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Panel Session 1: ECONOMIC AND INVESTMENT OUTLOOK FOR SYRIA

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[Sections A and B were compressed on delivery; Sections C-E virtually as delivered]

Introduction

I'm speaking in a personal capacity. These comments do not represent the agreed view of the British Government for whom I work.

An outsider like me can't tell you what the economic and investment outlook **will be**. That is going to depend on tough political decisions and manoeuvring the details of which I don't begin to understand

What I am clear about is that economic fundamentals suggest that Syria has great potential and that experience elsewhere suggests that if political logjams are broken rapid progress is possible – at heart an optimistic message.

I'll talk briefly about

- experience elsewhere – giving a feel for the way in which change can happen
 - how Syria's specific economic problems and challenges look from outside
 - and finish with a few thoughts – again based on experience elsewhere – on
 - the possibilities for change in Syria
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A. UK and Western European experience

Anyone who's lived the past few decades in the UK or Western Europe can't help but be aware of the speed at which the global economy has been changing and the effects – good and bad – it's had on our daily lives.

The **bad effects** are obvious, but don't affect everybody equally. Competition from lower cost economies overseas

- has destroyed jobs in many traditional areas, especially manufacturing. In the UK steel, shipbuilding and cars, all major industries 30-40 years, have shrunk dramatically. There have been periods of high unemployment
- along with modern management methods has destroyed comfortable old ways of doing things in the private sector; some of the same forces and more emphasis on value for money have hit the public sector too
- has made job security much more elusive
- has made life much more difficult for the weaker members of society
- has contributed to growing inequality

So change has been and continues to be disruptive. But the **good effects** are obvious too and for most people outweigh the bad:

- there are far more varied much cheaper goods in the shops
- more dynamic, high-tech modern manufacturing industries have emerged
- there has been huge growth of new areas of activity and employment as money has moved out of the old uncompetitive sectors and in to new ones. In the UK's case not just new technology manufacturing but finance, media, and services of many sorts.

All the statistics show that ordinary people are far better off than they used to be. Things that were beyond the reach of all but a tiny minority 20-30 years ago are now mass pursuits.

All this is the power of market forces at work: private enterprise has done this. Foreign investment even in our relatively wealthy economies has been an important and positive force for change

B. Central European experience

And as we in Western Europe have changed we have seen on our doorstep the astonishing transformation of Central European economies.

For the first half of my adult life these countries – Poland, etc - were almost as remote from our everyday lives in the UK as if they were on the moon. They were part of a broadly hostile Soviet empire; it was a real novelty to come across someone from one of these countries.

Those of us who paid some attention to economic conditions knew that they all had stagnant, state-dominated economic systems which provided a sort of equality of misery: dreary low-paid jobs, poor living conditions, limited choice of goods for all. The private sector, if it existed at all, was heavily circumscribed. Good and talented people were trapped in a system which frustrated them at every turn. They lived in a different economic world. With very few exceptions – mostly East German – any goods we came across from these countries were of poor quality. Cars were a laughing stock.

Fifteen years ago it would have seemed unbelievable to most people that these countries would be part of the same modern economy as the UK or France, far less that economic conditions in those countries could be compared to those in Western Europe.

But that is exactly what has happened. Following the collapse of Communism all these countries embraced market economics. The change was very disruptive to start with as the old order was shaken up, but after a handful of years most of these countries embarked on a period of sustained economic growth which has meant that life is getting much better. Foreign investment has been an important force: after small delay while investors satisfied themselves that the change was for real, investment flooded in to markets which offered cheaper labour and skilled workforces.

In the UK we take it for granted that some of the modern consumer goods we buy are made in these ex-Communist countries. This includes cars. Cars made in Central Europe are no longer the butt of lots of jokes. Skoda for instance is now a respected, quality brand.

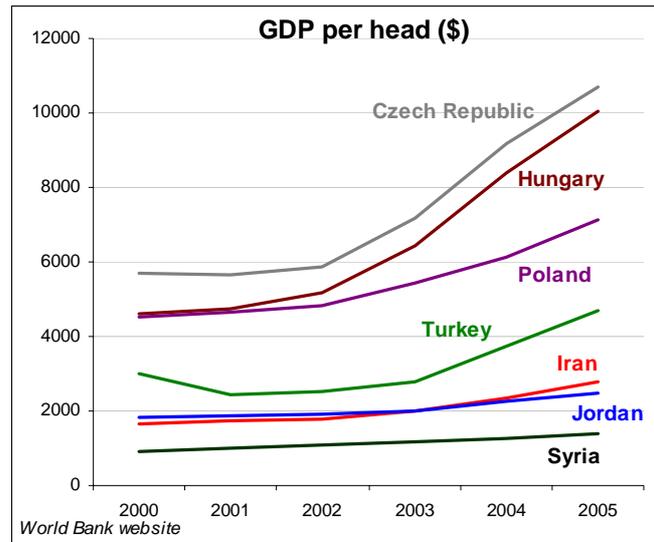
Visitors and workers from Central Europe are anything but a novelty. On one estimate there are close to a million Poles working in the UK, benefiting our firms but sending lots of money back home

C. Syria's economic performance and challenges

Syria is an economy in a good many ways reminiscent of the central European economies of the 1980s. Socially of course it's a different story: Syria is more tolerant and hospitable and relaxed and sure of itself than Central Europe was.

But even though it has a much bigger private sector than the Central Europeans had, many of the stultifying restrictions look the same and economically there's plenty of evidence that it is failing most of its people in just the same way those economies did:

- Syria's income per head has grown slowly over a long period and remains well below not just the Central Europeans but Syria's neighbours too
- Poverty is extraordinarily widespread. A major UNDP report in 2005 found "in 2003-4 almost 2 million individuals in Syria [11.4% of the population] could not obtain their basic food and non-food needs" – a sort of definition of grinding poverty. And it found that overall poverty "rises to 30.1%, almost 5.3 million people". It noted that poverty is especially acute in rural areas and in the North and North-East of the country and that it is strongly associated with illiteracy



- Unemployment is high – despite the safety valve of somewhere between half a million and a million Syrian workers in Lebanon - and so far as one can tell rising. Poverty and unemployment are of course related - the poor are more likely to be unemployed or engaged only in informal economic activity.
- Public services like health and education are in poor shape and probably deteriorating

I know this is recognised. President Bashar al-Assad told the BBC's John Simpson recently that

"The most difficult problem that people suffer from is the economic situation. We are a poor country not a rich country. Wherever I go as an official I meet people and the first thing they talk about are their wages, not having a job, having good schools for their children, having medical services. Sometimes they do not have the basic things in most of the regions"

Not only has recent performance been poor and the present position is difficult, but in some ways the challenges Syria faces are even greater than those of the Central European countries:

- there is **high population growth**, placing continuing pressure on living standards and unemployment
- **oil production** is expected to decline abruptly in the next few years, threatening to blow a huge hole in budget **revenues** and the balance of payments
- [as if that wasn't enough you now have] the **economic backwash from Iraq**, in the form of huge numbers of refugees

.....all of which means that time is not on Syria's side

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D. Syria's potential and prospects

The question is, can something like the Central European economic experience be repeated here in Syria?

(I) From a narrow economist's perspective the answer is clearly yes:

Syria has by any standards superb potential. It has

- very good endowments of skilled people and agricultural land
- huge tourism assets
- a potentially central position in a wider Arab market
- a wealthy diaspora
- wealthy and supportive neighbours [investors in the Gulf states have massive funds to deploy, and many of them are instinctively very well disposed to Syria. The new Gulf investments of the last year or two are just a taster of what could come

.... All of which give it

- outstanding prospects of attracting foreign investment if the climate is right and
- the prospect of becoming one day one of the most diversified economies in the region with a strong, competitive industrial and services base and an important agricultural sector holding its own in competitive conditions

Furthermore the things that need to happen to bring growth and prosperity are clearly at one level well understood. We'll be hearing in the next section about the priorities for economic reform, so I won't go into detail. And it may be possible to make **faster progress** than was the case in Central Europe, since the state enterprise sector here – though a drag on the economy – is proportionately much smaller and since price distortions are less widespread.

Mr Dardari, then head of the State Planning Commission, summed up perfectly what is required when he spoke at the 2004 Syrian Banking conference of a vision of ` **a market economy, integrated in the world economy**'. What that vision implies is an economy in which

- the private sector makes most economic decisions, operating in a transparent, fair and well-regulated competitive environment, open to global economic forces;
- the state's role is crucial but different from what it is now. The state must provide a stable environment for business – meaning among other things macroeconomic stability and a clear and accountable budget process, a clear predictable and stable legal and regulatory environment, and a benign political and security environment
- to the extent that the state provides goods and services and uses the budget to protect vulnerable members of society it should do so in an efficient and transparent manner

All these elements are embodied in the new 5 year Plan, which represents a big step towards the sort of economic reform agenda which has worked elsewhere. We've already heard in the Presidential address about the progress on a broad front – not just in the financial sector but also for instance on tariffs and taxes – which is being made

If this sort of reform agenda can be effectively implemented Syria can change quickly. It will be profound and disruptive but it will be worth it. Foreign investment will be a major force

(II) But the narrow economist's perspective is never enough.

Going back to what I said at the outset, the lesson from elsewhere is that what really matters is

- the **political commitment** and **practical capacity** to ensure that these far-reaching economic changes are not blocked at the outset by powerful vested interests or undermined by resistance at the grass roots

No economic reform decisions are painless but in every country some of them, particularly those which affect powerful vested interests, are genuinely profoundly difficult for any government concerned with stability. Many of the most important ones are a question of what we would call good governance. It's not really for an outsider like me to judge, and I'm open to correction, but I guess that in Syria the difficult decisions might include things like

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- completely removing energy subsidies, which are a huge distortion and an inefficient way of helping the most vulnerable; providing compensation to those who really need it but not to those who don't
- stopping bureaucratic impediments being put in the way of successful emerging businesses by those who have their own interests to protect;
- improving the bureaucracy more generally so that it helps not hinders business;
- tackling corruption on a broad front, including by making budgetary processes including tendering transparent and beyond reproach
- fixing the judicial system so that an independent judiciary makes sure that contracts can be fairly and properly enforced; and
- preventing labour unions, representing a privileged corner of the workforce, blocking a reform of state enterprises – possibly including privatisation - which potentially brings huge benefits to a much larger number of people

This is a pretty intimidating list, and not a complete one, but the prize is faster growth and a more prosperous future for you and – even more - your children and your grandchildren.

E. Conclusion

As an outsider looking in I sense that there has been at least a major rhetorical shift. I know that

- the commitment to a Social Market Economy made at the Baath Party conference last year was important; and
- the Five Year Plan on the face of it embodies a real commitment to difficult change;

What's more, I know that

- in some areas – not just banking and the wider financial sector – some real progress is evident.

There is a real buzz about this conference, and I sense that things are changing. But it's impossible for me to judge whether this yet amounts to the sea change in approach which is necessary if the really difficult decisions are to be taken.

You, not me, can judge that.

All would say is that experience elsewhere shows that there is more than one way to make the necessary political commitment. Let me end by giving you two examples from elsewhere:

- in Central Europe radical economic change was made suddenly possible because there was radical political change and a willingness on the part of the new political leadership to do whatever it took to wrench their economies into the modern world. It was a rough ride, with lots of unemployment as old industries shut down or slimmed. An older generation were probably permanent losers. But the path once set was adhered to through various democratic changes of government. Now even former Communist parties, once back in power, tend to support the continuation of reform
- in China, a strong government, committed to stability, has presided over an extraordinary economic liberalisation. In effect the Communist Party elite has given up some of its economic power and struck a new bargain with the emerging private sector.

The elite decided to put the wider interests of the country first. They didn't withdraw from the economic scene, and as it turns out many senior military and Party figures have done very nicely out of the new order. But they did clamp down on the worst of the corruption – even executing some of the worst offenders, who had thought themselves untouchable – and they created a much fairer, more open and genuinely competitive environment which allowed a thousand flowers to bloom.

I'm not saying that either of these models is directly applicable to Syria. But what these examples show is that economic progress is possible in a variety of political contexts. Syria can make it

Thank you