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Analysis: Signs of a faltering economy in Syria

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(Photo: Syriana2011/Flickr)

Protests against President Bashar al-Assad's government started in mid-March and have continued since

BEIRUT/ALEPPO, 27 October 2011

Mufid's (second name withheld) small manufacturing business in a poor neighbourhood on the edge of Aleppo, Syria's commercial capital, used to run on trust because he would receive goods and pay later - a system of trading that locals call *khamisat'*. Derived from the Arabic word for Thursday, *khamisat'* meant Mufid would only pay for his textiles at the end of the week, giving him a chance to collect money from retailers for that week's sales. For an enterprise that employs 50 workers, but has low margins and little capital, the trust-based system offered a vital breathing space.

But a decade of doing business quickly changed when an uprising against President Bashar al-Assad's government started in mid-March. Businessmen in Aleppo like Mufid learnt that the old system of *khamisat'* was no longer valid. Fearing the Syrian pound would devalue as domestic consumption withered in the face of Assad's crackdown on protesters, Aleppo's importers lost confidence in their market. The trust that allowed *khamisat'* to function evaporated and cash became king.

"They said there was no way to get even a metre of textile without cash," Mufid told IRIN. "I couldn't afford to pay cash to get raw materials and then wait weeks to get the money back from the retailers. I used up all my savings and then told my workers, with tears in my eyes: 'You have no work. If there is good news I will phone you.'"

There has been no need to call

Mufid, a Sunni Muslim like the majority of Aleppans and Syrians, said he knows of dozens of other small business owners in Aleppo who were also forced to lay off staff and close down.

GDP will contract 10-20 percent this year. Only the fact that oil and agriculture, which make up 40 percent of GDP, and are not yet affected by the uprising, will help GDP not decline further. He said he was furious that the regime, led for the past half century by members of the minority Allawite sect, took his taxes but appeared unable to secure him the economic stability needed to earn a living for his family - the pact that had long kept Aleppo's business community loyal to the Assad ruling family.

Fragile economy

Mufid's story is just one example of the suffering that ordinary Syrians are facing in the face of a fragile economy - already struggling with market reforms after decades of Soviet-era central planning - which is now in serious decline.

Having grown by around 3.5 percent in 2010, the International Monetary Fund (IMF) believes the Syrian economy will contract by 2 percent this year. A leading Syrian economist, however, predicts things could be much worse.

"GDP will contract 10-20 percent this year. Only the fact that oil and agriculture, which make up 40 percent of GDP, and are not yet affected by the uprising, will help GDP not decline further," said Jihad Yazigi, editor of Syria Report, the country's leading monthly economic newsletter.

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Official figures for the first half of 2011 showed the government had suspended its entire investment budget, which constituted 43 percent of the state's US\$16.7 billion annual budget.

European Union and US sanctions, as well as poor relations and a downturn in trade with neighbouring Turkey, are not helping.

In a country where extreme poverty may have risen over the five-year period from 2005 - in large part due to the mishandling of a chronic drought - and where unemployment is running at 15-25 percent, the investment budget was central to the state's plan to create jobs and wealth.

The Baath Party's coming five-year plan calls for investments of \$100 billion, half of which was to come from the private sector. But that now - in the words of an economist in Damascus quoted by AFP - is "out of the window".

Tourism, which normally accounts for 12 percent of GDP, has been decimated

"I've worked here for 10 years and this is the worst for me," said Ammar, a 35-year-old Kurdish waiter from a village outside Aleppo, surveying his empty café. "Now we get less income, but we pay more for life's costs. Usually, the young, rich people come here to smoke water pipes and spend hours playing cards. Now I see few of them because they don't want to spend money."

Ammar said his monthly salary of \$143 used to be supplemented twice or three - times by tips from customers, helping him provide for his wife, four children and elderly father. Now the tips barely cover his transport costs and cigarettes.

His packet of cigarettes now costs \$1.53, up from one dollar two months ago. The sugar in his tea has also gone up, almost tripling from 51 US cents a kilo to \$1.43 in just three months.

Observers say what began overwhelmingly as a political uprising - protest banners adorned with calls for freedom from oppression, not an end to policies of market liberalization - may soon begin to turn on the economic costs of repressing it.

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(Photo: Dana Hazeen/IRIN)

The faltering economy is making it hard for families of business people to make ends meet.

According to the annual Conflict Intensity Index, released by risk analysis and mapping company Maplecroft on 12 October, Syria has slipped from a "medium risk" country to one at "extreme risk" on a scale that helps multinational corporations assess ongoing trends for conflict and potential risks to operations or investments.

"Conflict exponentially increases the risk of doing business within a country, as operations are disrupted and employees and assets are endangered," noted Maplecroft analyst Jordan Perry.

Inflation

Despite a hard currency reserve that most economists put at \$17-18bn, in addition to the \$5bn pot to defend the Syrian pound, the cost of keeping inflation at bay for six months has clearly begun to take its toll on Syria's finances.

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On 24 September, the government announced a ban on imports of all goods carrying a tariff over 5 percent, a move the minister of economy and trade acknowledged was aimed at “preserving foreign reserves”.

Coffee and flour shot up by 50 percent while the price of cars, already prohibitively high in Syria with an average import tariff of 60 percent, increased 10-20 percent as dealers emptied showrooms in expectation of further price hikes.

Crucially, the price of heating oil, subsidized by the state and used by the majority of Syrians to heat their homes through cold winters, is expected to more than double from 31 to 78 US cents per litre, according to Mohammed Khaled, formerly a wealthy businessman with strong ties to the government who defected to the opposition. He is now “economic representative” for the Supreme Council of the Syrian Revolution.

A Western diplomat in Damascus could not confirm that price rise, but said shortages of heating oil had already forced prices up to 51 US cents a litre, a rise of 65 percent.

On 4 October, Minister of Economy and Trade Nidal al-Shaar said the government had rescinded the import ban “due to the legitimate demands of citizens, as it had more negative repercussions than expected”.

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Post-scriptum :

<http://www.irinnews.org/report.aspx?reportid=94077>