Economic Analysis

THREATS AND OPPORTUNITIES

Reform in the Syrian economy must take a great leap forward, and fast, says Nabil Sukkar, Managing Director of the Syrian Consulting Bureau for Development and Investment. For the longer the wait, the higher the price becomes.

Today, the Syrian economy faces a number of formidable challenges. Nevertheless, the country has a number of opportunities before it, which if exploited properly, will help the economy avoid crisis and boost national development. Regardless of the choices available, delaying economic reform any further is only going to exacerbate an already difficult situation in Syria, making deeper reforms that much more difficult further down the road.

THREATS: The first threat is simply that if the current economic situation continues the low standards of living and increasing unemployment of the present will form economic, social and political threats to Syria.

The second threat is decreasing oil production. Syria's remaining oil reserves are estimated to total 3 billion barrels of crude. Oil production peaked in 1995 at 591,000 barrels per day (bpd) but has declined since to around 450,000 bpd today. Most experts estimate that, despite new exploration activity, Syrian oil production will begin tapering off dramatically around 2008.

Syria's natural gas reserves are estimated at around 240 billion cubic meters. Production from Syria's gas fields around Palmyra, currently standing at 9 million cubic meters per day, has yet to be fully developed. Much of the gas is set to be used to feed power stations recently converted to run on gas, and to be used for heavy industry, making a greater share of oil production available for export as production declines.

Exploration and development efforts by foreign oil companies could increase the amount of oil available for export. However, the prospects appear limited at present and it is expected that by 2012 Syria will become a net importer of oil for the first time in 30 years.

Reduced oil production and exportation will lead to deficiencies in the commercial balance, hard currency receipts and state revenues. All three factors are likely to impact on the state's ability to fund development and social projects and will have implications for the strength of the Syrian Pound.

This being said, transit revenues from the Arab Gas Pipeline linking Egypt with Turkey and Eastern Europe will partially compensate the state for the decline in oil revenues, as would any reopening or reconstruction of the Kirkuk-Banias oil pipeline.

The third threat facing the Syrian economy is the high population growth rate, which currently stands at around 2.7% per annum. Today, up to 53% of the population are under 20 and 300 to 350,000 new workers enter the job market each year. Such statistics are alarming when taken alongside estimates that one fifth of the workforce are currently unemployed, and this does not even account for disguised unemployment in the public sector.

NABIL SUKKAR: *Syria needs a new economic vision to tackle the challenges facing the country.*

Unfortunately, the country has to deal with multiple stages of economic reform all at once.

A fourth threat derives from possible disruption in production that will be incurred in the short run by inefficient enterprises being increasingly exposed to competition via free trade agreements with Arab countries, the Syria-EU Association Agreement and the recently signed free trade agreement with Turkey. These enterprises could be in both production and service sectors.

A fifth and increasingly important threat comes from external political tensions. Israel, Syria's primary enemy, continues to occupy the Golan Heights and Palestinian territories and possesses a large stockpile of weapons, including weapons of mass destruction. As a result, Syria currently spends around 6% of its national income, 30% of its general budget and 5.5% of total imports on military expenditure.

The American invasion of Iraq in 2003 and the subsequent occupation has exacerbated tensions even further. Thus, military expenditure will continue to make heavy budgetary demands in the foreseeable future. Such tensions are also likely to scare away foreign investment as well.

OPPORTUNITIES: There are serious threats facing the Syrian economy, but the situation is not without hope. Syria has a number of opportunities which, if taken advantage of, could help the economy thrive in the future.

The first opportunity arises from the trade and economic partnerships currently being formed between Syria, the Arab World, Europe and the international community. The Greater Arab Free Area

(GAFTA), which Syria joined in 1997, has provided the country with opportunities to export its products duty free to the 14 Arab member counties.

The Syrian-Lebanese Free Trade Area is also likely to increase trade between the two countries. The free trade agreement between Syria and Iraq, which is expected to be re-activated after Iraq restores sovereignty over its territories, will also open opportunities to strengthen trade, investment and economic cooperation and allow Syrian entrepreneurs to contribute to rebuilding Iraq.

Most recently, the free trade agreement concluded with Turkey, a candidate for EU membership, seems set to provide more commercial, investment and development cooperation between the two countries.

The Syria-EU Association Agreement also holds out considerable opportunities. While the agreement's schedules to reduce customs tariffs will lead to decreased revenues for the state and threaten industry in the short to medium term, the agreement carries with it opportunities for increased exports and capital inflow.

When Spain and Portugal joined the EU, for example, local industries suffered due to increased competition. Nevertheless, new companies were created that took advantage of export opportunities, which in turn attracted sizable foreign investment.

Joining the World Trade Organisation, to which Syria applied in late 2002, holds out opportunities as well, as Syria would have greater ability to form broader alliances with global markets through its membership.

The second group of opportunities lie in transport, telecommunications, insurance, and banking.

Activating foreign trade will initially boost packaging and preparation activities in and around Syria's main ports. In the long run, the Association Agreement's requirements to liberalise the service sector could hold out considerable investment opportunities by allowing foreign companies to operate directly in Syria, leading not only to increased competition, but also to greater transfer of knowledge and know-how to the domestic market.

The third group of opportunities arise from recent reforms in the banking and productive sectors. There is a need to deepen and expand the savings and investment products available to Syrians. As such services expand, so will associated financial, accounting, consulting and training services.

In the production sector, a number of opportunities exist in industry, agriculture and tourism. The state is preparing to restructure the regulatory environment for industry as well as productive enterprises in order to allow it to boost production, employment, and its overall contribution to GDP. Agriculture is also being targeted for change, especially through the introduction of greater technology and marketing efforts. After all, despite current inefficiencies, Syria remains one of the potential breadbaskets of the Arab World. Efforts to upgrade the Syrian coast and its wealth of archaeological sites, if taken in conjunction with investment reforms in the sector, cannot help but attract more investments into the sector and visitors to the country.

CONCLUSION: To tackle the challenges facing the Syrian economy, as well as the changing international economic and political environment, the country needs a new economic and political vision.

Whatever vision the Syrian leadership constructs, it must be accompanied by a comprehensive reform and development plans which allow the country to confront its internal and external challenges.

The time for action is now. Syria should make use of its remaining petroleum reserves to fuel what is certain to be a difficult reform process. The longer the wait, the higher the price will be.

Therefore, the reform that Syria requires is not so much just "Modernisation and Development" but something more like China's "Great Leap Forward" of the late 1960s. The former involves a step-by-step approach, which is simply not sufficient to address Syria's formidable economic challenges. Syria lost the decade of the 1990s, and now needs to take a jump forward to catch onto the wave of globalisation and scientific progress taking place elsewhere. At the same time, the private sector must be prepared to shoulder the burden that goes along with greater economic liberalisation.

The experiences of Malaysia and China, as well as the economic experiments of eastern and middle European countries, have taught us that hastening reform, while being ready to deal with associated social consequences, is the best way forward. Bulgaria and Romania have been kept out of the expanded EU thus far because they retained too much of the heritage of their former state apparatus.

Unfortunately, Syria has to deal with multiple stages of economic reform all at once, stages that many developing countries have dealt with over the last two decades with only mixed success. The first stage concerns the adoption of a pro-market policy, while the second deals with reforming institutions and tackling education, human development and combating poverty. The third stage involves vital reforms to the judiciary and governance. The final stage involves political reform. The world around us has changed substantially, and for liberalisation to yield substantive results, reform is needed in all of these four stages.◀