Directorate of Intelligence

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Syria: Living on Aid

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An Intelligence Assessment

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NESA 85-10167
August 1985

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An Intelligence Assessment

This paper was prepared by Office of Near Eastern and South Asian Analysis. It was coordinated with the Directorate of Operations. 25X1

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Comments and queries are welcome and may be directed to the Chief, Arab-Israeli Division, NESA,

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Syria: Living on Aid

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Key Judgments

Information available as of 22 July 1985 was used in this report.

Syria's economy is in terrible shape and is unlikely to improve for at least two years, when its new oilfields are developed. Real GDP has declined over the last three years, foreign exchange reserves are practically nonexistent, and the current account has been in deficit for the last five years. The economy suffers from incompetent managers, corrupt officials, and the malaise and inefficiency of a centrally planned system. The country is also burdened by a defense budget that consumes 55 percent of its current expenditures. This burden will not be appreciably reduced by Syria's recent partial troop withdrawal from Lebanon. 25X1

Syria has survived on foreign aid from disparate sources. Arab aid, institutionalized under the Baghdad Agreement of 1978, provides the bulk of Syrian financial assistance. Iran supplies most of Syria's oil imports, some free and the rest at discounted prices. The Soviet Union supplies Syria with the military equipment and training it needs under relatively generous terms. 25X1

Despite Syria's dependence on foreign donors, President Assad has maintained foreign policy independence and adroitly used his country's political and geographic position in the Middle East to exact aid with few strings. Syria's alliance with Iran in 1982, which went directly against the interests of its Arab donors, is the most blatant example of this ability. 25X1

Although Syria's economic prospects have brightened with the discovery of two new oilfields, the new oil revenue will not cover the current account deficit, and Damascus will still need foreign aid. These fields could produce enough oil within two or three years to displace most of Syria's oil imports. Under current contracts Syria will have to share its new oil wealth with its US, West German, and Dutch partners, however, substantially cutting the benefits the country will receive. 25X1

Syria will face at least two years of increased economic vulnerability, especially if relations with Iran deteriorate. The Iranian-Syrian alliance—formed in 1981-82 after the start of the Iran-Iraq war—was based on mutual hostility toward Iraq and its President, Saddam Husayn. Iran gained a conduit for arms and the cutoff of the Iraq-Syria pipeline, while Syria gained a political ally and substantial economic reward. A break in Syrian-Iranian relations is likely to occur, however, if the Iran-Iraq war

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ends or as a consequence of increasing tension over Iranian or Hizballah activity in Lebanon. In addition, the economic rationale for the Iranian-Syrian alliance will end once Iraq finishes its alternative oil export routes through Saudi Arabia and Turkey. 25X1

Arab financial aid—the other major component of Syria's nonmilitary aid—will continue to decline, and Syria will have to cope with an economic recession, large balance-of-payments deficits, and heavy defense expenditures. Syria's poor economic situation and its dependence on foreign aid, however, are unlikely to force a moderation of Syrian policies at home or abroad. 25X1

Assad probably will continue to take advantage of changing political circumstances to squeeze financial aid from other states. In addition, he will be looking ahead to exploitation of Syria's newfound oil reserves and is unlikely to moderate his policies to ease what he perceives is temporary hardship. If Syria's economic condition continues to deteriorate even when the new oilfields are developed, Damascus probably will look for ways, including expropriation, to increase its share of the newfound oil. 25X1

Syria's economic situation is not so bad that it will threaten President Assad's rule. Popular criticism of economic mismanagement to date has been directed at underlings, not Assad. In addition, the Syrian Government has continually stressed the need for economic sacrifice on the part of the people, and the population does not have unfulfilled expectations that could generate increased unrest. 25X1

Political dialogue—rather than an attempt to take advantage of Syria's poor economic condition—offers the United States the best opportunity to influence Syrian policy. Damascus has been receptive to high-level US delegations and demarches and was moved to assist in the TWA hostage crisis—where Syria shared a mutuality of interest in ending the takeover. On the other hand, Syria reacted very negatively during the fall of 1983 to what it perceived as political and military pressure. 25X1

Should economic pressure be applied, Syria has two donors, the Soviet Union and Iran, who would be willing to increase their assistance to counter any move by the United States. Few inducements would move Syria away from these supporters. Even if the United States could persuade Saudi Arabia to end its financial aid—an unlikely possibility—Syria would not be moved to change the basic policies it has followed for the last two decades. 25X1

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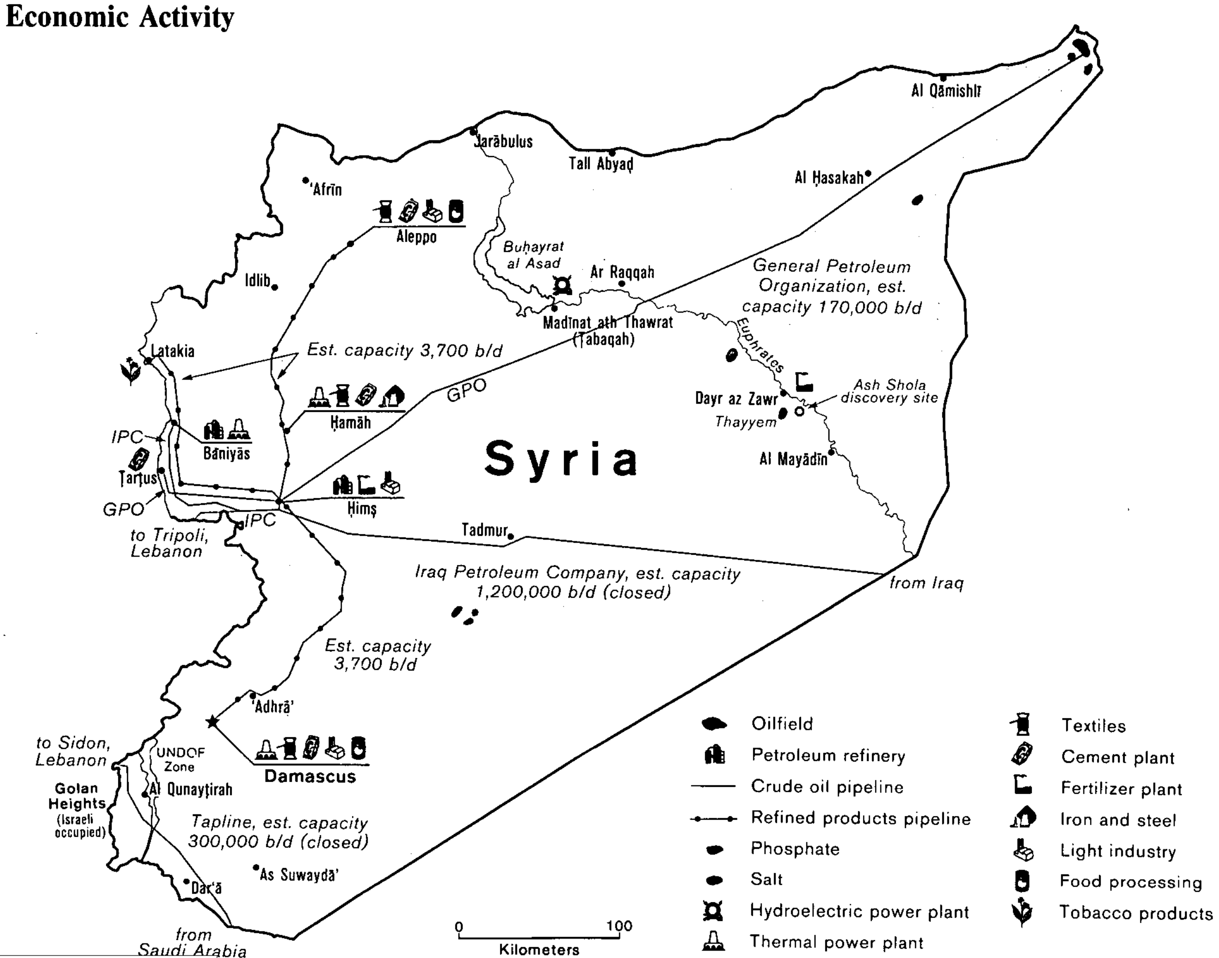

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Syria: Living on Aid [redacted] 25X1

Three Years of Economic Decline

Contrary to Syrian statistics, we estimate that Syria has been experiencing three years of economic decline. According to official Syrian data, GDP grew at just over 3 percent per year in real terms in 1982 and 1983. Given last year's economic activity, Damascus probably will report real growth of between 0 and 2 percent for 1984. Syrian official statistics understate real inflation, however, thus real growth—as reported by the Syrians—is overstated by at least the amount that inflation is understated. We believe that real GDP probably declined as much as 10 to 15 percent last year and 5 to 10 percent during 1982/83. [redacted]

Press and US Embassy reports indicate that real price rises, often reflected in the black-market price of goods and foreign exchange, were at least 10 to 20 percent greater than the official rate during the last three years. This is the result of Syria's comprehensive system of price controls covering virtually all consumer goods, both imported and domestic, and of government subsidies on several essential goods and services. Moreover, Syria's price indexes are misleading because they cover only limited geographic regions and are based on outdated surveys. [redacted]

With one of the highest population growth rates in the Middle East—3.7 percent per year—Syria has experienced an even greater decline in economic growth when it is viewed on a per capita basis. Living standards have deteriorated, with many government workers now holding second jobs. Civil servant pay has been frozen since 1980. [redacted]

The Syrian economy suffers from incompetent managers, corrupt officials, and the malaise and inefficiency of a centrally planned economy. [redacted] delegates to the Ba'th Party congress in January cited numerous instances of this inefficiency and corruption when criticizing Syria's economic performance. One delegate implied that the payment of commissions to high-level officials had resulted in the importation of low-quality rice from East Asia. Another spoke of $600,000 worth of medical equipment deteriorating for 18 months in a port warehouse because it was bought to generate commissions even though it was not needed. In another instance, a showplace pulp and paper plant was built in central Syria even though the country did not produce enough extra straw—the mill's source of pulp—to run the plant. [redacted] 25X1

Even though middle-level Syrian officials recognize that Syria's position could be helped by reform of its multiple exchange rate system (see table 1) and devaluation of the pound, they have avoided these reforms. The government fears the popular reaction to domestic price increases that such a move would generate. As a consequence, the official exchange rate is about one-third that of the black-market rate, the government is critically short of foreign exchange, and, according to US Embassy reporting, importers must wait a year to a year and a half for official hard currency transactions to be approved. [redacted] 25X1

Excessive government involvement has been a major cause of the decline of the Syrian economy. According to Syrian statistics, an estimated 51 percent of GDP is accounted for by the public sector. The public sector accounts for nearly 85 percent of Syria's imports and almost 90 percent of its exports. Syria's poor economic performance has been worsened by the slump in oil prices over the last few years, which cut export revenue, and by a drought that cut into cotton, wheat, and other agricultural production. The price of Syrian crude has fallen from a high of about $36 per barrel in 1980 to about $26 per barrel today. Cotton exports—formerly a major source of revenue—totaled only $150 million last season compared to $280 million the season before. [redacted] 25X1

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In addition, the economy has been heavily burdened by Syria's defense budget, generated by its actions in Lebanon and its efforts to catch up with the Israelis

Table 1
Syrian Exchange Rate System

Rate	Uses
Official rate 3.925 pounds/US $ (Not changed since 1976)	Used for most public-sector imports and exports and for service and financial transactions associated with public-sector trade. Also used for public-sector capital transactions.
Parallel rate 5.425 pounds/US $ (Not changed since 1981)	Used for private-sector imports and most agricultural, textile, and engineering and chemical industry exports. Used for service and financial transactions associated with private-sector trade.
Tourist rate 8.25 pounds/US $	Used for private, including worker, remittances; for tourist receipts and payments; and for interest paid on foreign exchange accounts held in Syria.
Ad hoc rate set by Central Bank	Used for private-sector capital transactions and for private-sector exports not covered under the official and parallel rates.
Black-market rate 11 to 12 pounds/US $	Unofficial market for capital transactions.

militarily. According to US Embassy and press reporting, the defense budget accounts for about one-third of the total budget and about 55 percent of current expenditures. Although Syria's recent partial troop withdrawal from Lebanon will cut defense expenses, these cuts will not have a major impact on the defense budget or on the Syrian economy. The units that were withdrawn will be maintained in Syria, and approximately 30,000 Syrian troops remain in Lebanon.

Chronic Balance-of-Payments Deficits

Over the last five years, Syria has experienced current account deficits averaging almost $1.9 billion per year for its civilian sector alone (see table 2). When military imports are included, the average annual current account deficit almost doubles to an estimated $3.6 billion. Recent military imports are financed under relatively generous terms—with lower interest rates and longer payback periods compared with sales to other countries—by the Soviet Union, while the civilian deficit has been financed by aid payments from other Arab countries and by a buildup of Syrian foreign currency debts.

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Exports of crude oil and refined products, three-fourths of Syria's exports, have been hurt by falling oil prices and stagnant production levels in Syria's northeast oilfields. Syrian production has remained at about 170,000 b/d for several years while Syrian crude prices have fallen $10 per barrel from their early 1980s highs. Drought cut into Syria's agricultural exports last year and forced the country to import food, including a record 1.4-1.5 million metric tons of wheat. According to the US Department of Agriculture, Syrian food imports rose from $600 million in 1982 to $900 million last year. 25X1

Syria must import more expensive light crude oil to mix with its domestic heavy crudes for its refinery operations, putting Syria's oil trade into approximate balance in value terms. Crude oil, primarily from Iran and Libya, and oil products account for about one-third of Syria's imports. 25X1

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Although industrial supplies make up the next largest category of imports, numerous press and US Embassy reports have discussed the shortages of imported parts and materials faced by Syria's factories. The inefficiency of the Syrian system is illustrated by the fact that Syria closed three sugar mills last year despite the need to import nearly $50 million worth of sugar per year. The government could not induce Syrian farmers to produce enough sugar beets or arrange for beet collection and distribution to the mills. The mill workers continued to be paid despite the lack of work. 25X1

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Table 2
Syria: Balance of Payments, 1980-84 [a]

Million US $

	1980	1981	1982	1983	1984 [b]
Current account	−2,160	−2,170	−1,510	−1,989	−1,600
Trade balance	−1,898	−2,458	−1,566	−2,115	−1,700
Exports (f.o.b.)	2,112	2,097	1,903	1,845	1,950
Crude oil	1,334	1,209	974	1,004	NA
Imports (f.o.b.)	4,010	4,555	3,469	3,960	3,650
Services, net	−399	−259	−362	−314	−300
Private transfers	137	547	418	440	400
Official transfers	1,520	1,711	1,292	1,217	1,000
Other capital	−32	128	20	359	NA
Errors and omissions	−25	−15	−32	49	NA
Overall balance	**−697**	**−346**	**−230**	**−364**	NA

[a] Excludes military transactions.
[b] Estimated.

[redacted] 25X1

An Unhealthy Balance Sheet

Syria has been plagued by foreign exchange shortages for several years. Damascus's official foreign exchange position was last published for the third quarter of 1983 when it was listed at $94 million. We estimate that, with some fluctuations, Syria probably has maintained average monthly hard currency holdings of about $75 million since then—equal to about eight days' worth of civilian imports. According to US Embassy reporting [redacted] President Assad also controls a foreign exchange account that he can draw on in emergency situations, but it is unlikely that this account totals more than $100 million, given the current state of Syrian finances. According to US Embassy reporting, Syria's clearing account with the Soviet Union has a positive balance for Syria on civilian transactions that is used to make occasional reductions in Syria's massive debt to the USSR for military deliveries. Damascus retains gold holdings of 833,000 troy ounces, worth about $260 million. [redacted]

Syria's hand-to-mouth existence often leads to acrimonious financial relationships with many of its suppliers. Syrian stalling in paying Iran for oil has resulted in recurring delays in the loading of Syrian-chartered tankers. There have also been payment disputes with East European suppliers, although, according to the US Embassy, Syria seems to try to maintain good relations with the Western firms with which it deals. [redacted] 25X1

In the press, Syrian officials like to point with pride, unjustifiably so, to Syria's relatively small civilian hard currency debt. The bulk of this debt, reported to total about $3 billion, is on concessionary terms. This figure, however, probably does not include Syria's oil debts to Iran, which we estimate to be as much as $1.5-1.7 billion, and certainly does not include its military debts to the Soviet Union. Although we have little information on Syria's military debt, based on

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our analysis of arms deliveries and probable payback schedules, we believe that it totals at least $7 billion, with payments, except those made by barter, presently suspended. [redacted]

Help From Varied Donors

Syria has survived the last few years financially through President Assad's adroit capitalization on his country's political and geographic position in the Middle East. Aid from several disparate sources reduces Syria's vulnerability to external economic pressure. By remaining the Soviet Union's closest ally in the region, Assad has assured his country of the supply of military hardware and training to confront Israel. He has exploited Syria's role as the only credible Arab confrontational state against Israel to obtain financial aid from other Arab countries, predominantly Saudi Arabia. Lastly, by allying himself with Iran against Iraq and shutting down the Iraq-Syria pipeline, Assad has been able to extract oil aid from Iran. Iranian aid has gone far beyond the original scope of the agreements because of Syria's inability to pay for Iranian oil even at discounted prices. To maintain its relationship with Syria, Iran has had either to forgive past debts or reschedule these oil debts into interest-free loans. [redacted]

The Financial Donors

Syria's main sources of financial aid for the last six years have been other Arab states. This aid was institutionalized under the Baghdad Agreement of 1978, under which Syria was to receive $1.85 billion a year for 10 years (see table 3). Saudi Arabia has been the only country to keep up its payments consistently since 1979. Libya and Algeria have never paid, and Iraq stopped payments when Syria allied itself with Iran in 1982. The oil glut and subsequent revenue declines caused Qatar, Kuwait, and the UAE to suspend payments in 1982-83. [redacted]

Kuwait resumed Baghdad payments to Syria in September 1984 at 60 percent of their former level, which would total $174 million a year. The Kuwait National Assembly recently voted to suspend these payments

Table 3
Syria: Annual Baghdad Aid Commitments 25X1

Million US $

	Commitments	Possible 1985
Total	**1,850.0**	**586.7**
Saudi Arabia	528.6	528.6
Kuwait	290.7	58.1
Libya	290.7	
Iraq	274.9	
United Arab Emirates	211.4	
Algeria	132.1	
Qatar	121.6	

[redacted] 25X1

again to express Kuwait's dipleasure over Syria's support of terrorism, its alliance with Iran, and its actions in suppressing pro-Arafat Palestinians in Lebanon. The US Embassy reports, however, that the Kuwaiti Government will continue to provide $174 million in financial aid to Syria on an ad hoc basis, no longer calling it a Baghdad aid commitment. [redacted] 25X1

In addition to its Baghdad commitments of $529 million a year, Saudi Arabia has made other payments to Syria in the last few years. 25X1 These extra payments have totaled between $100-300 million a year since 1980. We believe at least $100 million a year of these payments went into the account controlled by President Assad. Saudi Arabia also provides financial assistance through development loans and interbank deposits. According to the Syrian Official Gazette, Syria and Saudi Arabia agreed last 25X1 September to reschedule an overdue repayment of a $220 million interest-free industrial development loan and a $200 million Saudi deposit made in 1975 with 25X1 the Syrian Central Bank. [redacted]

Although Libya never met its Baghdad aid commitment, US Embassy [redacted] reporting 25X1 indicates that Tripoli provided $200 million in financial aid to Syria in early 1984 and possibly $120

million this year. [redacted]
Libya occasionally provides Syria with free oil. [redacted]

Arab financial aid to Syria peaked in 1981 at about $1.8 billion and has declined every year since then. Financial aid probably totaled $900 million to $1 billion in 1984, which covered approximately 60 percent of Syria's estimated civilian current account deficit. Based on probable 1985 donors, Arab aid payments are likely to fall again this year, probably to about $800 million. [redacted]

Oil Aid From Iran

Syria profited handsomely from the oil deals it worked out with Iran following the closing of the Iraq-Syria oil pipeline in April 1982. Because of Syria's inability to pay its oil debts, Iranian aid to Syria during the first two years of their oil relationship was about four times greater than what Iran had agreed to. [redacted]

Syria's delaying tactics in paying its oil debts pushed Iranian aid in dollar terms to about $1.3 billion in 1982 and 1983. Last year, however, the Iranians appeared to have held the Syrians more in line, and aid in dollar terms—that is, the free oil, the discount, and delayed payments—may total $600-700 million. [redacted]

Politically Independent Despite Economic Dependence

Despite Syria's poor economic condition and its dependence on outside aid, President Assad has shown a keen ability to extract financial aid without strings. This has been particularly true in terms of his main financial backers, Saudi Arabia and Kuwait. Syria's alliance with Iran and the cutoff of the Iraq-Syria pipeline in 1982 went directly against Saudi and Kuwaiti interests and desires. This alliance came about despite talk at one point by the donors of cutting off aid payments to Syria and, at another point, of providing additional funds—ranging up to several billion dollars—if Syria would reopen the pipeline. Instead of altering Syrian policy, Saudi Arabia and Kuwait found themselves continuing aid to Syria while simultaneously providing large support payments to Iraq. [redacted] 25X1

Saudi and Syrian interests have diverged over other issues as well, but Riyadh is unwilling to antagonize Damascus by reducing its aid. The Saudis dislike Syria's confrontational approach to foreign policy and desire an Arab consensus on Middle East issues. Syria's belligerent attitude toward Jordan and the Hashemite monarchy conflicts with the Saudi desire to maintain the regime in Amman. Syrian training, support, and sponsorship of terrorist groups are also a

The Syrian-Iranian Oil Relationship 25X1

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During 1982/83, Iran provided Syria with over 7 million tons of oil—1 million tons free and most of the rest at discounted prices. When Syria failed to pay nearly $1 billion in oil debts accumulated under that agreement, Iran ultimately forgave the debt. [redacted] 25X1

Under the 1983/84 and 1984/85 contracts, Iran provided 1 million tons of free oil annually and 5 million tons at $2.50 per barrel discount. The free oil plus the discount cost Tehran about $300 million per year in direct aid. Syria, however, again failed to pay its oil debts during the 1983/84 contract period, and nearly $1 billion in Syrian oil debts were converted into interest-free loans. [redacted] 25X1

Syria was to start paying $20 million per month on these loans on 31 May 1985, but it is highly unlikely that it can come up with the cash to meet these payments. Syria is once more behind on its oil payments for last year's contract with no settlement in sight. A new contract has been signed, but the problem of the debts still hangs over the relationship. Iran is likely to proceed with the agreement but may delay shipments—as it has in the past—as a sign of its displeasure. [redacted] 25X1

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source of grave concern to Riyadh. Lastly, Syrian actions to undermine Yasir Arafat and suppress his supporters in Lebanon go against Saudi policy. [redacted] 25X1

Syrian policy is only starting to conflict with that of its other major benefactor, Iran. The Syrian-Iranian relationship is based on hostility toward Iraq and President Saddam Husayn—and, to a lesser extent, toward Israel. From the Iranian perspective, Iran has gained an Arab ally, a conduit for arms, and an entry into the Middle Eastern arena through Lebanon, as well as the closure of one of Iraq's major oil export outlets. Syria has gained political support and a substantial economic reward. [redacted]

This mutuality of interests is subject to strain, however, since Iran's Islamic revolutionary goals conflict with those of Syria. Syria is a secular country, and its ruling Alawite minority has violently suppressed its Sunni majority, including the massacre of thousands in Hamah in 1982. Iran's aim of establishing an Islamic republic in Lebanon is also radically different from that of Syria, which wants to maintain a secular regime, and Damascus may soon find itself having to orchestrate a crackdown on Hizballah activity there. [redacted]

Prospects Brighten on the Oil Front

Syrian economic prospects have brightened considerably over the last year. Development work has confirmed a major—by Syrian standards—new oilfield near Dayr az Zawr, in eastern Syria. The first discovery in the Thayyem field was made in May 1984 by Pectin Syria, which is owned by Shell USA, Shell International, and Deminex of West Germany. Oil being produced at the field is light and low in sulfur content, exactly what Syria needs to mix with the heavy crudes from its older fields. According to US Embassy reporting, Pectin also discovered a second oilfield, called Ash Shola, west of the Thayyem field. Oil in both is similar in quality to the crude Syria imports from Iran and Libya. [redacted]

Based on reserve estimates and probable field development, these fields have the capacity to displace most Syrian oil imports within two to three years.

Syria's New Oilfield

The Thayyem field is not fully delineated, but early estimates of the reservoir size indicate a minimum of 10-30 million barrels with a high probability of recoverable reserves of 300-400 million barrels, [redacted] 25X1

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As of mid-February three deep wells and several shallow wells were producing, and the oil was being trucked south to the T-3 pumping station on the Iraq-Syria pipeline. There the oil was being used to pressure test the line that will be used to carry crude from the field to the Hims refinery and/or to the coast for export. A spur pipeline is planned to connect the Thayyem field to the Iraq-Syria pipeline. [redacted] 25X1

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Production earlier this year was averaging about 5,000 b/d and was scheduled to increase to as much as 10,000 b/d as the logistics of trucking the oil are worked out. Once the spur pipeline is completed, now projected for spring 1986, production is expected to increase to 60,000 b/d. Depending on future field development, production is forecast to average over 100,000 b/d by 1988, [redacted] *Eventually production may reach 150,000 b/d.* [redacted] 25X1

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At the end of April, Syria signed an agreement forming a joint-venture production company, Al Furat Petroleum, which will be responsible for commercial production from the Thayyem field. Syria will hold 51 percent of the company, with the foreign owners of Pectin Syria owning the remainder. Nader Nabulsi, Syria's Deputy Minister of Oil, was named chairman of the board and managing director of the company. According to the US Embassy, Nabulsi is a strong decisionmaker with direct access to President Assad. He probably can override many of the petty bureaucratic tieups that normally plague Syrian economic activity. Progress may be slow, however, as the Syrians grope with their first large foreign investment joint venture in many years. [redacted] 25X1

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This would free Damascus from its dependence on Iran, but it would not mean prosperity. Syria's 1984 civilian current account deficit—before deduction for foreign aid—totaled about $1.1 billion. Of this amount about $1.1 billion went for oil imports. Thus, Syria would still need $500 million in aid to cover its deficit. [redacted]

Syria will also have to share its new oil wealth with its foreign partners. Press reporting indicated that Syria signed production-sharing agreements giving 25 percent of the oil produced to its foreign partners. [redacted] If all the new oil were to remain in Syria, Damascus would still have to come up with the hard currency—over $400 million a year at 100,000 b/d production—to pay for its foreign partners' share. [redacted]

Given Syria's scarcity of foreign exchange, we believe Damascus will seek to increase its share of the revenue once Thayyem production increases substantially. This could be accomplished through increased taxation of the foreign companies, forced renegotiation of the production-sharing agreements, or outright expropriation. [redacted]

But Economic Vulnerabilities Could Increase

Although Syria's economic prospects have improved considerably with its new oil discoveries, Damascus must still cope with an economic recession, large balance-of-payments deficits, and continued heavy defense expenditures. So far, there have been no radical changes in the regime's economic philosophy and no meaningful shifts in its economic planning that would cause an economic turnaround. The last five-year economic plan—which emphasized industry and infrastructure development—produced lackluster results in most cases and outright failures in others. For example, Syria's showplace pulp and paper plant project in Dayr az Zawr closed after it was discovered that it was cheaper to import paper than to run the plant. Although the next five-year plan starting in 1986 will emphasize agriculture —a better prospect— the system is hampered by Syria's centralized socialist planning with its built-in inefficiencies. [redacted] 25X1

Damascus will continue to need outside aid. We believe, however, only Saudi Arabia is likely to make its payments consistently. [redacted] 25X1 25X1

Syria's political and economic relationship with Iran could unravel in the next two years. The oil agreements have cost Iran much more than it anticipated, and Iran's financial condition has deteriorated significantly because of its war with Iraq. The development 25X1 of new Iraqi oil export routes through Saudi Arabia and Turkey over the next two years will reduce most of the economic rationale for keeping the Iraq-Syria 25X1 pipeline closed. Once this happens, Iran may lose patience with Syria's delaying tactics on oil payments. The eventual end of the Iran-Iraq war will reduce Assad's ability to extract money from Iran. Lastly, 25X1 Syrian-Iranian differences over Iranian and Hizballah activity in Lebanon are likely to grow. [redacted]

There is a period of a few years in which Syrian 25X1 economic vulnerabilities could increase. Arab financial aid is declining at a time when Syrian-Iranian relations could deteriorate. Significant new domestic oil production is two or three years away and, depend- 25X1 ing upon the production rates and sharing agreement at the time, may not produce the dramatic improvement the country needs. [redacted] 25X1

Assad may try once again to take advantage of changing political circumstances to squeeze financial aid from other states. This could occur if a deteriorating Syrian-Iranian relationship gives Assad the opportunity to shift alliances, repudiate debts, and extract more aid from his Arab donors by acquiescing in a rapprochement with Iraq. [redacted] 25X1

Political Outlook

Syria's deteriorating economic condition causes some popular dissatisfaction with the government, but it will not be enough to bring about changes in its domestic or foreign policies or to threaten Assad's rule. Syria's poor economic condition, economic mismanagement, and corruption were major themes at the Ba'th Party congress last January, but criticism was not directed at President Assad. According to US Embassy and press reports, Assad also escapes popular criticism for Syria's economic problems, as most of the people appear to blame underlings. In fact, when conditions get really bad, Syrians seem to believe that President Assad will step in to fix the situation.

Although Syria's poor economic condition has caused some shifting of people at the ministerial level, it is unlikely to affect the regime's economic philosophy and domestic policy. The Syrian population has been conditioned to accept economic hardship as part of the struggle against Israel and has few expectations of better economic conditions. The Syrian Government has deliberately played down the new oil discoveries to avoid raising popular expectations or jeopardizing its oil aid from Iran.

Financially and militarily Syria is dependent upon foreign aid and is likely to remain so for the next few years. This dependence has not caused Syria to change its foreign policies, however, and is not likely to do so in the future. We believe Assad will continue to exploit Syria's political and geographic position. He has two major donors, Iran and Saudi Arabia, with opposing interests that he can play off against each other. In relations with the USSR, Syria's position as Moscow's best friend in the region will assure continued military aid and training despite policy differences.

Although a break with Iran would increase Syria's economic vulnerabilities over the next two to three years, Assad has coped with tough times before. He might seize the opportunity to repudiate debts to Iran and extract further Arab aid for coming to terms with Iraq or Jordan. Assad will also be looking ahead to exploitation of Syria's newfound oil reserves, and he is unlikely to moderate his policies to ease what he perceives is a temporary hardship. If Syria's scarcity of foreign exchange continues after increased oil production comes about, Syria could squeeze out its foreign partners and take over all of Thayyem's oil output.

Implications for the United States

Syria's poor economic condition and its dependence on foreign aid do not place the country in a position that could be exploited by the United States. Pressure on Syria from the United States probably would cause the Soviets and Iranians to increase their assistance rather than reduce it. Likewise, the United States can offer no inducements that would persuade Syria to change its basic policies or move away from its current allies.

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Although the United States could ask Saudi Arabia to end its financial aid to Syria, Riyadh is unlikely to do so. The Saudis have consistently met their Baghdad commitments despite major policy differences with the Syrians. In addition, Damascus probably would resort to thinly disguised threats of retaliation should Saudi largess cease. The Syrians would also turn to other donors, such as the Libyans, who probably would give small, but well publicized aid to embarrass the United States. Lastly, even if Saudi aid were cut, Damascus would not be moved to change its policies on basic national security issues.

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The Syrians, on the other hand, have shown an interest in receiving high-level delegations or demarches, which increase their prestige in the Middle Eastern arena. Political dialogue probably would be the best way to sway Syrian policy when some mutuality of interests exist. Syria was moved to intervene in the TWA hostage crisis when it perceived a chance to improve its international reputation and to demonstrate its ability to influence events in the Middle East.

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