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Syria: Facing the Economic Constraints of the 1990s [redacted]

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Summary

In the face of declining per capita output, the Syrian regime of President Hafiz al-Assad in the 1990s cannot reinvigorate its drive for military parity with Israel and simultaneously modernize capital plant and shore up sagging living standards. It will probably opt for maintaining military spending at the expense of investment and consumption. The major elements underlying this gloomy assessment are:

- Rapid Population Growth: The population growth rate of 3.8 percent, one of the highest in the world, will persist through the year 2000 because of largely immutable fertility and mortality trends.
- Pressure on Land and Water Resources: Land and water resources in some major cases have not merely peaked, they are declining. Even though Syria retains considerable potential for increasing its irrigated area, the amount and quality of untapped land has been shrinking under the pressure of urbanization and increased economic activity. New housing, factories, and roads take up cultivated acreage, e.g., in the Damascus oasis area. Drought and overgrazing are turning substantial tracts of rangeland into desert, sometimes irreversibly. Underground water tables are falling. The flow of the Euphrates across the Turkish border is down an estimated 7 percent from the level at the end of World War II, and a huge new Turkish dam/irrigation project now underway will take away a further 15 percent by the end of the 1990s.
- Massive Burden of Military Outlays: Since 1979, when Egypt withdrew from the Arab confrontation front, Syria has increased its substantial military allocations in a priority drive to achieve "strategic parity" with Israel. Total military outlays amount to

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roughly one-fifth of national output. The USSR has helped shoulder this burden by supplying more than \$10 billion worth of military equipment in the 1980s, without pressing Syria for payment of its accumulated \$15-billion military debt. Despite Syria's priority efforts, the Israelis maintain a substantial qualitative superiority in high-tech weaponry, tactics, organization, and military leadership.

- **Foreign Exchange Shortage and Prospects of Less Foreign Help:** Exports will continue to fall short of imports by about \$2 billion annually. Industry, increasingly short of foreign exchange for vital raw materials, equipment, and technology, will face the competing needs of the populace for a growing volume of imported foodstuffs and the needs of the armed forces for modern weapons and technology. The USSR, with its stagnating economy and mounting popular expectations, will be in no mood to raise its support level, and Syria already is deeply in arrears to the World Bank and Western creditors. Iran, which has been helping Syria with cut-rate oil, is financially bled after eight years of war and has already slashed its subsidy to Damascus. This leaves the oil-rich Arab states, who will be holding their purses a little tighter unless and until oil prices go up or another showdown with Israel occurs. Hard currency remittances from Syrians working and investing abroad have fallen off since the early 1980s. In brief, foreign economic subsidies, which have permitted Syria to live 20 percent beyond its national income in the late 1970s and early 1980s, will likely permit it to live only 10 percent beyond in the 1990s.
- **Drawbacks of the Ba'th Party Political-Economic System:** The Ba'thist system of improvised socialism fosters inefficient state ownership of major enterprises, rudimentary economic planning on a shaky statistical foundation, endemic corruption of officials in charge of licensing and procurement, shortages of industrial and agricultural goods, and widespread expatriation of capital. The result in the next decade will be continued frustration for the planners, continued resort by the populace to non-official channels of trade and finance, and continued cloudy prospects for foreign investment in Syria. Finally, the shortages of goods within the system and the setting of numerous prices and subsidies by the many-layered bureaucracy have combined to produce an on-going inflation now officially estimated at more than 50 percent a year, as well as a complex system of exchange rates between the Syrian pound and major world currencies.
- **Oil as an Exception to Dark Picture:** In this generally difficult situation, the petroleum sector stands out as an important bright spot. The discovery of substantial deposits of light, low-sulfur crude has raised hopes of meeting increased domestic consumption needs and generating a sizable export margin in the petroleum sector. Oil output, which had remained steady at 170,000 barrels per day in 1981-85, has risen by mid-1988 to

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roughly 250,000 b/d, and should shortly expand to 300,000 b/d or higher. While a substantial help, increased oil production is not a panacea for the pressures on Syria's economic resources.

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Estimated trends in gross domestic product and population indicate that per capita output peaked during the early 1980s, dropped 15 percent since then, and may well sink an additional 20 percent by the year 2000. These adverse trends have led the government to take austerity measures in 1986-1988 that included draconian restriction on import licenses, partial devaluation of the Syrian pound, indirect cuts in business and consumer subsidies, holds on new construction projects, and a slow-down in military modernization plans.

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So far, President Hafiz al-Assad has managed the growing disparity between objectives and resources with consummate political skill. Whereas Syria had 17 different political regimes between the withdrawal of the French in 1946 and 1970, Assad has provided 18 years of stable authority. The way in which his serious heart attack in late 1983 set off a fierce struggle for primacy among his closest associates illustrates his unique personal status.

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Outside observers do not know the degree to which Assad has institutionalized Alawite/Ba'thist rule nor can they foresee the identity and policies of his successors. Hence they cannot with confidence project the extent of socioeconomic disarray in a post-Assad Syria. On the one hand, the loss of his strong guiding hand in the 1990s could exacerbate Syria's deep-seated economic difficulties and could even touch off a collapse of the present minority-dominated political order. On the other hand, a more favorable economic outcome could result from a post-Assad government that was closer to the old mercantile interests and more open to change.

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Table 1

SYRIA: GDP AND POPULATION, 1950-2000

Year	GDP (bil 1987 (\$US))	GDP Change (percent)	Population (mil midyear)	Population Increase (percent)	GDP Per Capita (1987 \$US)
1950	2.962	--	3.495	2.3	847
1951	3.063	3.4	3.577	2.3	856
52	3.474	13.4	3.662	2.4	949
53	3.964	14.1	3.750	2.4	1,057
54	4.519	14.0	3.842	2.5	1,176
55	4.022	11.0	3.938	2.5	1,021
1956	4.625	15.0	4.041	2.6	1,145
57	4.907	6.1	4.150	2.7	1,182
58	4.740	-3.4	4.268	2.8	1,111
59	4.640	-2.1	4.395	3.0	1,056
60	4.654	0.3	4.533	3.1	1,027
1961	5.059	8.7	4.681	3.3	1,081
62	5.818	15.0	4.835	3.3	1,203
63	5.812	-0.1	4.993	3.3	1,164
64	6.353	9.3	5.157	3.3	1,232
65	6.499	2.3	5.326	3.3	1,220
1966	6.311	-2.9	5.500	3.3	1,147
67	6.646	5.3	5.681	3.3	1,170
68	6.347	4.5	5.867	3.3	1,082
69	7.299	15.0	6.059	3.3	1,205
70	6.868	-5.9	6.258	3.3	1,097
1971	7.623	11.0	6.473	3.4	1,178
72	8.767	15.0	6.689	3.3	1,311
73	8.504	-3.0	6.912	3.3	1,230
74	9.780	15.0	7.142	3.3	1,369
75	11.247	15.0	7.381	3.3	1,524
76	12.248	8.9	7.627	3.3	1,606
77	12.077	-1.4	7.881	3.3	1,532
78	13.031	7.9	8.142	3.3	1,600
79	13.578	4.2	8.412	3.3	1,614
80	14.719	8.4	8.692	3.3	1,693
1981	16.117	9.5	8.980	3.3	1,795
82	16.584	2.9	9.298	3.5	1,784
83	16.883	1.8	9.636	3.6	1,752
84	16.275	-3.6	9.989	3.7	1,629
85	16.763	3.0	10.358	3.7	1,618
1986e	17.266	3.0	10.744	3.7	1,607
87e	17.266	0.0	11.148	3.8	1,549

88p 17.439	1.0	11.570	3.8	1,507
89p 17.788	2.0	12.011	3.8	1,481
90p 18.144	2.0	12.471	3.8	1,455
1995p 20.032	2.0	15.068	3.9	1,329
2000p 22.117	2.0	18.157	3.8	1,218

NOTE: For the assumptions, sources, methodology, and limitations of Table 1, see Appendix A. The letter "e" stands for "estimated" and the letter "p" stands for "projected."

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Box A

SYRIA: BRIEF CHRONOLOGY, 1946-1988

April 1946	Departure of French forces from Syria
1946-1970	Era of 17 short-lived civilian and military governments
1948	First defeat in war with Israel
August 1957	Soviet agreement on Political/military/economic support
1958-1961	Disappointing political union with Nasserite Egypt
March 1963	Accession to power of Ba'th Party
June 1967	Disastrous military defeat by Israel
November 1970	Rise to power of Ba'thist general Hafiz al-Assad
October 1973	Recapture of Arab "honor" in new war with Israel
June 1976	Movement of Syrian troops into Lebanon
February 1982	Suppression of Hamah insurrection, with 20,000 dead
November 1983	Assad's serious heart attack; subsequent recovery
1986-1988	Series of economic retrenchment measures

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Box B

SYRIA: ECONOMIC GROWTH BY DECADES

Syria's economic growth has fluctuated over the decades:

--Growth in the 1950s was at a rate of 7.5 percent (1951-57) as local urban-based entrepreneurs seized the opportunities for investment in agriculture, industry, and commerce, following the departure of the French.

--Growth in the 1960s fell off to 2.6 percent (1958-70) because of (a) the ill-fated union with Egypt and its Nasserite socialism; (b) the disruptive socialist policies of the extreme left-wing Ba'thist regime; and (c) the 1967 war with Israel.

--Growth in the 1970s at 8.1 percent (1971-81) reflected the sturdy benefits of Assad's "corrections" to the excesses of socialism, the boom in Syria's oil output and prices, substantial worker remittances, and the princely grants of oil-rich Arab brethren.

--Growth in the 1980s so far suffers from the end of the oil boom and the chronic shortage of foreign exchange; the lean years of 1982-87 posted an average gain of only 1.2 percent in national output.

--Growth in the 1990s will be about 2 percent on average, according to the projections in this report, almost certainly much less than the population growth projection of 3.8 percent. The text describes the barriers to vigorous growth in the 1990s.

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Table 2

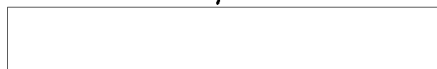
SYRIA: BASIC ECONOMIC FACTS

Area: 185,000 square kilometers (71,500 square miles, equal to North Dakota); agricultural area: 30% of total area, of which 10% irrigated.

Population: 11.6 million (1988); growth rate: 3.8%; one-half 15 years old or less; literacy: 47%.

Religion: 74% Sunni Muslim; 16% other Muslim (including 12% Alawite and 3% Druze); 8% Christian; and 2% miscellaneous.

Largest cities: Damascus area, 2 million people; Aleppo area, 2 million people.



Government: secularist, Alawite-dominated republic since 1963, based on the military establishment and the monopoly Ba'thist (Arab Socialist Resurrection) Party; dominant leader: Hafiz al-Assad (b. 1930), president of the republic, commander-in-chief of the armed forces, and general secretary of the Ba'thist Party; in power since November 1970.

GDP: \$17.4 billion (1988); \$1,500 per capita.

Defense allocations: equal to 20% of national output.

Defense manpower: 400,000 men on active duty.

Currency: Syrian pound; considerable use of U.S. dollar; exchange rates:

official rate of 11.20/11.25 SP to 1 U.S. dollar; promotion rate for special uses that reflects the Beirut market rate for the pound.

Inflation rate: 20-30% in recent years; currently above 50%.

Natural resources: agricultural land, oil, phosphate rock, marble.

Industrial output: petroleum products, chemicals, steel bars, cement, small arms and ammunition, cotton, and wool textiles, food products.

Agricultural output: cotton, wheat, barley, maize, millet, chickpeas, sugar beets, melons, olives, fruits, vegetable, nuts, tobacco; sheep and goat raising.

Exports: oil, cotton, textiles, phosphates.

Imports: oil, foodstuffs, machinery and technology, armaments.

Foreign aid: subsidies from oil-rich Arab nations, mainly Saudi Arabia; arms from the USSR on a de facto grant basis; oil from Iran, free or at concessionary prices.

International memberships: UN, Arab League, G-77, World Bank, IMF.

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Section I

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ECONOMIC RESOURCES

A. Land, Water, and Mineral Resources

By the standards of the water-short Middle East, Syria possesses an excellent land endowment, with rainfed and irrigated acreage suitable for a wide variety of crops in (1) western coastal and valley areas; (2) northern border areas; and (3) the basin of the Euphrates and its tributaries. Together these areas form a large portion of the historic Fertile Crescent, which has served as a major granary and trade corridor since ancient days. At the same time, most of the southern and eastern areas is desert or semi-desert. Furthermore, much of the cultivated acreage is subject to devastating drought.

Population growth, private initiative, and public investment have brought a sharp rise in the agricultural land brought under cultivation:

Year Hectares Cultivated

1953	1.75 million
1969	5.9 million
1980	6.2 million

The extension of cultivation into successive acreage at the margin and the simultaneous loss of some of the best agricultural land to urbanization, industrialization, and road-building (e.g., in the Damascus oasis) have resulted in declining and uncertain yields. Also, Syria today has 12 million sheep compared with 2 million sheep before World War II; sheep are notorious for nibbling grass closely and thus destroying rangeland. In brief, a combination of factors has led to a growing over-exploitation of Syria's excellent land resources--to a gradually deteriorating environment of soil depletion, over-grazing, deforestation, erosion, and desertification.

As for water, the government, realizing the need for more irrigation to back up the uncertain rainfall, started the ambitious Euphrates Dam project in 1966. So far, the dam and the huge Lake Assad behind it have resulted in only a fraction of the irrigated land and electric power originally scheduled.

-- The Syrians opted to follow Soviet advice on the location of the dam and to ignore British-French advice. The dam site is in an area with considerable amounts of gypsum in the soil. The gypsum dissolves when wet, leaving huge cavities in the soil and undermining irrigation structures.

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-- The supply of water in the Euphrates is gradually shrinking as Turkey takes increasing amounts for irrigation and other uses. At the end of World War II the flow across the Turkish border averaged 29 billion cubic meters a year. Today the flow is down by 2 billion cubic meters, i.e., 7 percent less. The Turks have under construction the huge new Ataturk dam which will be completed in the early 1990s. By the end of the 1990s, another 4 billion cubic meters

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will have been lost to irrigation and evaporation. [redacted]

remittances, through both official and non-official channels, is an important gain. These sums reached their height during the 1970s and subsequently tapered off with the decline in the oil boom. [redacted] 25X1 25X1

With respect to minerals, the discovery and exploitation of the newly discovered light low-sulfur oil deposits near Dayr az Zawr on the Euphrates will reduce the need for Syria to import foreign crudes to blend with its own heavy crudes. (Section V below deals with prospects for petroleum production in some detail.) [redacted]

Syria's labor force, estimated at one-fourth of the population, is more than adequate in absolute number, given Syria's natural and industrial resources. In the Middle East, it has enjoyed a good reputation for competence, but lacks sufficient motivation, technical skill, and managerial direction under present circumstances. Its approximate distribution by sector: 25X1 25X1

The other important Syrian mineral is phosphates, mined in the desert south of Tadmur, with annual capacity of about 5 million metric tons. [redacted]

Agriculture and forestry 25%
Industry and construction 33%
Trade, transport, finance 18%
Public services 24%
[redacted] 25X1

B. Population and Labor

C. Capital Plant

Rapid population growth is offsetting much of the value of Syria's excellent agricultural potential, its existing capital plant, and its well-regarded commercial and artisan skills. Table 1 gives the figures, which show an advance from 3 million people at the end of World War II, to 6 million when Assad took over in 1970, to 12 million today in 1988, and to an anticipated 18 million in the year 2000. Half the population is 15 years old or younger. The population explosion brings in its train the usual Third World difficulties of poverty, unemployment, urban overcrowding, budget-busting government outlays for welfare and infrastructure, and a brain drain. [redacted]

Under Assad the government has made major investments in heavy industry, but this kind of investment has contracted in the 1980s under the pressures for more military allocations and more foodstuffs for the expanding population.

-- Before Assad: emphasis on investment in textiles, processed foods, beverages, soaps, matches, glass, and cement. 25X1

About 1.5 million persons of Syrian nationality currently live abroad, mainly in the Gulf countries, other Arab nations, Western Europe, and North America. These include many of the most highly educated and technically skilled Syrians. Although the loss of scientific, engineering, and technical skills needed at home appears serious, the resulting inflow of substantial amounts in hard currency

-- During Assad: emphasis on investment in oil, steel, chemicals, electric power, fertilizers, paper, machinery, and appliances. [redacted] 25X1

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Like most other moderately advanced Third World countries, Syria possesses a certain amount of modern capital equipment but continues to depend on foreigner support for much of its operation, maintenance, and repair and cannot replicate or renovate this capacity without extensive outside aid.

generation that the Ba'thist economy and society will survive him.

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Syria continues to expand schools, health clinics, roads, housing, utilities, and other "infrastructure capital" in a never-ending struggle to meet the growing needs of government, industry, and households. In the 1980s the infrastructure has been slowly deteriorating in the face of heavier demands on Syria's overextended resources; it will need substantial maintenance, repair, and replacement in the 1990s.

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D. Social Capital

As an experienced British observer points out, "In sharp contrast to Egypt, the Syrians were a dispersed population, individualistic to the point of anarchy...with minorities to be conciliated, and a small industrial proletariat but a large number of peasant families, small retailers, and...petty bourgeoisie." Another observer notes that Syrian society rests on small groupings to which the individual's primary loyalties attach--family, ethnic group, religious body, linguistic group, tribe. Localism, particularism, heterogeneity, and centrifugal force are words characterizing Syrian society.

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The present report deals elsewhere with these matters from the economic point of view, notably in the sections on the economic system and future sectoral trends. Specialists assessing the Syrian scene often are agnostic on the question of whether: (a) old localistic forces will stage a comeback and dominate the economy and society in the post-Assad era; or (b) Assad and his top aides will have institutionalized the Ba'thist revolution so deeply in one

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Section II

fundamentalist Muslim Brotherhood, and the maintenance of military perquisites.

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NATIONAL OBJECTIVES

President Hafiz al-Assad establishes and shapes Syria's national objectives in consultation with a half dozen close advisers. People below Assad in the authority structure interpret, implement, and even modify these objectives according to their personal abilities and interests and the resources available.

The second priority objective is the build-up of military power to achieve "strategic parity" with Israel. Assad and his top associates saw Egypt's withdrawal from the anti-Israeli confrontation front in 1979 as a betrayal of Arab interests in general and Syrian national interests in particular. Syria set about to expand, train, and re-equip its armed forces to create a modern force of 400,000 men. The Soviet Union made good Syria's loss of roughly \$2 to 3 billion worth of equipment during Israel's incursion into Lebanon in 1982, but economic stagnation subsequently has reduced the pace of the military build-up and has left Israel in a superior position.

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The most important objective is the preservation of Alawite rule and internal security. For the last quarter century, government by the Ba'thist Party has reflected and incorporated the political/military dominance of the minority Alawites, adherents of a variant of Shia Islam, who make up 12 percent of the population. One observer sums up the essentials of Alawite/Ba'thist supremacy as:

The third overarching objective is the modernization of agriculture, industry, and commerce through the state-directed expansion of: irrigation and fertilization programs in agriculture; oil and electric power production, metallurgical, and machine-building projects in industry; and the parallel development of up-to-date support facilities in transportation, finance, and domestic and international trade. Simultaneous efforts to improve educational and training facilities are to provide the skilled farm, factory, and laboratory workers for this economic refurbishment.

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- the overturn of the old Sunni urban establishment and the corresponding gain in power by minority peoples often of rural or secularist origins.
- the centralization of administrative and modernization functions in Damascus at the expense, of Aleppo, Hims, and Hamah.
- the "utter dominance" of the military in all walks of Syrian life.

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A fourth important national objective is the maintenance of a preeminent position of influence in Lebanon. Since independence, the Syrian government has regarded its neighbor Lebanon as a crucial national security question and a potential sphere of influence, not necessarily a country whose every major decision must conform to Syrian wishes but certainly a country that takes no major stance in opposition to

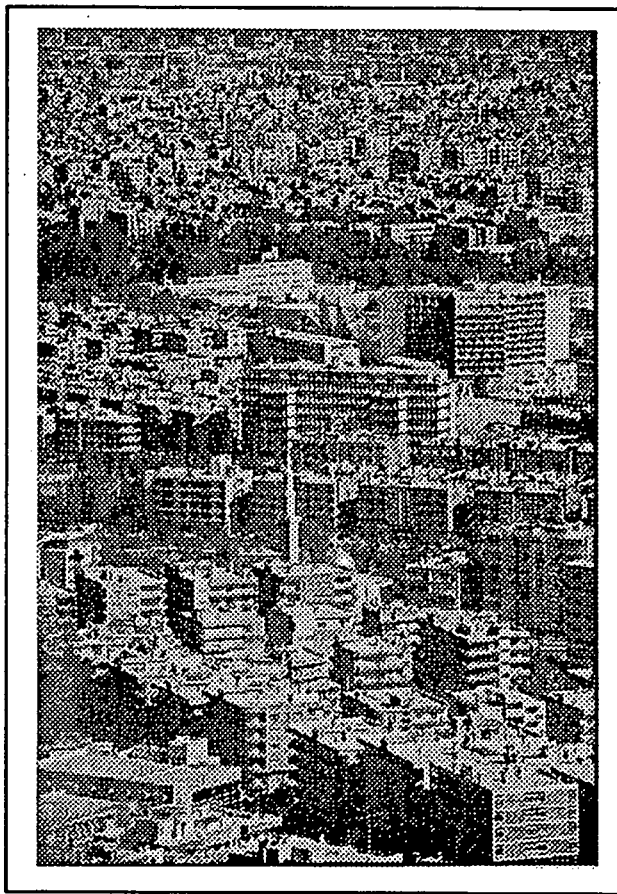
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Important elements in maintaining Ba'thist rule include the cooption of leading Sunni figures, the suppression of the

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Syria's national interests. Damascus sees Lebanon's Bekaa Valley in particular as critical to the security of the capital. After the movement of substantial Syrian forces into Lebanon in 1976, Syria's objectives in Lebanon would seemingly have entailed sizable commitments of economic resources. Net costs attributable to Lebanon per se, however, may be only nominal, since the Soviets replaced Syrian equipment losses after the 1982 Israel invasion of Lebanon and since the 25-30,000 men in Lebanon would draw rations and supplies if on the other side of the border. [REDACTED]

A fifth objective is the maintenance of a social safety net of minimum welfare and the provision of steadily rising living standards for the populace. Ba'thist socialist doctrine envisions centrally planned economic modernization as resulting in a rising tide of output of food, clothing, housing, health and educational services, and other consumer items. Huge military expenditures and an ineffective economic system, however, have put investment way behind schedule, and available investment resources have supported the expansion of military and industrial capacity more than the agricultural and consumer sectors. Furthermore, available consumption goods--particularly choice imported goods--go first to the privileged Party and military members of the society, whose loyalty and support count for much more than the contentment of the lower orders of society. [REDACTED]



Damascus is Syria's largest city, with over 2 million persons. Almost half of all Syrians live in urban areas.

Section III

THE ECONOMIC SYSTEM

A. Major Elements in the System

The Syrian economic system today consists of a mixture of socialist, capitalist, traditional, and international elements:

- The socialist features of state ownership and operation of the main factors of production, central planning of resource allocation under a series of five-year plans, implementation of economic decisions through a complex hierarchy of government bureaus, aspirations for egalitarian distribution of income, and politico-economic ties to the Soviet Union.

- The capitalist features of private ownership and operation of medium- and small-scale enterprises across the whole spectrum of economic activity, and the existence of a variety of market arrangements for allocating a substantial portion of the society's resources and output.

- The traditional features of

cooperative activity in villages and urban neighborhoods, sometimes the result of the extended family, resources (such as grazing land or implements) owned in common, or mosque-sponsored provisions for succoring the poor; this current in Syrian affairs reflects fundamentalist constraints on moving too deeply into socialist public ownership or capitalist Western ways.

- The international features of sizable imports and exports, joint ventures, the activities and remittances of the 1.5 million Syrians living abroad, the billions of dollars of expatriated investment funds, and extensive foreign financial support.

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B. Two Ba'thist Approaches

One observer of the Syrian economy underscores the split within the Ba'th Party that developed in 1966 over the speed and scope of socialist economic development. He identified two main groups:

- Those favoring a gradual moderate approach, often oldtimers with ties to the established

landlord-merchant-
industrial families.

- Those favoring an accelerated radical approach, often rising army officers or firebrand intellectuals with fewer ties to the old interest groups.

The latter faction, dubbed neo-Ba'thists, won out in 1966. They promptly dislodged the oldtimers, lifted the ban on the Communist movement, became heavily dependent on the Soviet bloc, and took a doctrinaire attitude toward "reactionary" Arab states.

After coming to power in November 1970, Assad adopted a "correction program" to curb the excesses of the neo-Ba'thists, trying at one and the same time to allow more leeway to private initiative and to tighten up state economic planning and administration.

C. Ownership of Productivity Resources

The Syrian government, with few exceptions, owns and operates all production facilities of any size in heavy and defense industry, mining, and energy. These include steel mills, cement plants, oil fields and refineries, fertilizer plants, electric power stations, and small arms plants. Furthermore, the government owns major enterprises in sugar-refining and cotton and wool spinning and in transportation, banking, foreign trade, and domestic wholesale trade. The government also operates the bulk of educational and health facilities. In the agricultural sector, the regime in its early more doctrinaire phases stripped the large landholders of their land, turning it over to private owners, private tenants, state farms, or state forests

or grazing areas. The government largely dictated what was to be planted and the price received. Under Assad, the small private farmer has benefited from lighter controls and greater ownership rights; private farmers now till three-fourths of the arable land.

As is often the case in Third World socialist economies, private individuals and companies own and operate most of the medium- and small-size firms, typically dominating the various branches of light industry, repair and other business services, crafts, and retail trade. Private individuals and firms do most of the construction work, with many of the big jobs carried out under government contract.

In backwater areas, often inhabited by minority groups, many traditional, communal patterns of ownership persist. Education, urbanization, and technological change are gradually reducing these enclaves.

D. Locus of Decision-Making, Including Key Role of Assad

An innovative and forceful yet pragmatic and cautious leader, President Assad normally directs his energies to military and political affairs, such as policy toward Israel and arrangements in Lebanon. He retains veto power over major economic initiatives but leaves the detailed management of economic affairs to others.

Below Assad is the Supreme Planning Council of top economic ministers, headed by the prime minister. In theory, ministerial subordinates draw up five-year economic plans, issue directives to enterprises under the ministries, assess results, and respond to crises. Planning in Syria, however, suffers even more than planning in the Soviet Bloc from bureaucratic delays, corruption, incomplete

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and fabricated information, endemic shortages, and the pre-emption of financial and material resources by the military. [redacted]

capitalists and managers, smugglers, military supply officers, master craftsmen. [redacted]

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Particular features in the Syrian system are: (a) the ad hoc nature of many major economic decisions; (b) the unusually heavy burden of military outlays; (c) the high level of smuggling (largely out of Lebanon by army personnel); and, (d) the conspicuous level of graft by military and Party higher-ups, often in the form of rake-offs on government contracts. [redacted]

E. Implementation of Decisions

Internally, Syria's multi-faceted economy employs a variety of bureaucratic channels, political muscle, market incentives, and traditional practices, and patently illegal deals to turn economic decisions into economic activity. The results of this hybrid implementation often frustrate the intentions of the decision-maker. Furthermore, the rapid inflation makes the construction, administration, and evaluation of plans extremely difficult. [redacted]

Syrian planners cannot hope to produce the detailed material balances and production breakdowns characteristic of full-blown annual and five-year plans in the centrally planned economies of the Soviet Bloc. Rather, the government focuses on plans for major construction projects--dams, pipelines, industrial complexes, irrigation systems, and weapons plants. Plans typically call for much more investment than available resources will support, and major investment projects almost always fall behind schedule. [redacted]

Externally, the implementation of plans depends largely on the workings of international capitalist markets for equipment, industrial raw materials, technology, and financing. In some instances, friendly Arab states and West European governments are major players in these markets. Also, Syria's decisions sometimes depend on imports and credits from the centrally planned economies of the Soviet Bloc, with implementation through government fiat. Syria's chronic lack of foreign exchange hinders implementation of decisions in external channels. [redacted]

In such an environment, detailed decisions by planners on the volume, acreage, costs, procurement prices, and delivery dates of dozens of farm products often have a perverse impact since planners cannot know local cropping conditions, fertilizer deliveries, the availability of transport, and the volume of financial support. [redacted]

Indeed, the economy limps along largely on the basis of ad hoc decisions made by local plant managers, fixers, private traders, individual farmers, and ordinary people trying to keep afloat. This is a multi-faceted public/private economy with considerable quasi-legal and illegal activity. The list of non-official decision-makers, high and low, could go on: village headmen, money changers, foreign

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Despite industrialization efforts, many Syrians still concentrate on traditional crafts.

Section IV

PROSPECTS IN MAJOR ECONOMIC SECTORS

A. Agricultural Sector: Distinct Leveling Off

The potential for further sizable gains in agricultural output will gradually decline in the 1990s as the most promising opportunities are taken up and as urbanization preempts agricultural land. The agricultural sector will fall still farther behind in provisioning the exploding population, supplying raw materials to industry, and earning foreign exchange.

[Redacted]

1. Decline in Unused Growth Potential

In the first two decades of independence following World War II, well-to-do entrepreneurs (most of them urban Sunni Muslims with substantial industrial and commercial ties) pushed agricultural investment, technology, and output forward at a vigorous pace. Most of the agricultural population consisted of poor peasant farmers who worked as sharecroppers and survived through strong local ties to families, villages, ethnic groups, and religious sects. During the union with Nasserite Egypt, 1958-61, and later under the radical neo-Ba'thists, the dominance of the old landowning group gave way to the rising power of a new political and bureaucratic elite. Under both capitalist and socialist regimens the opening of new acreage, the extension of irrigation systems, and the sponsorship of more modern production techniques brought substantial gains in output, as Syria exploited more and more of its strong agricultural potential. The limits to this potential, however, became more clearly apparent in the 1980s, as noted in the population, land, and water subsections of Section II above.

[Redacted]

2. The Immutability of the Population Factors

Syrian economic planners recognize the desirability of a substantially lower population growth rate, but the government under Assad sees population growth as a weapon against Israel. In any event, the government as a practical matter cannot appreciably affect the 3.8-percent rate in prospect for 1988-2000. Education, urbanization, secularization, and sheer crowding no doubt will ultimately lower the rate--and indeed the U.S. Census Bureau analysts envision a rate of 2.0 percent by the year 2050--but the extra 6 million people listed in Table 1 for the year 2000 will arrive on schedule.

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3. The Scarcity of Suitable Land and Water at the Margin

According to British geographer J. A. Allan, "It is an uncomfortable political reality that the leadership in countries such as Syria very responsibly perceive the need to increase food production but they have a limited grasp of the extraordinary and unprecedented pressures being exerted on marginal lands in their countries.... In some countries for example, including Syria, irreversible changes are being imposed on rangelands by over-stocking, and in others [Syria here also] over-pumping of groundwater to raise fodder for livestock is having irreversible consequences on groundwater resources."

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The following figures, from a foreign observer, purport to demonstrate the disastrous effects on yields when the peasants push production out to marginal land. The tabulation shows the decline of barley yields in four villages in Aleppo Province in 100 kilograms per hectare:

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[Redacted]

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<u>Village</u>	<u>Yield in 1950s</u>	<u>Yield in 1980</u>
1	15	3-7
2	20	2-9
3	8-20	2-10
4	10-30	2-14

[Redacted]

4. Government Regulation of Agriculture

Preoccupied with its military build-up, the maintenance of influence in Lebanon, and the bedrock requirement of internal Alawite control, the Assad government lacks the administrative energy and discipline to make needed and timely changes in agricultural policy, let alone provide additional inputs. Farmers large and small will continue to evade government regulations on output and prices as best they can and will fend for themselves in an era of shortages, distorted procurement prices, corruption, and shrinking per capita resources. Those rural dwellers of unusual talent and initiative will continue to move to the cities, draining the sector of its most productive people. [Redacted]

[Redacted]

5. Outlook for Agricultural Growth Rates

In the 1980s so far, problems with inputs, incentives, and government regulations have led to agricultural growth of 1 to 2 percent a year. The problems will not lessen in the 1990s, when the pressure of other priority allocations will make extremely difficult any large-scale infusion of resources in agriculture. Concerning the output mix, meat (which uses several times the resources per unit as non-meat products) will maintain its prominence, as the ruling groups continuing to exploit their position to support high living standards. Finally, year-to-year changes in output will

become even more volatile as Syria pushes output to areas of scanty rainfall and as the amount of available Euphrates water slowly dwindles. These considerations suggest that agricultural output will grow at about 2 percent on average in the 1990s. [Redacted]

B. Energy Sector: Investment Not Forthcoming

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In the past two decades Syria has been exporting considerable quantities of its heavy high-sulfur oil and simultaneously importing light low-sulfur oils for blending in its own refineries. Imports and exports of oil and products have been offsetting in the middle 1980s. The discovery of deposits of light low-sulfur crude near Dar az Zawr on the Euphrates has provided the means for cutting oil imports and increasing net exports, at least for the next few years. Domestic oil production, which had remained steady at about 170,000 barrels per day in 1977-85, has risen to 250,000 b/d, and should reach 300,000 b/d in 1989-1990, as indicated in Table 4. [Redacted]

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The jump in oil output, the sharp drop in requirements for imported light crude, the step-up in domestic output of refined products, the gradual exploitation of gas as a brake on rising domestic consumption of petroleum--all these will combine to create an oil export surplus, perhaps in the neighborhood of half a billion dollars annually. (At first, the foreign oil companies will take a sizable fraction of any additional output to cover costs and profits.) While certainly a welcome element in the otherwise gloomy economic outlook, this oil surplus by no means meets Syria's economic requirements for the 1990s. [Redacted]

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As for electric power, in the spring of 1987 the power supply was off 4 to 5 hours daily in some major Syrian cities, the result of equipment problems, drought, and rapidly rising demand; the eight 100-

[Redacted]

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megawatt turbines at the Euphrates Dam reportedly were operating at only one-third of capacity because of technical difficulties and the low level of water in Lake Assad behind the dam. As of mid-1988, plentiful rains and rising oil output have markedly relieved the electric power situation. [redacted]

and quartermaster items

-- the emphasis on oil exploration, production, and processing

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According to the Economist Intelligence Unit (EIU), Syria has nine new power stations on the drawing board or under construction, both thermal and hydroelectric. These projects draw on Japanese, European, and Soviet technology and finance, as well as on funds from oil-rich Arab sources. Despite the high priority of electric power, these projects almost certainly will be vulnerable to delays or cancelation. [redacted]

-- the initiation of extensive irrigation and electric power projects requiring support by industry

-- the continued prominence of industrial branches based on raw materials from Syria's versatile agricultural sector

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In addition, Damascus has asked Moscow under a mid-1983 protocol to help examine the feasibility of a nuclear power station; little will come of this proposal over the next several years. "The government," reports the EIU, "is also keen to exploit solar energy." [redacted]

-- the ongoing attempts to exploit Syria's phosphate deposits. [redacted]

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Development of both old and new sources of energy in the 1990s will require advanced technology, heavy capital investment, and skilled administrative shepherding--all in short supply. [redacted]

Other continuing characteristics of Syria's industrial sector almost certainly will include:

-- the maintenance of a two-tier system of large-scale state-owned industry and medium- and small-scale privately run industry

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C. Industrial Sector: Foreign Exchange and Electric Power Shortages

Most of the likely trends in industrial policy in the 1990s will reflect and accentuate well-defined patterns established under Assad in his 18 years of power.

-- the attempt to expand domestic capacity for producing industrial equipment, industrial raw materials, and spare parts

-- the top priority given to the manufacture and procurement of arms, munitions, military spare parts,

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-- the stress on education and technical training for industrial managers and workers

Syria's high priority military sector embraces (a) domestic military production-construction activity, employing perhaps 200,000 persons; (b) standing armed forces of 400,000 men; and (c) a massive inflow of foreign equipment and spare parts. 25X1

-- the spreading of industrial development and major construction projects among a half dozen major cities rather than their concentration in the capital city as in many Third World countries

Domestic military production includes small arms and ammunition and quantities of chemical weapons. Other domestic uses of resources are the construction of military facilities and the provisioning of the armed forces. The stationing of 25-30,000 men in neighboring Lebanon--when not on a war footing--constitutes only a small net drain on resources since these troops would need nearly the same support if posted at home. 25X1

-- an increase in ties to the Western industrial/technological system and a corresponding decline in ties with the Soviet Bloc system. 25X1

The Soviet Union provides Syria with the lion's share of its equipment and spare parts. Soviet military deliveries averaged perhaps \$2 billion in the early 1980s and have since fallen toward the \$1 billion level or under. Syria retained as many as 5-6,000 Soviet military trainers and advisers in the early 1980s with a subsequent cut to one-half this figure by mid-1985. Moscow highly values its Syrian entry point in Middle Eastern affairs even though Damascus takes care to preserve both the image and the actuality of independence. In the absence of a new outbreak of hostilities in the Arab-Israeli conflict, the USSR almost certainly will keep deliveries at the lower level. The stagnation of the Soviet economy at a time of rising popular expectations has raised the cost to the Kremlin of supplying arms to Syria. Even though the Soviets formally expect Syria to service its accumulated \$15 billion military debt, the debt stands at the bottom of Syria's long list of debt repayment obligations and as a practical matter will not be repaid. In contrast, the much smaller amounts of military-related goods from Western sources often require 25X1

Three enduring problems cast doubt on the ability of the industrial sector to keep up with Syria's needs and aspirations in the 1990s: (1) government policies will continue to discourage private firms from making large capital investments and raising their profile; (2) available foreign exchange will fall far short of the amounts required to meet short-run demand for industrial raw materials and spare parts, let alone the long-term demand for new machinery and structures; and (3) operating rates throughout industry will suffer from the periodic shutdowns of electric power, which probably will get worse rather than better. As of mid-1988, Syria cannot come up with the foreign exchange needed to finance existing inflows of equipment and raw materials to industry, let alone finance an augmented level. 25X1

D. Military Sector: High Priority But Rising Opportunity Cost

hard cash outlays, and here the willingness of Syria's Arab friends to pick up the tab frequently governs the volume of equipment imports. Syria itself must and will allocate scarce foreign exchange for Western military maintenance items. [redacted]

If Syria is in fact able to maintain the current absolute level of military allocations of \$3.4 billion through the year 2000, defense's share in GDP will fall off from about 20 percent in 1985 to about 15 percent in the year 2000. (Allocations include imports of military goods in this calculation.) Under assumptions of 2 percent GDP growth, 3.8 percent population growth, investment as a constant share of GNP, and lessened foreign aid, this constant absolute level of military spending implies an average decline in per capita availability of consumption goods of 2 percent per year. [redacted]

Given the large size of young-age groups and the considerable unemployment and underemployment in the society, the manpower base will not in itself be a constraint on any contemplated military expansion in the 1990s. The regime's problems lie elsewhere, in overcoming the supply constrictions and technological shortcomings addressed at several points in the present report. Israel will continue to maintain a clear qualitative superiority in military manpower, equipment, doctrine, tactics, training, and leadership. [redacted]

In the 1990s, as GDP grows by roughly 2 percent a year and as per capita GNP gradually falls, the cost of further additions to military spending increases in terms of the investment or consumption goods sacrificed. Other things being equal, Assad and his colleagues would be confirming the continuing priority of military allocations simply by resisting cuts in defense outlays. We cannot know whether they will decide to take the riskier

route of increasing military outlays at the cost of further delays in industrial modernization and an even more rapid decline in living standards. We can only speculate that they will not be able to find the resources for greater military spending and, that on the other hand, they will be unwilling psychologically and unable politically to cut the existing absolute levels of military allocations. They thus will stretch out military modernization plans, avoid costly unplanned short-term commitments where feasible, and seek cost-effective ways of circumventing Israeli superiority, e.g., by development of chemical/biological warfare capacity or by expanded reliance on terrorism. [redacted]

E. Government Services: Per Capita Slippage

The services provided through the socialist government's bureaucracy probably will slowly decline on a per capita basis in 1988-2000. [redacted]

1. Education: Larger Numbers But Quality Deficiencies

The education program, one of the major areas of accomplishment under the Ba'thist regime, has increased the literacy rate to an estimated 47 percent. Syria can now boast four universities with 145,000 students and a primary and secondary school system with more than 2.5 million students. [redacted]

As detailed in a Christian Science Monitor account, however, the rapid expansion has taken its toll in the quality of education. The universities, for example, suffer from gigantic classes, inadequate classrooms, rampant absenteeism, rote learning, a focus on passing grades rather than on understanding of substance, outdated engineering texts, absence of computers, and party control. Well-to-do parents

prefer to place their undergraduate students in US universities. The state sends 6-9,000 students abroad, mostly graduate students consigned to the USSR or Eastern Europe. Students do not want to return to two-year army service and perhaps three-year service in a government-assigned post. The economy thus suffers from a large brain drain to oil-rich Arab countries and Western Europe. [redacted]

government regulation of financial matters, and unreliable financial statistics. A large portion of the commercial skills and entrepreneurial energies of the society go to waste in dealing with these financial aberrations. Despite regular consultations with representatives of the International Monetary Fund, the Syrian authorities can do little more than keep these problems within bounds. [redacted] 25X1

At a lower level in the social structure, about 100,000 workers leave temporarily each year for jobs in Arab Gulf countries and elsewhere. Their earnings constitute an important source of hard currency for their families and the economy as a whole. At the same time their absence deprives Syrian industry and agriculture of technically skilled labor in short supply. [redacted]

Inflation, together with the regime's hostility to private ownership and operation of major enterprises, cripples domestic private investment, notably in risky state-of-the-art ventures. Rich Syrians hold perhaps \$1 billion in West European banks and several billion elsewhere, including the United States. [redacted] 25X1 25X1 25X1

2. Health: Basic Gains in Past

The egalitarian streak in Ba'thist policy has helped spur the general improvement in medical services and the decline in mortality rates in post-independence Syria. Among the gains have been the provision of hospitals and clinics and the improvement in water supply and sanitation in rural as well as urban areas. Syria has already made the easiest low-cost gains. Further large gains are unlikely in the next decade as the government will be fortunate to avoid deterioration in public health facilities, the water supply, the supply of medicines, housing, and nutrition. [redacted]

The pressure for subsidies, the occurrence of shortages, and the reluctance to invest at home will all persist over the next decade. The attempts to control and adjust to inflation will continue to eat up resources in non-productive ways and to complicate economic calculation at the micro level and economic planning at the macro level. [redacted] 25X1

G. Living Standards: Deterioration in Quality of Life

The quality of life in Syria has been slowly deteriorating in the mid 1980s in contrast to the substantial advances made in the 1970s and early 1980s:

- Cities are growing even more rapidly than the population as a whole, with resulting pressures on housing, transport, water and electric power, food supplies, and amenities. 25X1

F. Money and Finance: Scourge of Inflation

Like many other Third World countries, Syria has been experiencing an array of interacting financial problems, including rampant inflation, ever-more-costly government subsidies, multiple foreign exchange rates, pervasive

-- Shortages are steadily widening as national output falters, one commentator citing the growing lack of "consumer necessities ranging from bread, sugar, butter, cheese, to basic drugs such as aspirin and cough mixture and toilet paper."

independence thoughts of nation-building and personal sacrifice. The 1990s almost certainly will intensify the consumer disappointments recent years rather than witness a return to the consumer advances of the earlier period. 25X1

-- Inflation is eroding the real wages of city workers, and low government procurement prices are holding down the real incomes of rural dwellers.

H. Foreign Trade and Aid: Weaker Prop

Syria's foreign economic ties in trade, aid, and technology, which had permitted the country to live 20 percent beyond its domestic output in the late 1970s and early 1980s will likely permit it to live only 10 percent beyond output in 1988-2000. 25X1

-- Unemployment and underemployment are creeping up as shortages of spare parts, raw materials, and electric power reduces the operation of public sector industry to 50 percent or less of capacity.

The annual deficit in foreign trade has been running at roughly \$2 billion:

-- Resentment seems to be mounting at the government's repeated calls for sacrifice when leaders ride around in limousines and rake off large sums on government contracts.

[Redacted]

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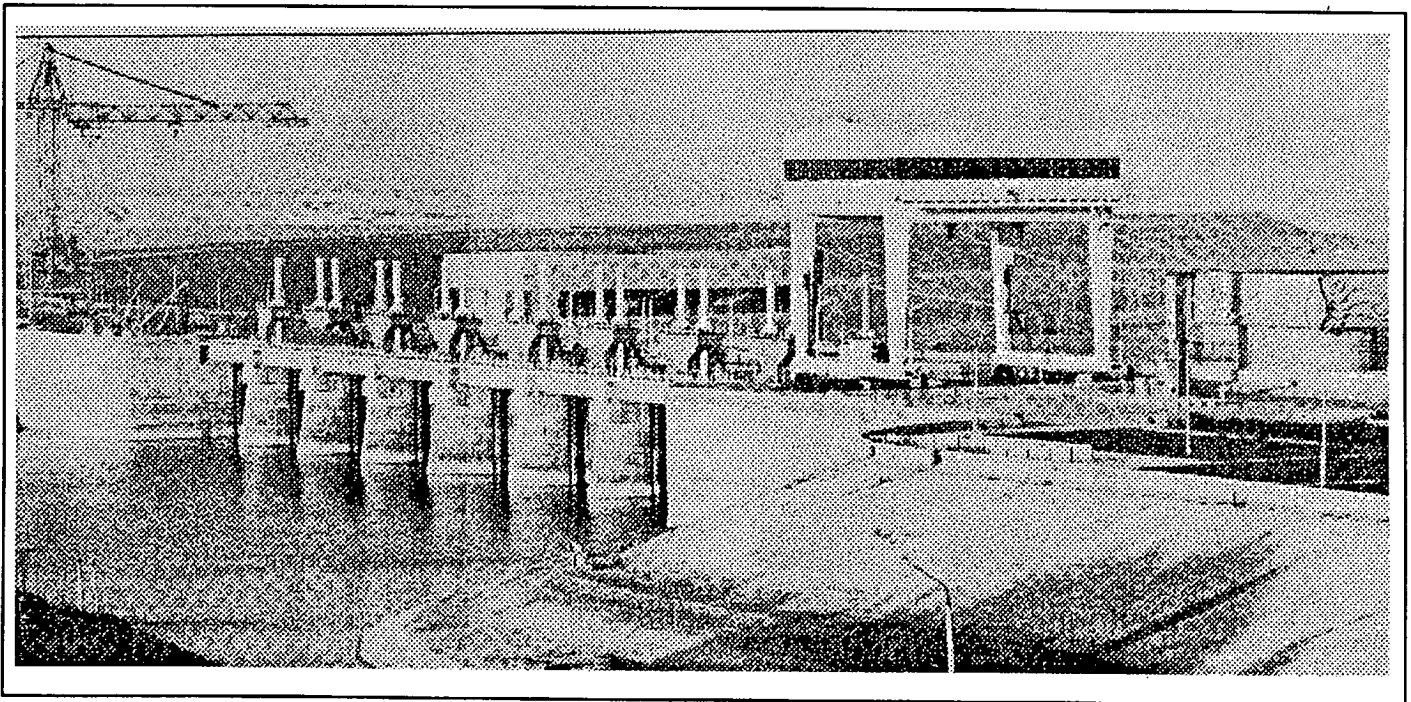
These disabilities are spreading and deepening at a time when, according to one outside observer, consumerism within the populace is overriding the post

[Redacted]

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<u>Year</u>	<u>Imports of goods and services</u>	<u>Export of goods and services</u>	<u>Deficit</u>
1981	\$5.5 bil	\$2.8 bil	\$2.7 bil
1982	4.7	2.6	2.1
1983	5.3	2.7	2.6
1984	5.0	2.6	2.4
1985	4.8	2.5	2.3
1986	3.5	1.9	1.6
1987	3.6	2.0	1.6

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Hydroelectricity accounts for about 30% of Syria's installed electrical capacity. Technical problems make daily power cuts of 4-5 hours not uncommon.

These figures are estimates and do not include Soviet arms transfers and the value of Iranian concessions on oil delivered free or below market price. [redacted]

As for export prospects, Syria could readily market extra quantities of its oil, cotton, phosphates, textiles, tobacco, fruits, and vegetables if the prospective growth in output were not swallowed up by rising population. Earnings from tourism may increase slowly as joint ventures in tourist facilities take hold and as local entrepreneurs respond to new opportunities; tourism will continue to suffer from Syria's branding as a "terrorist state" and lack of foreign exchange for equipment needed to expand tourist facilities. Oil, the one bright prospect, will both boost exports and lower import requirements. [redacted]

As to imports, the priority of foodstuffs, pharmaceuticals, military goods, and equipment for the oil and electric power industries will no doubt continue. This is a formidable priority list, and little foreign exchange will be left over for other uses. [redacted]

Important elements that have contributed to Syria's ability to live 20 percent above GDP in the oil boom era and that have subsequently dropped to considerably lower levels are:

- The Arab states' agreement of 1978 to supply Syria with \$1.85 billion annually in funds for the confrontation against Israel is expiring in 1988; actual dollar grants never did reach the original plan level; in recent years only Saudi Arabia has lived

up to the arrangement, and even the superrich Saudis have suffered a major drain of their accumulated assets; this source of funds, once more than \$1 billion annually, probably will yield no more than \$500 million in the next decade; all bets will be off, however, in the event of a new outbreak of Arab-Israeli hostilities or a major rise in oil prices.

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- Iran has been bled white financially after eight years of war with Iraq and has suffered serious military reversals in early 1988; its lessened ability and willingness to support Syria have already caused its aid to drop to \$100-200 million from the previous \$1 billion. Syria almost certainly can never repay the \$2 billion debt built up over the years in its oil account with Iran.

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- The USSR under Gorbachev has embarked on an economic restructuring program that has raised Soviet popular expectations but not Soviet output; since Moscow realizes

the futility of ever being repaid its \$15 billion in military shipments to Syria and since the Kremlin cupboard is bare, Syria probably will have to be content with a level of aid substantially below the level of the early 1980s and perhaps even lower than the level of 1986-88. As suggested in the military subsection above, the rough numbers might have been \$2 billion annually at the peak, now cut to \$1 billion or less.

-- The World Bank already has cut off the disbursement of new funds to Syria because Damascus is so far in arrears on older debt; the International Monetary Fund has prescribed its usual strong medicine as a condition of help, medicine that Assad will find hard to swallow because of domestic political constraints; the more growth falls below the projected pattern of Table 1, the more Assad will have to consider this option. The sums involved are in the low hundreds of millions of dollars over a period of several years.

-- Commercial creditors will be wary of extending credit for goods; investors in joint ventures have already entered into oil production agreements but doubt remains in other possible areas. Potential amounts are in the tens or low hundreds of millions dollars. [redacted]

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These extremely rough numbers suggest that Syria in 1980-1985 could live about \$4 billion beyond its own output and in the late 1980s and the 1990s can live perhaps \$2 billion above. These sums compare with a GNP somewhat under \$20 billion. [redacted]

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I. National Economic Policy: Retrenchment Measures

The interplay of the various economic sectors adds up to a general picture, confirmed by on-the-spot observers, of slipping per capita output and living standards. These adverse trends have led the government to adopt austerity measures in 1986-88 that include:

- a. Draconian restrictions on import licenses and foreign exchange transfers
- b. Partial devaluation of the Syrian pound
- c. New taxes and scaled-down spending plans
- d. Added controls over civil service pay and benefits

e. Indirect cuts in consumer and business subsidies, e.g., through decreases in quality and in quantities available of a widening number of products

f. Holds on new construction projects

g. Slow-downs in military modernization plans [redacted]

J. Post-Assad Economy: Conflicting Assessments

orderly transition the economy conceivably could benefit from a loosening of socialist controls, an accomodating attitude toward the old Sunni merchantile interests, and an emphasis on economic rather than miitary growth. Under a disjointed transition that unloosed localist and sectarian forces, major economic enterprises and projects could grind to a halt while the majority Sunnis fought to regain their dominant position and while the populace scrambled on a local basis to meet the elementary needs of life. [redacted]

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Some observers think Assad's death or resignation in the 1990s could trigger a power struggle at the top, possible internal war, a rapid diminution in Syria's power, and, ultimately, "the breakup of Syria's fragile political superstructure into its ethnic and religious component parts." [redacted]
[redacted]

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An alternative view holds that the cohesion and vested interests of those thousands at the top of the Ba'thist-military government structure will suffice to insure an orderly transition. The longer the Assad regime continues, the more firmly these elements are in place, so goes this view. One point in its favor is the youth of the population, considerably more than one-half of the people having being born after Assad took office and even more having no memory of the pre-Assad era. [redacted]

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As to whether the institutionalization of Assad's rule has proceeded to the point that the regime would survive his leaving,* the evidence remains incomplete and uncertain. We must be agnostic. Under a calm and

[redacted]

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[redacted]

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Table 3

SYRIA: PRODUCTION OF MAJOR PRODUCTS, 1982-1986

	1982	1983	1984	1985	1986
Index of agricultural production*	108	109	99	104	110
Wheat (000 MT)	1,556	1,612	1,068	1,714	1,969
Barley (000 MT)	661	1,043	304	740	1,116
Tomatoes (000 MT)	790	831	727	778	583
Potatoes (000 MT)	279	315	322	280	409
Cotton (000 MMT)	422	526	451	487	419
Sugar beet (000 MT)	860	1,158	1,268	412	440
Olives (000 MT)	471	152	311	185	414
Sheep slaughtered (000)	1,264	1,588	1,760	1,544	1,659
Index of industrial production*	na	139	139	136	140e
Iron bars (000 MT)	67	84	84	89	90
Phosphate (mil MT)	-	1.5	1.5	1.2	1.6
Electricity (bil kwh)	5.4	6.3	6.9	7.5	7.0

*1980 equals 100



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Table 4

SYRIA: PETROLEUM OUTPUT, 1967-2000

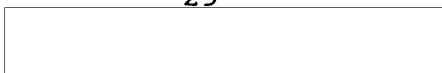
(thousand of barrels per day)

Year	Output	Year	Output	Year	Output
1967	1	1977	181	1987	232
68	21	78	178	88p	250
69	53	79	174	89p	275
1970	85	1980	165	1990p	300
71	105	81	170		
72	117	82	170	1995p	300
73	111	83	161		
74	129	84	162	2000p	300
75	191	85	176		
76	200	86	194		

Note: For assumptions and sources, see Appendix A. The letter "p" stands for "projected."



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Box C

SYRIA: KNOWLEDGE ABOUT THE ECONOMIC FUTURE

A. What observers know with confidence about the Syrian economy in the period 1988-2000:

1. An explosion of population, at an estimated 3.8 percent a year, which will mean 50 percent (6 million) more people by the year 2000.

2. A leveling off of the supply of good agricultural land and water, and the beginning of a gradual decline in amounts available.

3. A continuing sizable allocation of resources to the military sector, with the political ambition to make the allocation even greater but with the economic requirement to curtail new military programs.

4. A steady lowering of the government's social safety net, marked by increased shortages of housing and consumer goods, quality deterioration, and inflation.

5. An on-going burden of foreign financial obligations.

6. A strict rationing of foreign exchange, with priority going to imports of military-related goods, foodstuffs, and pharmaceuticals. [redacted]

B. What observers know imperfectly:

1. The magnitude of the expansion of oil output and the size of the resulting net oil exports.

2. The magnitude of year-to-year swings in national output and in sectoral output, e.g., in agriculture, industry, trade, and services.

3. The level, composition, and course of inflation.

4. The degree of success in government efforts to encourage joint ventures with foreign firms.

5. The future course of remittances from Syrians living and working abroad. [redacted]

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C. What observers do not know:

1. The extent to which the Assad regime has institutionalized nationalist, socialistic, and secularist attitudes.

2. The timing of Assad's departure from the scene, and the ability of the successor regime to hold the society and the economy together.

3. The likelihood of widespread economic reform under Assad or his successors, to lessen the weight of bureaucratic restrictions, soften the influence of extreme socialist economic doctrine, and even reduce the burden of military outlays.

4. The chances for an Arab-Israeli peace settlement which would affect Syria's military requirements.

5. The Middle East policy of the USSR, including its willingness to furnish military and economic support to Syria in the face of its own economic stagnation. [redacted]

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Appendix A

SYRIA: NOTES ON GDP AND OTHER STATISTICS

1. General Difficulties with Syrian Economic Statistics

Official statistics on the Syrian economy require a great deal of scrutiny and warrant a considerably amount of skepticism.

- Many series show incredibly fast percentage rates of growth which if worked back to the immediate postwar years would imply an unbelievably low rate of activity in the early years.
- Some series show wide year-to-year fluctuations that often are not believable even in times of war or extreme drought.
- Revisions in published series sometimes swing the figures so far as to cast doubt on the whole statistical procedure; one observer cites the case of the series purporting to show real rates of growth in GDP; the original series with a 1963 price base and the first revised series with a 1975 base showed real GDP in 1968 as rising by 4-6 percent, but the

second revised series with a 1980 base showed it falling by 4.5 percent.

-- The Central Bureau of Statistics must deal with a rapidly changing tape measure, the Syrian pound (SP), which in recent years has shrunk in value by 20-30 percent and more in recent years; furthermore, the statisticians must contend with two different price systems: the official prices for centrally subsidized and allocated goods and the semi-controlled quasi-market prices of goods in non-official channels; as one indication of the difficulties, the official consumer price index does not track with the implicit price index for national output derived by comparing the official GDP figures in current SPs with the GDP series in constant SPs.

-- The existence of several widely different foreign exchange rates further complicates the measurement of trends in prices and output.

-- Syria suffers from the well-known statistical difficulties common in centrally planned economies, compounded by the inadequacies of base-level reporting characteristic of Third World economies; sectarian divisions within the society and widespread corruption are additional barriers to an accurate and timely flow of data.

above 15.0 percent were cut back to 15.0 percent. (The original official rates for the six years cut back were: for 1956, 18.6%; for 1962, 23.7%; for 1969, 20.0%; for 1972, 21.6%, for 1974, 19.3%; and for 1975, 23.6%.) This arbitrary procedure reduced the undoubtedly inflated official growth figures and resulted in believable per capita figures for early years in the series. The wide swings in the year-to-year official figures cannot be taken literally; the general trends over time are much more believable, once the high figures have been trimmed.

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2. Calculation of GDP and GDP/Capita in Table 1

a. This report adopts the estimate of an international economist of \$1,560 as Syria's per capita GDP in 1986. This number, the starting point for the GDP series in Table 1, was multiplied by 1.03 to put it in terms of 1987 U.S. dollars. In perspective, the resulting \$1,607 figure is somewhat more than twice Egypt's per capita GDP and roughly one-fourth Israel's.

e. The 1987 Statistical Abstract reports growth of GDP in 1986 in constant Syrian pounds as 11.8 percent. This figure clearly is way out of line with reality; for instance other tables in the Abstract give the growth in agricultural production as 6 percent and list output in important manufacturing sectors as going up slightly in some instances and down slightly in others. The present report adopts 3.0 percent as the likely increase in GDP in 1986. A combination of difficulties with agricultural weather, foreign exchange shortages, and longer interruptions of electric power supplies suggests zero growth in 1987; no official claim is available. Similarly, growth in 1988 is likely to be around 1 percent.

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b. The \$1,607 was multiplied by 10.744, Syria's population in millions of mid-year 1986, giving a GDP figure of \$17.266 billion for 1986.

f. The 2.0-percent projected rate of real GNP growth for 1989-2000 is a "guesstimate" based on general economic considerations discussed in the text, in particular:

25X1

c. Estimates of year-to-year percentage changes in real GDP in 1950-85 are based on official Syrian figures in Syrian pounds, as given in the original government sources and as linked and reconciled in two secondary sources: for 1950-57, from Eliyahu Kanovsky, Economic Development of Syria (1977); for 1958-75, from IMF International Financial Statistics, 1986; and for 1976-85, from the 1987 Statistical Abstract of Syria's Central Bureau of Statistics. All rates of growth

-- The thesis that the 1990s will reflect, not the exuberant growth of the 1970s supported by sizable oil revenues from domestic and friendly Arab sources, but the subdued growth of the 1980s

25X1

when the limits of land and water supplies became increasingly apparent.

the 1990s. [redacted] 25X1

g. The population figures come from the U.S. Bureau of the Census; rates of growth are on a mid-year to mid-year basis. [redacted] 25X1

-- The likelihood that Syria will exploit a portion of its unused production potential in agriculture and industry, but will be blocked from major gains by serious foreign exchange shortages and basic inefficiencies in the Ba'athist economic system. (The level of oil production, domestic oil consumption, and international oil prices will constitute an important variable capable of affecting the projected 2 percent up or down by, say, 1 or 2 percentage points.)

3. Sources of Output Data in Table 3 and 4

The data for agricultural and industrial production in Table 3 come from the Statistical Abstract, for 1987. The figures for production of petroleum in Table 4, for the period 1967-1987 come from OAPEC (Organization of Arab Petroleum Exporting Countries). The figures for 1988-1990 assume that output from newly discovered fields will continue to expand rapidly and more than offset the decline in the output of older fields. In the 1990s, production will level off if the expansion from new wells just balances the decline in old fields. In general, observers feel that the new fields in Syria will have short lifespans. Of course, the discovery of a giant new field in the next year or so would alter the outlook entirely. Likewise, a collapse of arrangements with international oil companies as to exploration and exploitation of Syria's oil resources could change prospects in the other direction. [redacted]

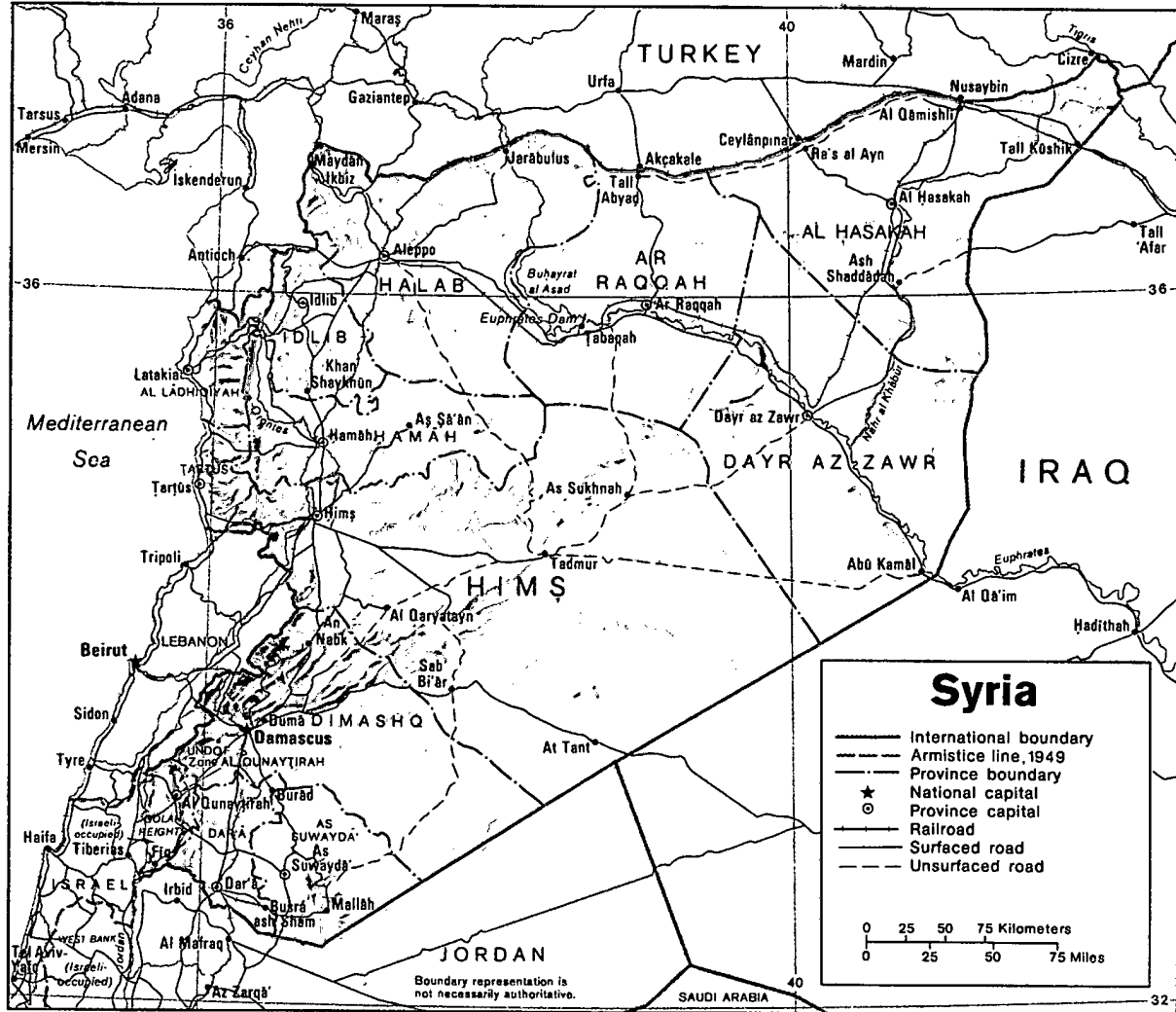
-- The assumption that, while military outlays are not likely to expand substantially, they are not likely to fall and hence will continue to prevent needed modernization of capital plant.

25X1

-- The assumption that if Assad does not remain as the indisputable leader, the post-Assad era will not see major changes that would greatly affect economic results in

[redacted]

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