Syria's Economic Crisis. Al Assad Government Roles Back Neoliberal Reforms

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Since the beginning of the Syrian insurgency in March 2011, the al-Asad government has taken steps to roll back its accelerated pace of neoliberal reform. After a decade of loosening market regulations, the state is back to governing the market in order to ensure that economic contraction and social hardships following the political upheaval and imposed foreign sanctions do not worsen. State intervention is crucial during times of crisis, not only to restore infrastructure, but also to ensure the availability of essential consumer goods and services to the majority of the population. The state has reinstated much of the tangible social protection and benefits that were neglected during the Bashar al-Asad regime's accelerated transition toward a market-driven economic structure. Although the recently adopted interventionist strategies have been aimed at mitigating social unrest, these measures have done little to arrest the social disaster already in place.

Deepened economic contraction

Political unrest and foreign sanctions imposed on Syria have aggravated economic conditions and deepened economic contraction. Although the economy was growing at an average rate of five percent before the uprising erupted, this growth was mainly attributed to oil revenues, underpinned by the increase in international oil prices since 2002.[1] The real economy, however, incurred a steady contraction, exacerbating negative shocks. The recent international sanctions imposed on Syrian crude oil have delivered a severe blow to this already weak structure.[2] Shortfalls in oil revenues, estimated at $4 billion, have dragged the economy into structural deficits.[3] Dwindling government revenues, deteriorating trade and capital accounts, supply shortages, exponential price increases, and currency devaluation have been some of the more serious consequences of foreign sanctions and the domestic political crisis. With the inflation rate hovering at 30 percent and an economic growth rate estimated to drop to negative five and a half percent in 2012, the economy is already in a state of an acute stagflation.[4]

Although the real human costs are immeasurable following the violent escalation of the domestic crisis, economic deterioration has also exacted a high social cost, whose main burden has been carried by the middle class and the poor. It is estimated that three million Syrians have lost their jobs since the uprisings began.[5] Thousands of small businesses have shut down, leading to considerable layoffs. Sanctions imposed on the banking sector have curtailed most money transactions. Both public and private entities have not been able to carry out their business transactions smoothly, and Syrian expats have faced difficulties transferring remittances to their families back home. Notwithstanding the dramatic fall in revenues from tourism, an important source of foreign currency,[6] the hoarding of dollars and other foreign currency withdrawals have added pressure on the Syrian pound, whose value fell to £S 74 to the dollar in February 2012—a fifty percent drop since March 2011.[7] This depreciation has pushed market prices up and dampened the purchasing power of the majority of Syrians. The drying up of Arab investments, which increased more than sixfold between 2002 and 2007,[8] has exacerbated the economic squeeze.[9]

In light of the EU sanctions on Syrian crude oil imports and the suspension of the free trade agreement with Turkey, Syria increased its trade with Russia and Iran in order to generate alternative revenues. Other alternative buyers of Syrian oil include various Asian economies that benefit from importing its oil at discounted prices.[10] Syria has also relied on its allies for the financial support it needs to rehabilitate some of its infrastructure and restore services that were destroyed by the violence.

Reverting to étatism

Following the drop in oil revenues and the accompanying plunge in foreign exchange earnings, the government introduced trade and capital account restrictions and increased tariffs on imports so as to reduce import spending except for necessity goods and raw materials whose custom duties are less than one percent. This measure is also meant to protect local industries that suffered from trade liberalization and tariff reduction during the 2000-2011period. Aside from the smuggling and dumping activities of Syrian merchants, increased imports of cheaper foreign products created unfair competition for local industrialists, some of whom ultimately had to close their factories and lay off many workers.

Further attempts have been taken to create a détente with the industrial bourgeoisie. The government enacted a decree in October 2011 that enables industrial borrowers to reschedule their late outstanding loans, finance their business ventures, and revive their factories.[11] After years of freeze on the financial support of the banking sector for local industrialists, such a measure is crucial during times of crisis, as it can restore local production and strengthen economic independence that in turn can partly eliminate the damage caused by foreign sanctions. When protected and supported by the state, the Syrian real economy was productive and self-sufficient during the 1970s, especially in light textiles and food industries. It therefore has great potential to be revitalized if state policies would target and promote the economy’s productive capacity.

Socially responsible measures have also been recently enacted to ease social tension. The original plan to remove government subsidies on items such as petrol and other energy products has been abandoned, which will lessen price increases on basic necessities. Moreover, state-controlled cooperatives have been ensuring the availability of food items and staples at reasonable prices. The government has also raised public sector wages substantially in the last year and recently approved 25,000 new jobs in the public sector.[12]

State intervention has not ended here but has extended to control price escalation and cap consumer prices. The strategy of liberalizing prices over the last decade aggravated price fluctuations, as 85 percent of consumer products were subject to market pricing, with the state administering the remaining 15 percent. Recently, the Consumer Protection Directorate in the Ministry of Domestic Trade and Consumer Protection took measures to control prices by ensuring frequent intervention to avoid fluctuations.[13] On another front, in an attempt to control the outflow of funds and avoid further depreciation of the Syrian pound, the Central Bank reinstated restrictions on dealing with foreign currency transactions.

Of course, it would be misleading to conclude that Syria is reverting to the heavy state interventionist economic structure of the 1960s and early 1970s. That phase was characterized by far-reaching nationalization, radical land reform, multiple exchange rates, a state-administered price system, and a large public sector bolstered by state-led investment. More importantly, the state was in control of most economic sectors in which there was little room for private sector activity. These pillars are no longer in place. Since the start of the uprising, state intervention can be described as governing and directing the market without owning and assuming full control of the economy. Syrian policymakers have realized that when left alone, the market cannot utilize the economy's resources for developmental purposes and ensure egalitarian outcomes. If anything, the unregulated market economy during the 2000-2011 period led to anti-developmental outcomes.[14] Now, by combining the market with social protection, Syria is steering toward a "social market economy," a paradigm that the regime invoked in 2005 but never applied.

In a social market economy, the socioeconomic structure is propelled by the dynamics of the market, and the government instates social safety nets and redistributive measures. Under such a system, the social aspect assumes a central position. This shift, however, is quite challenging for Syria given the acute fall in government revenues, aggravated economic contraction, and the debilitating costs of war and sanctions. Policies aimed at restoring normalcy to economic activities and ensuring more socially responsible outcomes that may contain social unrest came too late to rectify the deadly course of events upon which Syria has been set in the last few months. As the political turmoil intensifies, the hope now rests on the capacity of the Syrian state to remain, in any sensible meaning of the word, a state.

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Notes

[1] Since 2000, oil revenues have constituted around 22 percent of total government revenues (Central Bank of Syria Quarterly Bulletin, various issues, 2000-2012).

[2] Ninety-five percent of Syrian oil is sold to European countries. The lion's share of oil revenues, about 17 percent of government revenues, have therefore been decimated following the EU sanctions imposed on Syria's energy sector. See N. Marzouk, "Economic Sanctions: A Slow Stifling of the Syrian Regime," Aljazeera Studies Centre, 19 November 2011.

[3] S. Abboud, "The Syrian Economy Hanging by a Thread," Carnegie Middle East Center, Carnegie Endowment, 20 June 2012.

[4] "ESCWA Forecasts GDP Contraction at 5.5%," The Syria Report, 23 July 2012.

[5] "Three Million Syrians have Lost Their Jobs due to the Crisis," AlBawaba, 17 July 2012.

[6] According to the Ministry of Tourism, tourist arrivals decreased by 79 percent in the first

four months of this year compared to the same period in 2011. The hotel occupancy rates have dropped from 90 percent before the crisis to less than 15 percent in May 2012. See Abboud, op. cit.

[7] The Syrian national currency is traded for 90 Syrian pounds to the dollar on the black market. At one point in early March, the value of the pound dropped to 107 pounds per dollar (See "Syrian Pound Slips as Political Tension Rises," The Syria Report, 23 July 2012]). In this regard, the Central Bank reserves decreased considerably as the state scrambled to fend off the lira's impending fall.

[8] S. Seifan, "Syria on the Path to Economic Reform," St. Andrews Papers on Contemporary Syria, 2010.

[9] For instance, Qatar alone hindered the implementation of its promised $6 billion of commercial investment. See Abboud, op. cit.

[10] "Country Report: Syria," Economist Intelligence Unit, April 2012.

[11] R. Sallakh, "Syria's Industry: A Return to Protectionism," Al Akhbar, 3 October 2011.

[12] "Syria to Create 25,000 Public Sector Jobs," Ahram Online, 10 July 2012.

[13] "Consumer Protection Directorate Develops New Strategy to Control Market," Syrian Days, 4 July 2012.

[14] See S. Kassem, "Demystifying Syria," TripleCrisis, 27 April 2011.