INTRODUCTION

Economic Reform and Network Analysis

AFTER A TWO-HOUR INTERVIEW on the Syrian private sector's relations with the state, the interviewee—a well-informed manager at the Ministry of Industry in Damascus—gets up, walks around his mahogany office desk, sits directly opposite me, leans forward, glances toward the office door to make certain it is firmly shut, and says: "It's true; this regime helped the private sector grow, but it will never tolerate a strong private sector. *I am under your control when I am a twig in your hand, but not when I become a palm tree.*"[1]

The government official was referring to the growth of the private sector in the early 1990s. For the first time in three decades, its share of new net investments was nearly double that of the public sector.[2] In Damascus, then and now, the operative thinking is that the state needs the urban-Sunni-dominated private sector but is wary of its potential strength. In 1961, the then-ousted urban-based liberal parties were able to mount a coup and recapture power, ending three years of state-centered economic planning under the United Arab Republic, which had united Syria and Egypt in 1958. When the rejuvenated Ba'th reversed what it called the liberal "Separatist Coup" after an even shorter stint in power, in 1963, it did so under the more radicalized rural-minoritarian leadership, which vowed never again to allow for such reversals. This episode was preceded by several others that colored urban-rural relations of conflict and exploitation. For several decades, if not centuries, the dominance of urban-Sunni society had not been challenged in that manner. With the 1963 coup of the Arab Socialist Ba'th Party, urban-Sunni dominance of the Syrian polity ended, ushering in a new era in which the political helm was to be dominated by rural-minoritarian social forces. The antagonism was now reversed, but the mutual mistrust persisted.

Given this political antagonism and social mistrust between the political and economic elites, the Syrian regime strove to find ways to make business relevant without allowing it to convert its material wealth into political power. Thus the Hafiz al-Asad regime, representing the more pragmatist wing of the Ba'th party, brought parts of the private sector "back in" beginning in the early 1970s, albeit initially through the back door and informally. Informal and crony-like state-business networks mushroomed henceforth, giving rise to what is called the "new rentier bourgeoisie" in Syria, and to a pattern of economic change that left developmental imprints on Syrian society that show to this day. Misallocation of resources and the proliferation of nonproductive, non-labor-intensive, but lucrative business ventures and practices ultimately dominated Syria's economy for decades on. Syria's promising resource-based potential (human and material) became official rhetoric for public consumption, or a story that is told by dissidents, former exploiters, and emerging nationalist critics alike.

In the process, the Syrian regime maintained its security, but at a high economic and developmental cost that was passed down (along with the leadership of the Ba'th party and the country) to Asad's son, Bashar. This inheritance landed on Bashar's shoulders at a time when the Middle East was sinking into intensified conflict and war, complicating what was already a very late reentry into the global economic system.[3] The legacy of entrenched state-business networks poses a tremendous challenge for the new leadership's proclaimed desire for economic progress and modernization, though the horizon is not as bleak as it had been under Bashar's father. This legacy of entrenched economic networks—its nature, dynamics, impact, and unintended consequences—is the analytical narrative that this book addresses.

This study of the Syrian case seeks to explain prolonged economic stagnation marked by costly developmental outcomes in one of the most durable authoritarian regimes in the Middle East and the developing world. The "winner" in Syria, and much of the rest of the Middle East, has been a set of exclusionary state-business networks that have been able to skew the benefits of economic change in their favor. The "loser" is the average consumer (especially workers in the public and informal sectors) and, indeed, the health of the overall economy, as state officials and their business cronies misallocated resources and mismanaged policy change by subordinating a semblance of economic rationality to a political logic of regime security.

From Egypt to the former Soviet republics, socialist and socialist-leaning states have brought business back into the political-economic equation. The broader historical context in many postcolonial settings such as Syria and Egypt is the social conflict that shaped the consolidation of populist rule.[4] Nearly everywhere, this transformation has been highly politicized, for it has fostered a new business class growing in the shadow of the state. The Syrian case displays a similar pattern but with a twist: the relationship between politicians and capitalists is scarred by deep-seated historical antagonism and mistrust. The division in the 1960s between the rural-minoritarian political leadership and the Sunni-majoritarian business community persisted through patterns of promotion and (s)election that, with few exceptions, preserved the social homogeneity of those in power. This was not carried out as an affirmation of sectarianism, as will be discussed in Chapter 2. Rather, it was a regime's response to security concerns where the overlap of sect, region, community, and class intensified the modal political antagonism between a populist regime and the putatively exploitative business class in postcolonial societies. Hence, in the Syrian case, bringing business back in to rejuvenate or propel the economy was viewed in zero-sum terms, whereby empowering business was viewed as empowering the urban-Sunni community over and against the rural-minoritarian leadership. Alternatives to official or formal (re)incorporation of the business community had to be sought. In countries largely enjoying social-communal homogeneity between politicians and capitalists, such as Egypt in 1974, the regime faced far less of an impediment as it brought business back into the political-economic equation.[5]

Syria's legacy of state-business mistrust produced a particular form of state-business cooperation—that is, selective and informal economic ties (networks) between state officials and private actors—that spawned its own exclusionary economic institutions and tailored policies.[6] Buttressed by a constant flow of external rents (from oil and aid), these economic institutions had a significant influence on patterns of economic change beginning in the late 1980s. Lacking an alternative to the vision of a centrally planned economy, the state's day-to-day intervention in the Syrian economy was highly influenced by a narrowly defined set of interests.

The import of the Syrian case for the study of the politics of economic reform is considerable, if only because state-business relations have not been at the forefront of this field of inquiry. The analysis here proceeds from a comparatively informed perspective of similar cases and also sheds light on a broad range of topics, including questions of agency (for example, what kinds of actors influence policy outcomes?), the relationship between economic and political change (does private sector expansion really have a political impact?), the impact of (mis)trust on institutional development (as opposed to the other way around), and the merits of adopting the analytical tools of economic sociology (networks) in explaining political-economic outcomes, especially in contexts where a substantial portion of transactions occurs in the informal realm.

Though the case of Syria is not unique, it has important specificities, as the data reveal throughout this book. The time period under study stretches back to the 1960s but begins formally in 1970, when the pragmatist wing of the Ba'th party captured power, and ends in 2005. However, it wasn't until 1986 that the top leadership internalized the need for reform as a result of a severe foreign exchange crisis. The year 2005 ends the period under study because it denotes two developments: first, it refers to the year when Bashar al-Asad consolidated his power at the helm, a process that started after his father's death in 2000 when the legacy of Hafiz al-Asad's leadership remained apparent in theory and in practice. Second, and as a result, the year 2005 represents the first official and public expression in four decades of a desire to move away from a state-centered economy and *toward* a mixed economy where market forces play a more significant role. Proceeding from a more solid base of leadership and control, President Bashar al-Asad announced the adoption of a Social Market Economy during the Ba'th's tenth Regional Command Conference in June 2005. Henceforth, more genuinely representative business institutions began to emerge, signaling a break in the economic governance structure in Syria. Economic networks persisted, albeit in a more narrow yet effective form.

THE CHANGING FACE OF SYRIA'S ECONOMY AFTER PROTRACTED STAGNATION

Opportunities, Constraints, and Legacies

For the period between 1986 and 2000, most analysts of Syria's political economy have lamented the absence of any real movement away from the stagnant state-centered economy, established and institutionalized with the rise of the Ba'th in 1963. After the death of President Hafiz al-Asad in 2000, however, developments in the financial sector have given analysts something to write about. Between the emergence of the first private banks (in 2004), the establishment of holding companies (in 2007), the launch of the Damascus Stock Exchange (in 2009), and the establishment of new joint business associations in 2010, a new reality seems to be setting in. Alongside these changes, the regime also made a bold rhetorical commitment in 2005 regarding the adoption of a Social Market Economy,[7] an odd combination of central planning and market forces. The question, however, is whether these developments are the start of an earnest reform trend or merely a regime security measure or are simply a new storefront for existing networks of privilege. Though new opportunities loom on the horizon, the historical legacy of economic change and development poses serious constraints.

Since 1986, when Syria began gradually to dismantle its command economy, the pattern of economic change has been erratic, producing severe economic and developmental costs, notwithstanding spikes in economic growth. The culprit for the most part has been unbridled and unproductive rent-seeking that produced egregious misallocation of resources. Though these costs were largely offset at the time by external rents from oil and Syria's geostrategic role, they became too high for an economy with an increasingly inefficient public sector and a largely stunted private sector. Moreover, both the public and private sectors were incapable of producing added value commensurate with population growth.

As laid out in the tenth Five-Year Plan drafted in 2005, Syria must achieve 5 percent GDP (gross domestic product) growth during the 2006–2009 period and 7 percent by the start of 2010, with population growth kept under 2.1 percent, in order to meet its basic economic goals.[8] While the Central Bureau of Statistics has announced that Syria achieved 7 percent growth in 2008, external organizations such as the Oxford Business Group and the IMF estimate growth in 2008 at roughly 5 percent, while population growth remains between 2.5 and 2.7 percent.[9] In fact, real GDP growth continued its decline from 2005 until the time of writing.[10] Though the global economic downturn had much to do with this decline after 2008—which Syria weathered better than most of its neighbors—it does not fully explain the general trend.

The reasons for such uphill economic struggles lie in the period of prolonged economic stagnation between 1994 and 2005. During the last half of the 1990s, the Syrian economy took a steep downturn, both in terms of GDP growth and, more so, in per capita income.[11] And though GDP growth resumed slowly and erratically after the lowest point in 1999, per capita income growth actually slumped to unprecedented and sustained negative levels until 2004, reflecting not just economic but developmental woes.[12] It is these developmental reversals that distinguish Syria's prolonged economic stagnation and the outcome to be explained in this book. Unless the pitfalls of that period are avoided in the emerging political economic equation since 2005, the future of economic growth and development in Syria will remain grim. Historically, analysts addressed such developmental problems and solutions in various ways. The more refined perspectives eschewed the question of whether states should or should not intervene and focused instead on "getting state intervention right."

Getting State Intervention "Right" for Whom?

Peter Evans's work *Embedded Autonomy: States and Industrial Transformation*[13] examines how states successfully promote industrial transformation: how they intervene and manage the economy, what kinds of ties they develop with the private sector, what kinds of policies are formulated, and how they are implemented. The Syrian regime has managed to avoid all such lessons. Unlike in East Asian countries, the web of public-private ties that obtains in Syria has resulted in a dismal outcome for development in general and state intervention in particular: it has led to the penetration of state bureaucracy, to the erosion of the state's administrative capacity, and to a serious drop in economic productivity. So far, it is the consumer who has paid the price. For the Syrian regime, the criterion for the "right" state intervention was not economic rationality, or growth. Rather, it was regime security: its maintenance and decisional autonomy vis-à-vis broader strategic issues. But not all political rationalities, including that of regime security, produce homogeneous outcomes. Regime maintenance in countries like Egypt, Tunisia, Jordan, Morocco, and Algeria produced some variation in economic and developmental outcomes, despite some structural similarities. Thus, the focus on state intervention and the response of the business community bypasses the more effective locus of economic decision-making, namely, the informal web of relations between the political and economic elites, that is, economic networks.

In virtually all developing countries,[14] and perhaps beyond,[15] relations between the state and business have taken the form of what can be called economic or policy networks that may or may not operate through formal institutions. The impact of such networks on economic growth and development can be more or less detrimental or positive depending on the conditions of their emergence, their internal dynamics, and their relation to the broader institutional and social context.[16]

Notwithstanding the potential for reductionism,[17] the stress in political-economy literature on the resilience and policy impact of economic networks in developing countries is well founded and well documented.[18] I posit that the effects of the maturing economic networks—combining capitalists and bureaucrats/politicians—in Syria in the late 1980s became evident in the economic, regulatory, and fiscal policy reforms of the late 1980s and 1990s, and after the presidential succession in 2000. The foreign exchange crisis of 1986 marks the acceleration of economic networks' consolidation and influence, albeit at an informal level until 1991, when these networks came to dominate the official institutional expression of the "private sector" under the rubric of the government's reform policy, *al-ta'addudiyya al-iqtisadiyya* (economic pluralism). The role of privileged economic networks[19] in bringing about economic and fiscal change henceforth can be analyzed through the examination of the institutional and social contexts within which these networks emerge and on which their sustenance rests. Although such networks have influenced primarily middle- and lower-range policies,[20] their ability to bypass or manipulate laws and regulations has significantly widened their reach and allowed them, intentionally or inadvertently, to shape general developmental change in idiosyncratic ways that have been detrimental to economic efficiency and productivity.[21] What is peculiar here is that these economic downturns were neither desired nor intended by the state, the business community, or the participants in these networks who represent the primary beneficiaries of the reform process. Economic decline was largely a result of a preoccupation with regime security, on the one hand, and the related rampant rent-seeking that was misdirected by a widely penetrated and incoherent bureaucracy, on the other.[22] The proximity of these networks to decision-making bodies, and the participation of decision-makers and top officials in the networks, made rent-seeking and rent allocation an extremely efficient process during the past quarter century. This book does not assume that state-business relations or networks have not been treated before. However, a review of the literature on the political economy of reform reveals a dearth of focus on agents of change that are not part of a traditional research canon. State-business relations in general, and networks in particular, are such agents that for the most part escaped both state-centered and society-centered approaches dominating the discussion on reform outcomes.

STATE-BUSINESS RELATIONS AND ECONOMIC REFORM: A CONVERSATION WITH THE LITERATURE

Despite an increase in published research on the topic, literature on state-business relations in late-developing countries, and certainly in the Middle East, remains scattered and so far not sufficiently cumulative to develop an identifiable discourse and a series of shared propositions. Moreover, a substantial portion of the literature for the most part cuts off the dominant political logic that pervades such regimes from the ensuing economic reform processes. Thus, we witness excessive attention to details regarding changes in economic policy as an indication of progress, rather than an indication of these regimes' adaptation to a changing world,[23] domestically and internationally. Some way lies ahead, empirically and analytically, before research on state-business relations in populist-authoritarian regimes catches up with its counterpart in newly industrialized countries (such as Japan, South Korea, Singapore, Taiwan) as well as some developing countries (Brazil, Argentina, Chile). Reviewing the general literature on state intervention and the politics of economic reform and their correlates is a good starting point.

Getting State Intervention Right

The literature on development in the 1980s and 1990s emphasized the variable of state intervention in explaining developmental successes (for example, East Asian tigers) or developmental failures (some Latin American and sub-Saharan countries) of all sorts. Getting state intervention right emerged as the key to a productive management of developing economies. This statist emphasis is premised on the contention that the state in such countries is the institution most capable of collective action and collective mobilization of resources to shoulder the project of development.[24]

However, getting state intervention in the economy right has proved a formidable task in countries wracked by social struggles and institutional incapacities such as postcolonial nationalist constraints, class struggles, or penetrated bureaucracies. Nonetheless, not all developing states fared similarly or failed miserably: Zaire, a classic predatory state, fared much worse than Turkey; and Argentina fared better than both Egypt and Syria. Taiwan and South Korea fared better than all the above, despite recurring economic boom-and-bust cycles among the others.

Developmental state theorists delved into the middle levels of analysis to explain the state's ability to intervene effectively in the economy. Robert Wade and Chalmers Johnson emphasized the insulation of decision-makers from other social forces and, in some cases, the suppression of representative institutions.[25] Theda Skocpol and Peter Evans emphasized the importance of a coherent and competent bureaucracy that is able to formulate policies independently of particularist pressure groups.[26] Louis Putterman and Dietrich Rueschemeyer warned of excessive state power where there is a dearth of state capacity, for "if a state's capacity to act coherently and effectively is very limited, it is a prescription for disaster to assign major policy tasks to it."[27] Furthermore, if this situation occurs in an authoritarian context, it results in grave developmental consequences for which the state cannot be held accountable. Yet most developing states are or were authoritarian and have possessed a weak capacity for coherent action.