Industrial Sectors," 19; interview U. S. embassy economic section, July 1994.

[29]For a political-economy analysis of Egypt similar to my assessment of Syria, see John Waterbury, *The Egypt of Nasser and Sadat: The Political Economy of Two Regimes* (Princeton, N.J.: Princeton University Press, 1983); for the same story told more on the political level, see Raymond A. Hinnebusch, *Egyptian Politics under Sadat: The Post-Populist Development of an Authoritarian-Populist State* (Cambridge: Cambridge University Press, 1985).

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