VIEWPOINT

PITFALLS ALONG REFORM ROAD

Nabil Sukkar, Executive Director of the Syrian Consulting Bureau for Development and Investment.

As encouraging as Syria's new spirit of reform is, the country faces several interrelated challenges that must be overcome in short order for the reform process to realise its full potential. As I see it, the "economic problem" consists of four major elements: a static production structure and weak growth rate; rising unemployment and income disparity; an inability to compete in the global economy; and rapidly depleting oil reserves.

The failure to recognise these problems and institute reforms in a timely fashion has only made matters worse. While we have seen the pace of reforms gain speed over the past four years, change remains slow and hesitant. Moreover, because change is not part of a comprehensive reform programme and not based on clear economic thinking, it remains disjointed and does not address the root causes of the problems from which the economy suffers.

Given the challenges that face the Syrian economy and its late start in conducting deep economic reform, several "pitfalls" can be identified as Syria attempts to accelerate its pace of reform and join the global economy.

The most immediate pitfall concerns the short time-frame available. Many developing countries started their economic reforms at the beginning of the 1980s by building a strong foundation for a market economy, increasing the role of the private sector in the production process and achieving a balanced economy. By the mid-1980s, these countries moved to a second generation of reform focused on education, human development and poverty reduction. Finally, the third generation of reform emerged at the end of the decade and was focused on transparency, governance and a vibrant civil society. This was a progressive process, with each stage of reforms building on its predecessor. In Syria, however, the 1990s – a time when we possessed adequate oil resources and greater economic balance – were a lost decade for reform. We are now forced to deal with all these stages of reform at once, complicating the process and decreasing the prospects for success.

NABIL SUKKAR

The second pitfall stems from Syria's decision to enter free trade agreements prior to instituting the deep reforms needed to effectively compete. Syria is moving toward tariff-free trade with the Arab world, Turkey and the EU. But its domestic economy is not yet ready either to compete with foreign imports or to take advantage of increased accessibility to export markets. In contrast, other countries in the southern Mediterranean began domestic economic reforms prior to parallel with trade liberalisation.

The third pitfall concerns the country's falling oil reserves and the spectre of losing macroeconomic balance while embarking on the road to reform. Thanks to the oil boom of the early 1990s and a tight fiscal policy, Syria has maintained a healthy macroeconomy for most of the past 15 years, exhibited by a surplus in the balance of trade, a small national budget deficit, acceptable inflation rates, a stable currency, and plenty of foreign currency reserves.

But this is due to end soon. Syria is expected to become a net importer of oil as soon as 2008. Newly discovered gas reserves and any income generated from transporting Iraqi oil and Egyptian gas will not change the underlying problem. Without the revenue generated from its own oil exports, Syria will have to carry out its impending structural reforms without the benefit of a stable macroeconomic environment. The state may have to borrow money widely in order to finance its development and reform efforts, something Syria has always tried to avoid.

The fourth pitfall concerns the inability of the private sector to assume a leading role in the new economy. Raising economic growth and entering the global economic system require a vibrant private sector capable of boosting production and creating employment opportunities.

In Syria, however, 95% of private enterprises employ 10 workers or fewer while the remaining 5%, which are large or medium-sized, lack the administrative and management wherewithal to compete with regional counterparts and to take advantage of the benefits offered by modern technology.

The fifth pitfall is the weakness of the state bureaucracy. As it is currently constituted, the state lacks the ability to plan and execute the transition towards a market economy in both product and factor markets, and to carry out effective monetary and fiscal policies. This inability stems from many factors, including the long-standing intrusion of the party into state affairs, deep-rooted centralisation, an overly bureaucratic civil service body, the low qualifications and minimal salaries of state employees, and a general absence of public accountability.

Radical change in Syria's economy must be accompanied by a far-reaching political change, including administrative restructuring principally aimed at boosting economic growth and social development.

The sixth pitfall is the growing corruption in the private and the pubic sectors, as well as the alliances that develop between the rich and the politically powerful in the accumulation of immense private wealth. It is well known that the transition from a planned economy to a market one creates gaps in the legislative process which allow for corruption and the creation of such oligarchic alliances. Such was the case in Indonesia, Thailand, Egypt and elsewhere. If we add to the mix a weak and less-than-independent judicial system, we may at best end up with growth without development – the creation of "fat cats" instead of the re-emergence of a national bourgeoisie.

The seventh pitfall concerns the short-term costs of reform. An agenda for reform should aim at raising growth rates through increased investment in production, which should, in turn, support wider economic and human development by improving the skills of the people and allowing civil society to participate in planning the policies and benefiting from the results. But in the process of such a transition, there are short- to medium-term costs, such as higher prices and greater unemployment. These results usually accompany a move from a planned economy toward a free market. We are also likely to experience difficulties upon signing an Association Agreement with the European Union, such as an increased fiscal deficit and a worsening trade balance, as well as increased competition from foreign products. The great challenge lies in reducing these costs while increasing the speed at which the benefits of these reforms manifest themselves.

The eighth pitfall pertains to the interests of the bourgeoisie and the working class. A main requirement of Syria's economic reform is to strengthen the private sector's role in the national economy by giving it a leading role in the production process without reducing the state's responsibility in education, health and social services. The working class, however, may fear reduced state social responsibility and thus begin to suspect that reforms will not be to their benefit. Such thinking may be justified, as most newly created private sectors in underdeveloped countries have not, at first, been able to provide the opportunities needed to reduce unemployment. So the question arises as to whether the party is capable of promoting the interests of a new bourgeoisie without losing the loyalty of the working class, or whether it ultimately has to favour one side upon moving towards a multi-party political system.

The final pitfall facing Syria's reform agenda concerns an external threat. Syria's foreign policy is guided by a pan-Arab ideology that for more than 50 years has conflicted with Zionist goals and been seen by the US as a challenge to its regional interests. Tensions have increased over the past two years following the occupation of Iraq and the announcement of the "Greater Middle East Project", which Syria perceives as part of an attempt to impose US-Israeli regional hegemony to the detriment of Arab interests.

While Gulf Arab and Soviet aid helped to finance Syrian security needs during the Cold War, the country must now rely on its own resources. Current military expenditure amounts to 6% of GDP and 35% of the budget. Unfortunately, Syria must bear the high cost of these threats at the same time as it embarks upon deep economic reform. Furthermore, these threats will continue to undermine Syria's ability to attract much-needed foreign direct investment. Despite the number and extent of the pitfalls listed above, the road to reform is clear. The challenges cannot be allowed to keep the party and the state from adopting market principles with a focus on social justice.

In shaping its reform agenda, the leadership must pay careful attention to the pace of reform. Hesitation and haste pose their own unique dangers. Moving too slowly threatens Syria with even more marginalisation in the era of globalisation, whilst an unprepared rush to reform will erode public support. Most importantly, it is only by being fully aware of the obstacles to reform can we begin to overcome them, managing the risks while reaping the rewards.