



Volume 5, Special Edition No. 6

March 29, 2011

Behind the Tensions in Syria: The Socio-Economic Dimension

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The recent demonstrations in the Syrian city of Der`aa, near the Jordanian border, and other Syrian cities follow on the heels of the dramatic events in Tunisia and Egypt. They reflect a deep resentment of the Alawite-dominated regime by many of the majority Sunni Muslim population. They also are underpinned by serious economic problems that are explored in this article.

Syria has a multi-religious and ethnically diverse population, with a Sunni Muslim majority of 60-65 percent. President Bashar al-Asad belongs to the Alawite sect (12 percent of the population). Christians and other minorities, who make up a further 13 percent of the population, have also shown support for Assad, who has defended secularism. Many are worried about the possibility that political upheaval will empower Islamists. Nearly one million Iraqi refugees live in Syria, a reminder to Syrians of how regime change can go wrong. Syrian Kurds, who account for 10 percent of the population, were in conflict with the government even before the events in Der`aa began.

During his decade in power, Assad has strengthened the alliance between the urban Sunni merchant class and the Alawite-dominated army. Having been brought up in privilege in Damascus, he has more in common with the capital's elite than he does with the Alawites of the mountains in the northwest of the country. When Assad took office in 2000, he began liberalizing the economy. Syria has become a much more comfortable country for the better off, mainly Sunni merchants and Alawite army officers. For the majority, however, little has changed. The poor come from all ethnic and religious groups and so ethnic resentments do not necessarily coincide with economic ones, which of course works in the regime's favor.

In 2010, Syria's population reached 22.5 million. Partly due to the large influx of refugees from Iraq following the 2003 war, growth in population accelerated from 2000-2005. Between 2005 and 2010, it increased by an annual average rate of 3.3 percent. Still, from 1995-2000, prior the arrival of the Iraqis, the population growth rate was a very high 2.45 percent. By way of comparison, the average per annum for less developed countries during the last decade was 1.5 percent.

As in other Arab countries, the growth of the labor force has been even higher, a consequence of the expanding numbers of people in the 15-24 age group. In 1990 they amounted to 2.5 million people, in 2000 there were 3.8 million, and in 2010 an estimated 4.6 million. The economy therefore needs to generate up to 400,000 new jobs a year just to prevent unemployment from increasing. However, its ability to do this has been hindered by a number of factors.

The first of these has been four consecutive drought years since 2006, with that of 2007-2008 causing devastation. This has affected food security and has pushed 2-3 million people into extreme poverty; 800,000 people had their livelihoods ruined by drought, mainly in the northeast of the country, but also in Der`aa province, population 300,000. Small-scale farmers have been the worst affected; many have not been able to grow enough food or earn enough money to feed their families. As a result, tens of thousands have left the northeast and now inhabit informal settlements or camps close to Damascus. Water sources have also been permanently affected, with farmers being compelled to use wells to draw on groundwater

resources due to a lack of rainfall. The situation is exacerbated by the inefficient use of water. While the government says that Syria is self-sufficient in wheat - the main food crop - production has not matched demand. The 2010 wheat yield was 3.3 million tons, 500,000 tons short of demand, and so wheat had to be imported.

Syrian agriculture is suffering from the country's move to a so-called "social market economy" and the introduction of a new subsidy regime in compliance with international trade agreements, including the Association Agreement with the European Union (which Syria has still not ratified). The previous agricultural policy was highly interventionist, ensuring (at great cost) the country's food security and providing the population with cheap access to food items. It is now being replaced with a more liberal one that has harsh consequences for farmers and peasants, who account for about 20% of the country's GDP and its workforce.

Since 2005 the economy has grown at about 5 percent a year, but the bulk of the population has not benefited. Most are struggling to survive in a liberalized system that does not produce enough jobs, while reducing the employment opportunities in the still-large public sector. Moreover, many in the middle class are being pushed towards the poverty line because their incomes have not kept up with inflation that reached 17 percent in 2008. In 2009, inflation declined but it has since accelerated again following the sharp rise in international food prices. Increasing inflation was also due to a speculative real estate boom and the partial removal of subsidies. Wealth gaps and inequality have continuously increased in recent years and the unemployment rate has risen to an estimated 20-25 percent. The government promised the creation of 250,000 jobs every year in the current five year plan, but that is not being realized. Privatization policies, while detrimental to the large majority, have mainly benefitted a few individuals close to the regime.

In 2003-2004, nearly two million people, or 11.4 percent of the population, lived below the official *extreme poverty line*: those whose incomes were so low that they spent a maximum of £S 1,458 (\$32) per month on basic needs. A total of 5.3 million people or 30.1 percent of the population lived below the official *poverty line*: those whose incomes enabled them to spend up to £S 2,250 (\$49) per

month on basic needs. By 2007, 12.3 percent of the population lived in extreme poverty and the poverty rate had reached 33 percent. Since then, poverty rates have risen still further.

In early 2008, fuel subsidies were abolished and, as a result, the price of diesel fuel tripled overnight. Consequently, during the year the price of basic foodstuffs rose sharply and was further exasperated by the drought. In 2009, the global financial crisis reduced the volume of remittances coming into Syria. In 2011, the government responded to growing socio-economic pressures and created a national fund worth \$250 million to help 420,000 families in need. It has increased public sector salaries by 20-25 percent, raised heating allowances by 72 percent for public servants and pensioners (about two million people), and has announced a series of measures to bring down prices of basic foodstuffs. Nonetheless, these measures have not staved off unrest.

Syrian industry is hampered by a lack of investment, technology and management know-how, and has been restricted by a choking bureaucracy and widespread corruption. In 2011 the World Bank ranked Syria 144 out of 183 countries in its ease of doing business category. (Singapore came first; Israel was ranked 29; Egypt 94 and Jordan 111.) These factors, together with uneasy relations with neighboring countries, have also discouraged investors. Recently there has been an increase in investments from other nations in the Arab world, but these investments have mainly been in real estate.

Syria is subject to US sanctions, which have a deleterious effect on the economy. These prohibit the export to Syria of any items on the US munitions list, or those on the Commerce Department's list of items with dual civilian-military applications. There is a ban on the export to Syria of US products other than food or medicine; aircraft owned or controlled by the Syrian government are banned from the United States; US financial institutions are required to sever correspondent accounts with the Commercial Bank of Syria based on money-laundering concerns; and assets of certain Syrian individuals and government entities within US jurisdiction have been frozen. These measures have not prevented economic growth in Syria (nor have they substantially altered Syrian foreign policy) but they have discouraged investment in industry.

The Syrian economy is highly reliant on the oil sector. In 2004, oil supplied 11.2 percent of government revenues but in 2010, despite higher oil prices, only 5.4 percent, because of declining production. To be sure, high oil prices, substantial foreign exchange reserves, and manageable levels of domestic and external debts have helped maintain a degree of macro-economic stability. Nonetheless, the fiscal balance and the balance of payments have deteriorated. The long-run decline in oil production means that high international oil prices will increasingly affect Syria negatively as it becomes a net energy importer. The government is aware of the problem and has tried to boost the hydrocarbons sector with foreign direct investment and by substituting oil with natural gas in domestic power production. However, these measures will only delay the onset of major fiscal and balance of payments pressures.

Regime change is more likely to come if Syria's elite - Alawite officers in the security forces and the Sunni merchant and industrial families - are split. The uprising in Der`aa may inspire Syria's rural and newly urban population, which suffers disproportionately from poverty, joblessness, and the effects of the prolonged drought, but it may well frighten the urban elites.

Ironically, in the past urban elites viewed the regime itself as a rural dictatorship because the Ba`th was dominated by young military officers from rural areas with little education. The Ba`th officers' resentment of the wealth and privilege of Syria's urban elites helped prompt the nationalization of land and businesses. More recently, urban elites have been appeased by economic liberalization, and they now fear a revolution that would bring to power a new political class based on the rural poor, or simply push Syria into chaos. The alliance of the Sunni business community and the Alawite-dominated security forces forms the basis of the regime and, as sections of the population rebel, it has everything to fight for.

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The Moshe Dayan Center publishes TEL AVIV NOTES, an analytical update on current affairs in the Middle East, on the 10th and 26th of every month, as well as occasional Special Editions.

TEL AVIV NOTES is published with the support of the V. Sorell Foundation.

Previous editions of TEL AVIV NOTES can be accessed at www.dayan.org, under "Commentary."

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