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Effects of sanctions on Syria's macroeconomy in 2012

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Introduction

By December 2011, a full range of American, European, and Arab-Turkish economic sanctions against Syria was in place, taking effect just as the Syrian crisis – which is basically a crisis of the regime – was reaching its highest degrees of complication and of internal, international, and regional impasse, on all levels. The effect of these sanctions compliments the cumulative effect of previous American sanctions against Syria, including those enacted in 1980 after Washington deemed Damascus a "state sponsor of terrorism", the *Syria* Accountability and Lebanese Sovereignty Restoration Act (*SALSRA*) (signed by Bush on December 12, 2003 imposing additional economic sanctions on Syria) as well as those adopted in 2006 following the assassination of former Lebanese Prime Minister Rafic al-Hariri. While the motives behind the 1980 and 2006 sanctions – which remain in effect – were geopolitical, the new ones imposed since April 2011 came under the rubric of punishing the Syrian regime for using excessive violence against protesters, to limit its sources of funding for such operations, and to garner geopolitical returns in the longer run during the phase following a change in the regime, its weakness, or its collapse. As a result, Syria found itself, by the end of 2011, facing a new range of sanctions with varying intensities in terms of tangible and predicted effects on the ruling establishment's system of socioeconomic relations; however, these sanctions are compounded by the cumulative effect of previous sanctions, forming in their ensemble what could be described as "targeted sanctions."

The 1980 sanctions were based on a technology ban applying to all goods and equipment containing ten percent or more in American components. These were compounded in 2006 with systemic sanctions against the banking sector, especially the Commercial Bank of Syria under the Patriot Act. The 2011 sanctions have added to this cumulative effect new, harsher, and more comprehensive effects, as well as various economic, financial, and psychological repercussions for the general economic capacity of the public economic-social-political system of production and its sources of income and financing (figures, companies, businesspeople, investments, credits as well as financial, monetary, and banking instruments). Thus the sanctions, as a whole, represent a concerted policy package designed, at a minimum, to weaken the regime and reduce its political capacities, and, at a maximum, to open the way for its collapse due to economic damage.

The guiding mission of the sanctions

The sanctions policy is a bet on a broad political effect to be produced within a foreseeable period, lessening the regime's ability to command and control, leading to the escalation of protests and the development of their dynamics, and the winning over of businesspeople, or discouraging them from supporting the regime. Herein lay the guiding political mission of the sanctions, in the sense that they aim to engender, via the route door, a radical change in the authorities' general system of operation – consequently lessening the ability of "the people of the state", as Ibn Khaldun called them, to control and direct the state and to maintain its stability.

The psychological effect of the imposition of American and European sanctions, which were characterized by gradual escalation and severity, paralleled the escalation of the confrontations between the establishment's organs and the protesters, and the use of excessive violence. In parallel, sanctions came in what could be described as "hammer strikes", beginning in late April 2011 and reaching their apex in mid-December, with a host of targeted and tightened sanctions aimed at stifling all the vital segments of the Syrian energy sector, especially since West European countries are only marginally affected by the absence of Syrian oil, which represents a negligible share of their consumption. Arab-Turkish sanctions came in the same context. The punitive measures traded by Syria and Turkey have hurt both sides, but the Turkish economy remains less affected than the Syrian one due to the former's far larger scale.

In order to fully appreciate the dimensions and functions of these sanctions from a policy perspective, it must be noted that their purely economic effects interweave with their political effects. In other words, the sanctions aim to cause structural deficiencies in Syria's macroeconomy (the budget deficit, the balance of payments [especially commercial trade, currency exchange and reserves], debt, inflation, unemployment, monetary mass, etc.) whose destabilization would directly lead to an unsettling of the economic-social-political structure, which would enter into a structural crisis. The macroeconomic balance of any country is merely the economic expression of social and economic stability. In sum, the entire sanctions effort is directed at undermining the macroeconomic balance and stability which the Syrian economy had enjoyed between 2005 and 2010.

Effects on the oil sector: production and resources

The sanctions are aimed at paralyzing the main source of state budget revenues and Gross Domestic Product, in all its investment and marketing links, direct and indirect. This applies to the oil and energy sector in general, as well as related activities. Oil revenues constitute around 22 percent of general budget receipts. Despite their small scale, oil exports (95 percent of which go to European Union countries) represent the lion's share of these receipts – i.e. between 16 and 17 percent of total budgetary revenues – thus constituting a vital element in Syria's trade balance and balance of payments.[1]

The sanctions imposed on the energy sector are the most dangerous due to their direct effect on the stability of the macroeconomy, to the point where all investment, upgrading, production, and marketing activities have ceased and Syrian crude exports have dwindled due to shrinking production and the difficulty of finding purchasers because these would expose themselves to sanctions. In addition, the cost of selling oil in the black market rises to around USD 10 per barrel due to the risks involved, which means that even here the returns are lowered. In addition to the loss of oil export revenues, which used to help redress the structural imbalances of the

[1] Nabil Marzuq, "Economic sanctions: a slow stifling of the Syrian regime", Aljazeera Studies Center, Qatar, November 19, 2011,
http://studies.aljazeera.net/reports/2011/11/20111119102491635 25.htm

macroeconomy, the burdens of financing Syria's domestic consumption of hydrocarbons (especially diesel, fuels required to operate power plants, gasoline and gas) have become massive, reaching USD 1.5 billion for diesel alone. Due to economic and service activities' having been limited to basic needs, and due to the shrinking of the transportation and tourism sectors' need for oil derivatives, the import quantities required in the short term have become minimal, but they will nonetheless constitute a major problem over the longer term. Falling oil production and rising bills for oil derivatives will undermine Syria's ability to register elevated growth rates such as those witnessed between 2005 and 2010, when it was undergoing a phase of economic reform and liberalization (which usually causes negative growth rates), and was periodically affected by geopolitical pressures in 2006, drought, and the repercussions of the global financial crisis.[2]

The diminishing of foreign currency reserves

The effects of dwindling export revenues, coupled with the need to finance oil imports sold domestically at subsidized prices, are readily apparent at several levels of the macroeconomy. In 2012– the year in which the effective influence of the sanctions should be felt tangibly, especially in the energy sector – the general budget is expected to lose around 12.5 percent of its expected revenues if it is unable to sell oil in the black market.[3] Syria would then be forced to rely on its foreign currency reserves, which were significantly eroded during the past nine months in order to finance imports of oil derivatives and raw materials required by the private sector, which are subjected to customs rates of less than 1 percent.

Reliance on foreign currency reserves would lead to further pressures on these reserves, which amounted, in late August 2011, to about USD 18 billion, sufficient to finance two years' worth of imports[4] but down from $USD 20 billion in 2007. The international standard for the adequacy of reserves is the ability to finance three months of imports.[5]

According to official figures, as of late October 2011, the Syrian Central Bank had liquidated more than USD 4.9 billion of these reserves to resist pressures exerted on the country's currency due to the crisis. Thus, the remaining reserves do not exceed USD 12.1 billion,[6] and this number

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[2] Syria used to produce around 380,000 barrels per day, with 150,000 exported, while paying foreign companies 35 percent out of 190,000 barrels produced by these companies daily. At the same time, Syria imports oil derivatives; each ton of diesel costs USD 600 on the global market, and Syria imports 3 million tons a year, for a value of USD 1.8 billion, in addition to the fuel needed to run power plants, transportation gasoline, natural gas, etc. (from a background paper prepared by Syrian oil expert Dr. Ziad Ayyub Arbash for the sake of this study).

[3] According to budgetary estimates, receipts from the sale of Syrian heavy crude should equal 12.5 percent of total budget revenues. The importance of these revenues stems from the fact that they are denominated in a foreign currency (the US Dollar), and that they finance the greatest share of imports with more than USD 3.5 billion. These revenues are also important for the trade balance and the balance of payments, since they represent 14 to 15 percent of total Syrian exports. (Nabil Marzuq, Op. Cit.)

[4] A statement by Syrian Finance Minister Mohammad Jlaylaty, *Al-Watan* newspaper (Syria), June 9, 2011.

[5] Mohammed Jamal Barout, Surveying the broad paths of the evolution of the Syrian economy**,** (Damascus: the United Nations Development Program and the State Planning Agency, 2007), p. 306.

[6] Governor of the Central Bank of Syria, Adeeb Mayyala (in a statement to *Al-Watan* newspaper: "the reserve is USD 18 Billion", *Al-Watan***,** October 25, 2011. The central bank governor divided the funds withdrawn into: USD

does not include the funds spent by the central bank in auctions attempting to rein in and soften the degradation of the Syrian currency[7]. Consequently, a figure of USD 10 billion is a realistic estimate of Syria's foreign currency reserves, an amount that can cover imports for about a year – before factoring in the dangers of attrition and escalating degradation. Given the large costs of intervening in currency prices and the withdrawals this has necessitated from the reserve, the auction method was cancelled. Auctions had benefited a small number of speculators more than the exchange rate, and were also suspected of containing questionable methods common to a bureaucratic and political system in which corruption has become a structural characteristic. Syria's central bank also stopped financing the imports of the private sector, saving USD 40 million a day,[8] but for both economic and political reasons, it continued to finance imports of raw materials subject to customs duties of less than 1 percent.[9]

With the beginning of 2012, the negative effect of the Central Bank's policy of expending the foreign currency reserves became apparent. With the tangible effects of the sanctions on the reserves becoming clear, the Bank took a step that surprised business circles by banning all private banks from selling foreign currencies in exchange for Syrian pounds. It is clear that the initial policy was based on an assumption that the uprising would be extinguished in a short time, during which the state could afford to communicate confidence.

Nevertheless, the effects of the sanctions eventually led to direct intervention by the government, which mandated exceptions to the central bank's decision halting the financing of imports for 129 food and medical goods whose customs rate do not exceed 1 percent, along with some strategic medical and food products levied at 3-10 percent[10]. This inconsistency was part of the confused behavior of the Syrian government, which undermined confidence in its policies. This, in and of itself, met one of the most notable objectives of the sanctions: achieving a psychological effect that would be especially reflected in the currency market, shaking confidence in Syria's macroeconomic stability.

The fluctuations of the currency exchange market and the deterioration of the purchasing power of the Syrian pound

Sanctions against currencies are tantamount to the constricting of funds, and over 95 percent of the mass of circulating money is outside banking channels. Currently, the mass of circulating

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1.2 billion to finance investment projects from which the European Investment Bank had withdrawn in accordance with the sanctions, and USD 3.7 billion to finance foreign trade. The Central Bank of Syria describes the latter activity as "rehabilitating currency positions" (compare with Syrian state television's interview of Economy and Trade Minister Nidal Al-Shaar, February 3, 2011).

[7] It is officially acknowledged that the central bank has sold, through auctions, a total of USD 75 million to private exchange companies in an attempt to control currency prices (compare with the statements of financial and monetary expert Mohammad Juma and the governor of the Central Bank of Syria Adeeb Mayyala, *Al-Watan* newspaper, November 24, 2011).

[8] Mohammad Juma, *Al-Watan* newspaper**,** November 24, 2011.

[9] Interviews with several Aleppan industrialists and an official source at one of the branches of the Commercial Bank of Syria in Aleppo.

[10] "The Prime Minister excludes 129 food and medical goods from Mayyala's ban", *Al-Watan*, January 10, 2012.

money, estimated at 600 billion Syrian pounds, does not necessitate the printing of new money, since Syrian savings infused into official Syrian institutions remain miniscule and limited compared to their size outside of these channels. Therefore, the deterioration of the exchange value by more than 39 percent – and worsening daily – automatically lowers its purchasing power, not only for imports, but also for domestic products whose raw materials are imported. In sum, the deterioration of the currency's value reflects a structural economic imbalance. This carries negative effects for Syria's small economy, with its weak productivity and poor competitiveness, not to mention the exorbitant social cost.

It was no coincidence that the price basket rose by an average of 22-30 percent, especially for imported goods or locally produced ones for which 40-60 percent of the components are imported. Nonetheless, the factors behind pricing have been complex and not merely limited to exchange rates, but also to the rising cost of importing and the creation of intermediaries aiming to skirt the sanctions imposed on Syria's banking sector. The effects could be clearly seen in 2011, when imports declined by 10-40 percent, depending on the category of goods.[11] It is reasonable to assume that this trend will only accelerate in 2012, which would have a deep effect on production itself, and not merely consumption, since raw materials account for a large share of the imported goods.

The budget deficit: on the brink of "disaster"

The large decrease in expected government revenues for the 2012 budget is associated with the higher level of spending due to the 2010 economic recession, as well as the declining rate of economic growth, which has turned negative. These combined factors have pushed the budget deficit to extremely elevated levels, which means that the budget will be financed through either deficits or inflation, which was described by one of the members of the Economic Reform Committee as a "disaster."[12] The general state budget had estimated a decline in its non-petroleum revenues, especially tax receipts, by 50 percent, from around 452 billion Syrian pounds in the previous year to 212 billion Syrian pounds for the current year, indicating the depth of the crisis and the general decline in economic activity. All of these factors affect the Syrian citizen through price hikes, a shrinking job market, and falling incomes in many cases.[13] The diminution of employment opportunities comes as a natural result of recession and the lowering of economic growth from the 4.5 percent rate predicted in February 2011 to what is presumed to have been a negative rate by the end of the year.[14] This situation resembles those of Tunisia and Egypt regarding the rate of growth. Like Egypt's, the Syrian economy will face the exposition of structural deficiencies previously masked by the apparent stability of the

[11] Husam Yusuf, director general of the Agency for the Development and Marketing of Exports, *Al-Watan***,** January 10, 2012.

[12] "Fadliyya expresses skepticism and describes it as an adventure … the government approves the 2012 budget with a 58 percent increase over 2011", *Al-Watan* newspaper, September 26, 2011.

[13] Nabil Marzuq, "Economic sanctions: a slow stifling of the Syrian regime", Op. Cit.

[14] Source: Central Bank of Syria, IMF, *International Financial Statistics*; World Bank, *Global Development Finance*, Economist Intelligence Unit.

macroeconomy. However, this exposure will be harsher than in Egypt due to the besieging of the Syrian economy with sanctions that undermine all of its sectors, not to mention the persistence of the protest movement and its expansion in many provinces and cities.

On the economic level, the effects of the above factors can be observed in the fragmentation of the Syrian market due to the lack of safety on the Damascus-Aleppo international highway, the exclusion of vast areas from agricultural investment, and challenges for the transport and marketing of crops due to the escalating revolt. In this regard, the effect of the uprising combines with the vicissitudes of the rainfall cycle; thus, it was not surprising that while the general growth rate declined from 6 percent in 2009 to 3.2 percent in 2010, the agricultural sector actually shrank by 9.6 percent, directly affecting around 30 percent of GDP[15]. Protests also affect the ability of the industrial workforce to reach its workplace, with an increasing need for this workforce given the opening of the Iraqi and Iranian markets to Syrian exports in order to lessen the effects of the sanctions. However, these laborers cannot reach their workplaces, or they might have exited the workforce for various reasons, especially since a significant portion of the revolts by local communities take place in areas hosting the manufacturing centers of Syrian industry, including the Damascus Countryside, the Idlib Countryside, and the Aleppo Countryside.[16]

The effects of sanctions on economic exposure

The ability of any economy to confront the kind of sanctions imposed on Syria relates to the size of the economy, its diversity, capacities, and flexibility, as well as the extent of its exposure to the outside, which is a function of the degree of economic integration. Regarding exposure toward the outside, many policies have caused the dynamic to be focused outwardly rather than internally, raising the degree of integration and overlap between Syrian capital and Arab and other foreign capitals. These factors include the restructuring of the Syrian economy, the hasty liberalization of foreign trade along the lines of the Mexican doctrine, and Syria's entry into partnerships for regional free trade zones, in the context of the logic of the integration and mixing of markets in the age of globalization – or what some refer to as the "spaghetti model."

Therefore, it was natural for the sanctions to have a tangible effect on an economy whose foreign trade constitutes 35-43 percent of GDP (according to estimates for 2008 and 2009), especially in the field of raw materials and semi-manufactured industrial goods. This explains the reaction of the Chamber of Commerce against the cabinet decree on September 22, 2011 halting all imports whose custom duties exceed 5 percent with the aim of preserving the national currency: these goods include around 80 percent of total imports. The reaction forced the cabinet to reverse the decision, reflecting the political interests invested in maintaining the coalition between the regime and merchants of the major cities. It also exposed another facet of the Syrian economy's

[15] The 2011 Syrian Statistical Digest, the 2010 Indicators, Central Bureau for Statistics: http://www.cbssyr.org

[16] Some industrialists stated that some large factories usually employ about 400 workers but currently have no more than 200 attending due to local revolts. At the same time, wages are still being paid to absentee workers, some of whom have been away from work for weeks or even months due to the exceptional situation. "Industrialists for the homeland", *Al-Watan* newspaper, January 3, 2012.

reliance on foreign trade, causing the brisk economic liberalization process of 2005-2010 to engender a new reality: the opening of trade and the rise of the service sector, combined with the decline of the agricultural and industrial sectors, and the diminishing of the scale of extractive industries – which escalated following the massive decline in oil production due to the sanctions and the withdrawal of foreign energy companies from the Syrian market.

With GDP of just USD 59 billion in 2010, Syria's economy is small and weak. It is also vulnerable to shocks due to an economic-political structure that was further complicated by the sanctions. At any rate, the size of the economy has declined below the estimates of 2009 and 2010. After a period (2000-2010) when the Syrian economy was able to achieve average annual growth of 5.7 percent (more than twice the rate of population growth for the same period), growth slowed to 2.3 percent in 2010, slipping into negative territory in 2011. This contraction has been accompanied by rising unemployment and poverty, and an expansion of the weak, vulnerable, and marginalized sectors.

In sum, the Syrian economy is suffering in 2012 from the combined effect of lower growth in 2010, and stasis or contraction in 2011. In addition, the fruits of relatively high growth in 2005-2010 have fallen into the hands of the large businesspeople and the economic centers of the major cities, at the expense of the impoverished and neglected peripheries. The growth achieved, which relied on the liberalization of foreign trade and the excessive growth of the service sector alongside a decline of the productive sector, was a "bubble" in many respects: growth without development due to policies that were economically liberal but socioeconomically authoritarian.

The sanctions are aimed at stifling the Syrian economy within a period estimated in months, not years, leading to the collapse of the balance of its former macroeconomic framework. With the backdrop of these economic shocks and their political repercussions, the protest movement is expected to escalate, opening the way for the collapse of the regime. The final strategic objective of these sanctions is to undermine Syria's macroeconomic stability.

The possibility of a persistent economic recession

In 2012, the Syrian economy faces grave challenges for its ability to overcome the repercussions of both the 2010 slowdown and the 2011 recession. Negative growth appears likely to accelerate with the enactment of targeted sanctions, whose direct effects will appear in 2012. This means that the main indicator of the macroeconomy has been afflicted by a grave imbalance that will spread to all other indicators, with all that this signifies on the level of the relationship between macroeconomic imbalances and the undermining of the political command and control matrix, added to the worsening of socioeconomic conditions to the point of engendering a structural crisis whose indices are becoming more and more prominent.

This also means the limiting of job creation, which increases cumulative unemployment given the annual entry into the labor market of an estimated 400,000 new job seekers. A number of factors will coalesce to underline unemployment as the national economy's greatest challenge:

the persistence of the negative trends of 2012 under the shadow of sanctions, the shrinking of foreign and domestic investments, the rising cost of imports due to the sanctions, the imbalances in the exchange rate and the restrictions placed on the Commercial Bank of Syria , the escalation of demonstrations into violence, and the absence of a government crisis management doctrine that goes beyond that of "putting out fires". The job question is even more pressing than is widely believed because the actual unemployment rate is 24.4 percent of the total labor force, not the 8.1 percent stated by official figures relying on a definition of unemployment coined by the International Labor Organization, which favors the government's economic liberalization policies. The higher figure was produced by the most recent and precise national studies in terms of the methodology used and the definition of labor-force participation.[17]

From a socioeconomic perspective, the above situation would explain the rise of protest movements in regions and communities that are rife with poverty, unemployment, and high rates of economic and age dependency. Such conditions also explain the repercussions of the violent and excessive repression of the protest movements and the general escalation of violence, whose overall toll now exceeds 6,000 dead from all sides and tens of thousands of detainees. These local communities suffer from low human development indices (largely due to the policies of the economically liberal/politically authoritarian regime), as well as material and human poverty. This is the major standard for measuring the state of the developmental process, i.e. perceiving economic affairs from the perspective of human development.

In order to resolve these problems, the Syrian economy must achieve a growth rate of no less than 6-7 percent for several years, but it is expected that the negative growth registered in 2011 will continue in 2012 if the broader situation does not change. This economic regression will be accompanied by a rise in general budgetary spending, with military-security outlays (especially for domestic security purposes) reaching unprecedented levels. Military-security expenses may be the largest spending item in the current year, whether in terms of the general budget or gross domestic product. Other foundational challenges include: the frailty of the internal (institutional) and external (developmental) competence of the command and control system, as well as its executive arm (the government), in terms of confronting the effect of the sanctions on Syria's macroeconomy. Further compounding the challenge is the "fireman" doctrine in the management of crisis situations. The Syrian economy was able to bear an increase in the budget deficit a (a shortfall considered acceptable from the macroeconomic point of view) until the middle of last year, and to use temporarily the resulting inflation in the process of social containment. But

[17] This study was prepared by Rabi' Nasr and Zaki Mahshi under the title "Determinants of participation in the labor force in Syria 2001-2010", presenting it in the 51st Science Week, the theme of which was "Demographic changes in Syria and their developmental dimensions" (November 12-23, 2011, Damascus University). The study adopted two methodologies to analyze this phenomenon, the first measuring the virtual gap between the labor force, if the participation rates for 2010 persisted, and between the actual figures for 2009. The study showed a labor force gap of 1.175 million Syrians (15 years and older) who are outside the labor force. If these individuals were added to the labor force, and if employment opportunities remained as they are, the unemployment rate would reach 24.4 percent compared to 8.1 percent in official statements. *Ibid*.

using inflation to finance deficit spending can transform a temporary shortfall into a structural characteristic that can undermine macroeconomic stability. However, in light of dwindling oil revenues – resulting from the halt of petroleum investments and exports – and limited tax receipts, major gaps will open up. The 2012 draft budget began with a primary deficit exceeding 27 percent of total spending; therefore, the budget will rely on withdrawals from the reserves and the external sources for over 39 percent of total receipts. This revenue structure reflects the limited and fragile character of budget revenues.[18] These instabilities will have negative effects on all other macroeconomic indices.

In 2012, the government will have to use inflation to pay the salaries of its civil servants, some 1,660,494 employees who account for 21.3 percent of the total active workforce (estimated at 4,999,230 workers) and whose families constitute no less than 5.9 million citizens.[19] This figure remains less than those employed by the state in 2005, who represented 27 percent of the total active workforce, due the freezing of the policy of mass hiring by state entities. The salaries of these state employees amount to approximately 60 percent of total budget expenses, making them the social base for the typical "patronage" relationship that exists between all authoritarian regimes (as the biggest "employer" in society) and those who are "provided for" by the state, and/or directly or indirectly employed by it (earning a second income), in exchange for their loyalty.[20]

Despite all the challenges ahead, the likely effects of sanctions on Syrian society and macroeconomic stability are compensated for in part by margins for maneuver in terms of evading sanctions. Thanks to the US penalties dating back to 1980, the Syrian economy has gained significant experience and flexibility in dealing with sanctions. Syria's economy is also characterized by diversity and by considerable potential in the agriculture and light industry sectors, including the food industry. These fields are productive and vital, meaning that they have the capacity to reshape themselves to adapt to the crisis – especially since Syrian enterprise, theoretically, has much practical experience within such environments. However, the current sanctions differ from earlier ones by being more severe and stifling in terms of the magnitude of their effect, which is aimed at undermining the economic balance supporting the military-security-political command and control complex.

[18] Nabil Marzuq, "Economic sanctions: a slow stifling of the Syrian regime", Op. Cit.
[19] The Central Bureau for Statistics, The 2009 workforce survey, table 3-13 (the figure excludes those working for the presidency of the republic, the presidency of the council of ministers, and the construction companies in the military sector).
[20] Mohammed Jamal Barout (main author), "Surveying paths, the Syria 2025 Project", p.258. Quoted in: Constantine Zaman, A Review of the Syrian Economy, V. 1, Issue 1, Damascus 2006

The "fireman" policy and the Iraqi-Iranian alternative channels: between aspirations and realities

With the sanctions designed to cripple the regime by end-2012 at the latest, the leadership's strategy for crisis management relies on what scholars in the field dub "the fireman policy", a belated attempt to compensate for the absence of a comprehensive structural development policy.

The alternative channels that could be used to evade the effects of the sanctions are related to the geo-strategic quasi-rents that have been obtained by the Syrian leadership. The Syrian margin of maneuver consists, therefore, of both geo-strategic rentier margins and productive economic ones – a situation produced by the development of the Syrian crisis and the fact that it has acquired regional dimensions. In this regard, the Syrian leadership (as part of its determination to maintain control) is preparing to confront a protracted crisis by relying on the emergence of a new geo-strategic and economic system in the region, a connected market composed of Lebanon, Jordan, Iraq, and Iran.[21] Such ambitions continually raise questions about the extent to which such joint projects are subject to the changing whims of political conflict, as happened to the Turkish-Syrian strategic integration in the past year, and as has been witnessed in many instances with secondary Arab coalitions.

Under the former functionalist division of the Arab system into "support states" and "front-line states", geopolitical rent was one of the most important sources of financing for Syria's economic growth between 1970 and 1995. Since this rent had diminished, especially over the past decade, only to reappear in the context of economic agreements and treaties with Iraq and Iran, including monetary, in-kind, and petroleum grants reaching a total value (according to preliminary data) of approximately USD 22 billion[22] – at least half of which is to be spent in 2012. This figure seems extremely high, especially if compared to the 2012 Syrian budget of

[21] The Iraqi-Syrian vision (and, implicitly, the Iranian one) consists in the emergence of an Iraqi-Syrian "special common market", as well as a broader Syrian-Iraqi-Lebanese-Jordanian common market that is integrated with Iran. This would entail the emergence of a large Levantine economic entity (and, by extension, a geopolitical entity). However, this remains a project for the medium term, if not for the long one, and therefore remains vulnerable to the influence of political whims and shifts in the region. The emergence of a Levantine-Iranian common market requires time, and the West will not stand idly by because, from the perspective of the realist school of international relations, this project would be tantamount to the creation of a new sub-regional entity situated within Iran's sphere of influence. This market represents the method of the risk-taker in sketching the future, which is equivalent to the "proactive" doctrine in the strategic management of the future, to use the terms of Michel Godet, while the ACRPS's Policy Analysis Unit adopts the hypothesis that the Syrian regime follows the "fireman" doctrine, which is a "reactive" stance.

[22] According to some of the available data, Iran has provided Syria with USD 3 billion as a grant, and signed agreements to provide USD 9 billion by the end of the first quarter of 2012. Iraqi support is valued at around USD 9 billion, with Iraqi Prime Minister Nuri al-Maliki denying it resulted from Iranian pressure and attributing it instead to the need to help Syria control its own borders in order to prevent the infiltration of "terrorists" into Iraq. Multiple economic agreements have been signed between Syria and Iraq in the fields of health, trade, and investment; and July 2011 saw the signing of an Iranian-Iraqi-Syrian gas investment pact worth USD 10 billion. Compare with: "Iran forces Al-Maliki to support Asad with USD 10 billion", Al Qanat website, February 8, 2011, http://alqanat.com/news/shownews.asp?id=127072.

USD 25 billion.[23] This support provides alternative channels for the Syrian economy to escape the grip of sanctions at the height of the crisis (especially in terms of "fireman" priorities). Iraq's share of the support package (around USD 10 billion) equals the total value of commercial trade between Iraq and Turkey.[24] The sum is relatively small compared to the size of the Iraqi budget (USD 120 billion for 2012), but it would be a very large figure for the Syrian economy if it were dispersed therein. In the long run, this aid is based on the aspiration to build an Iraqi-Syrian common market that was agreed to in 2010.

The fact is that until recently, economic relations were the weakest link in the strategic relationship between Syria and Iran. The partnership between the two countries was veritably strategic in the technological and political fields – allowing Syria to obtain strategic technologies that require financing in order to be turned into products. However, with the emergence and complication of the Syrian crisis, which turned the country into an arena for competition among international powers, resolving the situation became – for the Syrian regime and its allies – a decisive moment in the fate of the Arab Levantine system, specifically its regional and international relations. Consequently, priority was given to providing economic safety nets designed to save the Syrian regime from the heavy impacts of sanctions. As a result, both Iran and Iraq have adopted generous policies of encouraging Syrian exports.

This included Iraq's facilitating the entry of Syrian products for six months without the need for either quality certificates or consular accreditation. At the same time, Iran bought up most of the excess Syrian production at preferential prices and conditions, which was done for geopolitical reasons. Iran quickly set up the legislative framework for this exchange, the centerpiece of which was the establishment of a free trade zone and the waiving of 60 percent of the customs fees due on USD 1 billion worth of Syrian goods from a list of 68 products. This could be seen as an attempt to diversify imports into Iran, with a population of 75 million, one of the largest consumer markets in the region. These moves explain why many Syrian industrial establishments, especially in Aleppo, are functioning at full capacity to meet the needs of the Iraqi market. The shrinking of Syrian supplies to the Iranian market is related to the needs of the Iraqi market, which is hungry for Syrian products known for high quality and low cost compared to Iranian goods. The low prices and high demand for Syrian products were further fueled by a fall in the Syrian pound's exchange rate versus the dollar, a decline that generally spurs exports. In fact, falling currency values can prompt an economic revival when associated with clear socioeconomic policies and a strong, balanced economy. Personal interviews with a number of Syrian industrialists have indicated that some factories, following a period of operating well below capacity, have returned to producing at full output to meet Iraqi and Iranian demand, as well as other – unannounced – contracts concluded with many other Arab states. The result of

[23] The Syrian government has approved a draft budget for 2012 amounting to about 1,326 billion Syrian pounds (the Syrian Central Bank has recently sold several million dollars at a price approaching 51.3 Syrian pounds to each dollar; as such, the size of the budget would be equal to USD 26.5 billion). (Nabil Marzuq "Economic sanctions: a slow stifling of the Syrian regime", Op. Cit).

[24] Iraqi Foreign Minister Hoshyar Zebari, British Broadcasting Corporation, BBC, December 16, 2011.

these moves was that the trend of firing workers has been reversed, with demand rising for qualified labor.[25]

On the other hand, questions persist regarding the ability of Syrian production to meet this demand given the escalating effect of the sanctions. In fact, the available opportunities appear larger than the abilities of Syrian industry in the current complicated circumstances. Increasing the scale of commercial trade is not sufficient to resolve a structural-political-social crisis. For example, trade between Syria and Iraq rose from approximately USD 2 billion in 2010 to more than USD 5 billion in 2011, and Iraq expressed "hope" for a figure of USD 7 billion in 2012 (based on an estimate of Syria's production capacity).[26]

It appears that Syria's manufacturing sector is undergoing what is described by a large number of its captains as a "golden age". The industrialist who relies on local primary materials achieves a profit of 100 percent, while those manufacturing with imported ones gain between 40 and 60 percent in profit – and competition from Turkish products has disappeared with the cancellation of Syrian-Turkish agreements[27]. On the other hand, declines in industrial production have been noticeable in tense regions, especially in the countryside of the provinces of Idlib, Hama, and Homs. Numerous large and mid-sized establishments have been forced to cease or reduce operations, while others suffer from rising production costs due to the sanctions and the flaring of rebellion in the areas in which they are located. The existence of alternative channels for the Syrian economy does not mean that the productive sectors will not face massive losses, only that the ability to persist has been made possible in the short term, at least for a year, so long as Iraqi and Iranian readiness to import Syrian products continues, and so long as Syrian industry continues to find suppliers for the necessary primary materials in East Asian countries as stand-ins for its previous access to the Turkish market.

On the level of the private sector as a whole (which, according to 2010 figures, accounts for about 64.7 percent of GDP), the effects of the crisis are reflected in the loss of economic balance and the rise in production costs. However, the skills garnered by the Syrian private sector through its long experience allows it to find alternative sources in the short term, whether by importing for the benefit of the government through the bidding system or as a direct supplier. The Syrian private sector also enjoys extensive experience in foreign trade through barter trades, the exchange of goods according to value, or even the classic bill of exchange system, which is sometimes faster and more practical than official banking systems when confidence is strong between the parties.

However, these alternative channels represent temporary solutions which raise the costs of production, and of imports and exports. This is due to the fact that the sanctions are specifically

[25] Personal interviews in late December 2011 with several Syrian industrialists.
[26] "Negotiations between the Iraqi commercial attaché with the Aleppo chamber of commerce", *Al-Watan*, January 12, 2012; numerous interviews in early 2012 with a number of industrialists and merchants- in Aleppo.
[27] Interviews with a number of industrialists and members of the Aleppo Chamber of Commerce.

designed to stifle the strategic nervous system of Syrian macroeconomy, leading to the paralysis of entire sectors, such as the service industry. A bleak scenario could therefore emerge with the persistence of the "fireman" policy beyond the capacity of the alternative channels (which can lessen the effects of the sanctions but not eliminate them). This would be compounded by the effects of continuing macroeconomic instability, which can only be controlled to a limited extent by the "fireman" policy – which itself is undergoing continual decline in its financial and monetary tools of intervention, confusion in its socioeconomic policy, and institutional fragility.

Conclusion

It could be imagined that the year 2012, with the persistence of the "fireman" doctrine, will see Syria's macroeconomy enter a critical phase after a long period of apparent stability, which would greatly affect the balance of forces maintaining control over political system, without that automatically signifying the collapse of the political system of this complex. However, such an eventuality would weaken the regime and greatly limit its ability to command and control, engendering new balances or opening a new stage with multiple possible outcomes. In our estimate, as the decisive year for the sanctions, 2012 will be a crossroads year.