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Middle Eastern Conflict and Syrian Economic Policy

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"No recorded event has occurred in the world but Damascus was in existence to receive news of it. Go back as far as you will into the vague past, there was always a Damascus....She has looked upon the dry bones of a thousand empires and will see the tombs of a thousand more before she dies."

---Mark Twain, *Innocents Abroad*

"You can't make war in the Middle East without Egypt and you can't make peace without Syria."

--Henry Kissinger

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Syria has long occupied a position of great geostrategic importance in the Middle East. Since ancient times, it has served as the seat of empires and a gateway to international trade. Modern-day Syria, however, is far smaller than its historical boundaries, and the military is conventionally weak compared to neighboring Israel. Yet because of its central location—bordered by Turkey, Lebanon, Israel, Jordan and Iraq—it serves as both lynch-pin and barometer of regional security. For precisely this reason, it is particularly vulnerable to various economic and political shocks as a result of theater conflict.

This paper will focus on how various Middle Eastern conflicts have affected Syrian economic policy. Specifically, I will examine how the aftermath of these conflicts influences both the extent and quality of liberalization within a given decade of Syrian economic policy. In fact, various conflicts had direct as well as indirect economic consequences for Syria, which influenced the regime's implementation of liberalization measures. In short, I will examine the interplay of regional conflict and economic policy. For instance, how does Syria's status as a confrontation state affect Baath Party assets and their methods of distribution? What were the economic impacts of Syria's support for Iran during the Iran-Iraq War? How did Syria capitalize on its new friendship with the West during the 1991 Gulf War? Finally, what were the economic impacts of 9/11 and the subsequent wars on terror in Afghanistan and Iraq?

The departure point for this paper will be the advent of the Asad family regime—one known for both its longevity and pragmatism. In fact, for the Asad regime, domestic economic policy serves as the handmaiden of foreign policy, as well as the key to the maintenance of regime stability. Beginning with Hafiz al-Asad's rise to power in 1970, I will examine the complex interplay between conflict and economic liberalization in Syria from 1970 to the present day.

For instance, the 1973 war established Syria as a confrontation state against Israel and led to millions in expatriate investment and Gulf-state aid, necessitating an expansion of the private sector. In the 1980s, refugees fleeing violence in Lebanon pressured Syrian population demographics and infrastructure, prompting substantial liberalization measures with the aim of increasing employment. Moreover, the Iran-Iraq war resulted in a direct loss of foreign aid for Syria which contributed towards an overall economic decline and prompted an enlargement of the private sector in order to increase capital. Syria's participation in the Gulf War initially led to warmer relationships with Western powers, which allowed Syria to expand economic relationships with the United States and the European Union. As the 1990s peace process began to disintegrate, however, Syria turned instead to the USSR. Finally in the past decade, the US wars in Afghanistan and Iraq have shocked the Syrian economy and hampered Syria's efforts at liberalization.

Economic policy and its effects are well documented, particularly in the 70s, 80s, and 90s. This paper will give special attention to those years, and lay the foundations for challenges faced by Bashar al-Asad since 2000—and whether a continuation of his father's pragmatism can salvage the Syrian economy and withstand the highly explosive nature of Middle Eastern politics today. Hopefully such a long and historical overview of the challenges and implementation of

economic liberalization as a response to conflict will aid policy makers as they confront an era in which Syria may be integral to the maintenance of regional security in the Middle East.

I. Hafiz al-Asad: Rise to Power and the Jordanian Civil War of 1970

Hafiz al-Asad and his rise to power represent a distinctive shift in the tone of both Syrian foreign and economic policy. After World War II and the expiration of the French mandate, Syria had experienced numerous bloody revolts and coups, which eventually led to Ba'ath Party domination in 1963. In the interests of regime stability, party elites then passed the Emergency Law of 1963, which suspended the constitutional rights of its citizens in order to promote public safety and security.¹ It is interesting to note that this law has yet to be repealed even today, which speaks to the insecurity with which Syria views its position in the Middle East. Indeed, Syria has good reason to be paranoid; it lost the strategic Golan Heights to Israel in the 1967 War.

The Baathist regime under Salah Jahdid was already particularly reviled after Syria's poor showing in the 1967 War, in which Syria lost the strategic mountain-plateau of the Golan Heights. However, it was not until the events of Black September and the Jordanian civil war that Asad was able to capitalize on this populist discontent and internal Baathist conflicts in order to seize power. At this time, Palestinian organizations such as George Habash's Popular Front for the Liberation of Palestine were operating from bases in Jordan, effectively establishing a state-within-a-state there.² In early September, PFLP members hijacked four civilian airliners and flew them to Amman—exploding them some twenty miles from the royal palace and hoping

¹ "Syria." *New York Times Online* 17 Mar 2011, <http://topics.nytimes.com/top/news/international/countriesandterritories/syria/index.html?scp=1-spot&sq=syria&st=cse>

² Cubert, Harold M.. *The PFLP's Changing Role in the Middle East*. London: Frank Cass and Co., 1992. 163

to provoke a revolt against the western-backed King Husayn. The government responded with war, inflicting mass damages on Palestinian refugee camps and safe havens. In desperation, the Palestinians looked to Syria for help, but Syrian arms and volunteer support proved unable to turn the tide of the conflict.

On September 18th, Syria escalated its level of support—sending in Syrian tanks to prevent a Palestinian massacre. King Husayn, now desperate and unsure of Syrian intentions, responded with an aerial campaign and risked alienating his Arab allies by pleading with his Western allies for support.³ Salah Jahdid ordered Asad to send air support in defense of the PLO, yet Hafiz refused, fearing destruction of Syrian air capacity.⁴ The next day, Syrian forces retreated, and Asad would later admit with some embarrassment that his support of the Palestinians was reluctant at best.⁵ He was “distressed to be fighting the Jordanians whom we did not think of as the enemy. I wanted to prevent escalation...our goal [was] protecting the guerillas without committing the air force.”⁶ Such pragmatism would come to be the defining characteristic of Asad’s later rule.

Although officially the Minister of Defense, by 1970 Asad was ruler of the country in all but name—controlling the officer corps and elite strike forces, the national security forces, as well as the civil defense forces known as Sa’iqa.⁷ It is important to note that no military action could have been undertaken without his express consent, yet his official distance from the conflict allowed him to seize power from the radical and ideologically motivated Salah Jahdid. Indeed, with the backing of the army and security forces, Asad was able to thwart Jahdid’s last-

³ Cockburn, Patrick. 2008. “Man in the Middle.” *New York Times*, October 3.

⁴ Lesch, David. *Bashar al Asad: The New Lion of Damascus*. New Haven/London: Yale University Press, 2005.

⁵ Hess, John. 1970. “Syrian Tanks Are Said to Withdraw as Jordanian Forces Press Attack.” September 24.

⁶ Seale, *Asad*, 158-159.

⁷ Seale, *Asad*, 158.

ditch attempts to retain party control at the emergency National Congress on October 30, 1970; he wasted no time in arresting his opposition and establishing a new Provisional Regional Command in what proved to be a flawless and bloodless coup.⁸

In Asad's keynote address, he emphasized the need for internal unity and advocated for the "development of socialism" through a process which he termed *al-Harakat al Tashishiyya* or the Corrective Movement.⁹ This was primarily a set of economic policies known as *intifah* ("open door" in Arabic) which included the promotion of the private sector, foreign investment, and state reforms--mirroring a more conservative version of Gamal Nasser's earlier efforts in Egypt.¹⁰ Immediately, Asad established new public institutions such as the Parliament (largely ceremonial), drafted a permanent constitution, and carefully ceded limited authority to leaders of the Popular Organizations created under the prior regime¹¹. This, combined with an immediate 15% reduction in food prices by means of a generous government subsidy, was intended to consolidate the regime and mobilize support from key segments of the population—workers, peasants, students, youth, and industry figures¹². It is important to note, however, that his economic legislation was specifically designed to garner popular support, as the bedrock of the regime was primarily composed of Asad's fellow (and distinctly minority) Alawites. That is to say, administrative and economic institutions merely existed as tools of key, Alawite power-elites such as the prime minister, the defense and foreign ministers, secretaries and bodyguard.¹³

II. The 1973 Arab-Israeli War

Hafiz al-Asad's popularity and the scope of the regime's *infitah* increased exponentially in the aftermath of the 1973 Arab-Israeli war. Indeed, the 1973 war provides unique insight into

⁸ Seale, *Asad*, 163.

⁹ Kienle, Eberhard. *Contemporary Syria: Liberalization between Cold War and Cold Peace*. London: British Academic Press, 1994, 45.

¹⁰ Seale, *Asad*, 171.

¹¹ Galvani, John. "Syria and the Baath Party." *Middle East Research and Information Project* 25, no. February (1974): 3-16. 3-5

¹² Seale, *Asad*, 175

¹³ Seale, *Asad*, 177

Syria's role as lynch-pin in the region and the impact of geopolitical conflict upon its economic policy. For instance, the Middle East of the 1970s was host to various proxy conflicts of the Cold War, with the West backing both Israel and King Husayn in Jordan—countering Soviet influence in Egypt and Syria. However, by 1972, Anwar Sadat was growing desperate for both peace with Israel and the return of the oil-rich Sinai Peninsula to Egyptian control. In that same year, he expelled all Soviet advisors from the country as a signal of his intentions, hoping to secure Western aid dollars and intervention into the current stalemate with Israel.¹⁴ As Soviet influence in Egypt waned, the USSR focused more upon Syria—extensively courting Asad's new regime. Asad, ever the pragmatist, leveraged the weakness of the Soviet position in order to extract a high price from Moscow.¹⁵ For instance, on a 1972 visit to Moscow, Asad signed a 700 million dollar arms deal, and the number of Soviet advisors within Syria increased from 700 to 3,000 by the end of that summer¹⁶.

Sadat's efforts were in vain, however. Finally, Egypt felt it had no other choice, spearheading a surprise joint invasion with Syria through cease-fire lines into Israeli-occupied territory on October 6, 1973. Simultaneously, Egypt moved to re-occupy the Sinai Peninsula while Syrian forces marched across the Golan Heights.¹⁷ Despite their mutual efforts, however, there existed a serious disconnect between the strategic objectives of Syria and Egypt. On one hand, Sadat's invasion was one of political provocation designed to force a resolution concerning the Sinai Peninsula and was thus rather limited in its military objectives.¹⁸ On the other hand, he never communicated this policy to Asad, who was under the impression that the operational

¹⁴ Alagna, Magdalene. *Middle East Leaders: Anwar Sadat*. New York: Rosen Publishing Group, 2004. 74

¹⁵ Boyne, Walter J.. *The two o'clock war: the 1973 Yom Kippur conflict and the airlift that saved Israel*. New York: St. Martin's Press, 2002. 3

¹⁶ Lesch, *New Lion*, 31.

¹⁷ Seale, *Asad*, 202.

¹⁸ Anderson, Ewan. *The Middle East: Geography and Geopolitics*. New York: Routledge, 2000. 107

strategy was to liberate the Golan Heights and upset Israeli dominance in the region¹⁹. Instead, once Sadat had established a bridgehead west of the Sinai Peninsula, he halted his forces and began secret negotiations with Henry Kissinger—communicating his willingness for a ceasefire and a UN-brokered peace conference.²⁰ By contrast, Syrian military and economic positions became the targets of heavy Israeli shelling and Syrian forces had been stalled by October 10th. Moreover, Israel crossed the so-called “Purple Line” with its sights set on the road to Damascus.²¹ On October 14, the US began to resupply Israel, yet both the US and Soviets pressured their allies for a cessation of hostilities under the UN Resolution 238. The following negotiations consisted of Kissinger’s shuttle diplomacy; despite visiting Damascus no less than 26 times, both he and Sadat regarded Asad as junior partner in the peace talks.²² While Asad viewed the negotiations as a legitimate springboard for the return of the Golan Heights, Kissinger instead focused on detaching Cairo from the Soviet Union. The subsequent success of the 1974 Sinai I and II treaties (which established a demilitarized zone in the Golan Heights and the partial retreat of Israeli forces in the Sinai Peninsula) relegated Syrian-Israeli engagement to the back burner and marginalized Asad’s bargaining position.²³

Asad was stung by Sadat’s betrayal and the experience undoubtedly informed his later approach to negotiation strategy--stubborn, methodical, and oftentimes suspicious. Indeed, Asad now faced an increasingly hostile Israel as well as the moderation of other front-line states such as Egypt and Jordan. The 1979 Egypt-Israeli peace treaty reinforced Asad’s isolation in his struggle against Israel and the return of Syrian lands. However, Sadat’s perceived betrayal of the larger Arab cause during the war ushered in an unprecedented era of economic prosperity and

¹⁹ Seale, *Asad*, 211

²⁰ Lesch, *New Lion*, 35.

²¹ Lesch, *New Lion*, 33

²² Gwertzman, Bernard. 1973. “Kissinger, Shifting Plans, Visits Syria Once More.” May 29.

²³ Gwertzmann, Bernard. 1981. “Egypt and Israel Sign Pact on Sinai.” *New York Times*, August 4.

public support for Syria. Indeed, rich Gulf Arab states such as Saudi Arabia and Kuwait began to funnel massive amounts of military and economic aid to Syria for the continuation of resistance against Israel. They viewed Syria as the epitome of an Arab state—one dedicated to confrontation against Israeli. For instance, in 1973 Syrian foreign aid receipts totaled to barely 50 million dollars, yet by the following year they had mushroomed into a staggering \$600 million.²⁴ Indeed, the remainder of the 1970s would be a time of astounding economic growth for Syria, albeit one almost entirely financed by foreign powers. Indeed, during the decade, traditionally sluggish Syrian GDP increased by some 10% overall--funded not only by the governments of the USSR and oil-rich Gulf states, but also by the several hundred million per annum in remittances from Syrian expatriates working abroad.²⁵ The amount of remittance dollars is difficult to estimate and may in fact be much higher than official figures suggest, as much of the income does not pass through official Syrian banking channels.²⁶

In addition, the price of oil quadrupled in 1973-1974, rising from an average of \$3 per barrel to around \$12-13.50, staying for the remainder of the decade.²⁷ This dramatically increased the wealth not only of oil-rich Persian Gulf states but also in the non-oil or low-level oil producing nations such as Syria.²⁸ For example, as the economies of Gulf states prospered, so too did expatriate workers who were willing to send significant remittances back to Syria. Indeed the 1970s was an era of affluence previously unseen in the modern Middle East. All over the region urbanization resulted in improved education, transport structures and increased levels of globalization as the living standards of Middle Eastern nations improved. Syria was immensely popular in the Arab world during this period, having survived the 1973 conflict, bloodied Israel,

²⁴ Kniele, *Contemporary Liberalization* 16.

²⁵ Seale, *Asad*, 318

²⁶ Perthes, Volker. *The Political Economy of Syria Under Asad*. London: I.B. Tauris and Co., 1995., 32-33

²⁷ "History and Analysis-Crude Oil Prices." *WTRG Economics*.

²⁸ Lesch, *New Lion*, 23

and (in contrast to Egypt) emerged with its Arab credentials intact. Asad was now viewed as the head of a dedicated confrontation state on Israel's northern border. It is no surprise then that the largesse of states such as Kuwait and the United Arab Emirates (and their Syrian expatriate workers) amounted to \$7 billion from 1978-1981, or approximately 12% of Syrian GNP.²⁹

To a lesser extent, Western investors also looked to Syria in order to capitalize on the influx of oil wealth in the Middle East.³⁰ Indeed, in the five year plans covering 1971-1985, some 30-36% of all foreign investments were earmarked for industry. While Syria had previously relied on Eastern European countries to provide funds and expertise for industry, Western companies began to win contracts in the aftermath of the 1973 war—as Syrian desperately lacked both the industrial infrastructure and expertise to capitalize on its wealth. For instance, after 1973 Western nations won contracts for a paper mill, two fertilizer plants, oil refineries, power plants and more.³¹

Moreover, Syria benefited vastly from continuing Cold War tensions in the region. With the threat of US intervention in Jordan, the resupply of Israel during the 1973 War, and a dramatic increase in foreign aid to Israel (from \$30 million in 1970 to \$545 million in 1971), the depth of the US-Israeli alliance began to alarm the Soviet Union.³² Particularly as its former allies deserted to the camp of Arab moderates, the USSR sought to preserve its influence in the Middle East through Syria. Indeed, Syrian economic assistance from the Soviet Union and its Eastern European satellites began to account for some \$50 million/annum.³³

Table 1 illustrates the sharp uptick in Syria's holdings of foreign assets beginning in 1973. Foreign asset holdings by the government peak in 1975 and decrease as the government

²⁹ Volker, *Political Economy*, 29.

³⁰ Volker, *Political Economy*, 28.

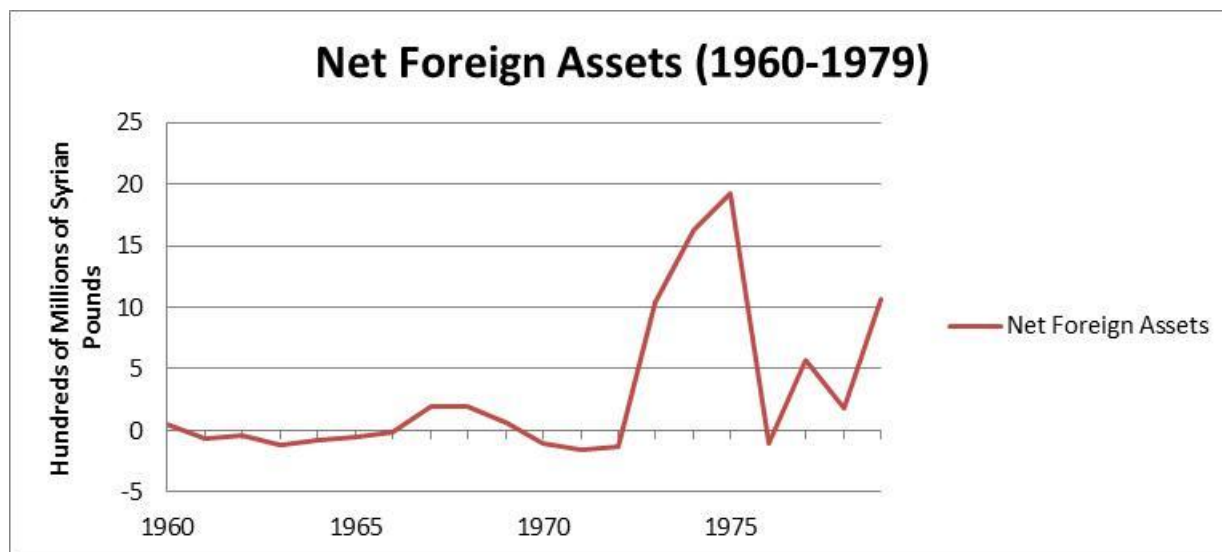
³¹ Perthes, *Political Economy* 43.

³² Seale, *Asad*, 216.

³³ Perthes, *Political Economy*, 23.

begins to spend such funds in order to facilitate imports for industry. It is important to remember that the data shown does not account for the majority of expatriate remittances—which occurred largely outside of legitimate banking channels. The real figure of Syrian foreign assets after 1973 is likely significantly higher in real terms.

Table 1



The Asad regime quickly adapted its economic policy, widening the scope of *intifah* in order to capitalize on the influx of foreign investment and petro-dollars. Indeed, the explosion of Syria's economic boom is evident when considering a series of 5-year government plans: from 1961-5 total investment (including both private and public) was projected to be a mere \$600 million, from 1966-1970 it rose to \$1.2 billion, and from 1971-1975 this nearly doubled to \$2 billion.³⁴ However, during the heyday of the oil-price boom, the Asad regime projected for 1976-1980 an incredible \$13.5 billion in private/public investment.³⁵

With this sudden glut of foreign cash, the Baath regime began to take measures to liberalize the economy—precisely because the government itself did not have effective mechanisms to distribute these new funds. In order to facilitate this massive expansion, the 1973

³⁴ Perthes, *Political Economy*, 45.

³⁵ Seale, *Asad*, 318.

Constitution explicitly contained a clause which guaranteed private property protections against unlawful seizure and adequate compensation if expropriated for public use.³⁶ In addition, the government then eased import and foreign currency exchange restrictions, allowing both non-Syrian Arabs and Syrian expatriates to open foreign exchange accounts with the Commercial Bank of Syria and acquire real estate—hoping to facilitate both foreign and expatriate investment in the state dominated system.³⁷ In particular, these were designed to encourage Syrian entrepreneurs abroad to return to their home country and start new businesses.

In the 1970s, the role of the private sector was expanded slightly in order to act as a necessary intermediary between the largely state-owned economy and foreign businesses. The regime focused mainly on the areas of industry and tourism. Indeed Law no. 56 of 1977 provided for the creation of the Arab Syrian Company for Touristic Establishment.³⁸ On first examination, the initial forays into tourism seem to make little sense. However, in 1970 the Syrian population had more than doubled over the previous two decades, and tourism (although relatively low yield in terms of economic growth) would help alleviate employment strains as the Ba'ath regime struggled to find work for its burgeoning youth population. In addition, the government beginning in the 1970s hastily provided for the establishment of mixed-sector economies and manufacturing enterprises.³⁹

However, the regime tightly controlled the profits of such private institutions—retaining a 25% stake in the company and limiting any one individual's stake to 5%.⁴⁰ It was clear that although the private sector did not lack for capital, it did lack significant means of structural accumulation. Industries constructed in great haste and forced by the state to employ large

³⁶ Perthes, *Political Economy*, 51.

³⁷ Perthes, *Political Economy*, 50-51.

³⁸ Kniele, *Contemporary Liberalization*, 45

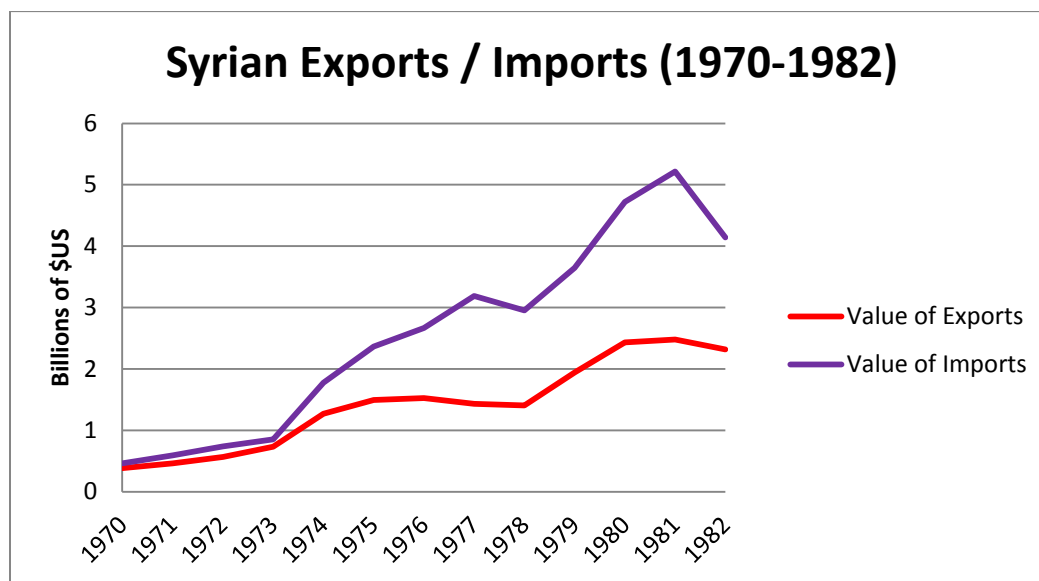
³⁹ Kniele, *Contemporary Liberalization*, Syria 32

⁴⁰ Kniele, *Contemporary Liberalization*, 46

numbers of unskilled workers understandably relied on imported machinery and expertise, which greatly increased their costs.⁴¹ However despite government restraints and management inefficiencies, there was still profit to be made in the 1970s era private sector, particularly in areas of retail, building, agriculture and skilled professions.⁴² Furthermore, the regime's overall neglect of the agricultural infrastructure and population boom caused Syria (a traditionally agrarian economy) to become an overall importer of foodstuffs.⁴³ This situation was greatly exacerbated by the civil war in Lebanon, as discussed below.

Structural weaknesses in the economy were masked by the influx of petro-dollars and expatriate remittances. Indeed, a look at the total value of exports and imports in Table 2 shows that Syria's trade balance remained in the red—despite its infusion of foreign assets. It exported substantially less than what it was able to import thanks only to foreign financing.

Table 2



⁴¹ Perthes, *Political Economy*, 45.

⁴² Seale, *Asad*, 457

⁴³ Perthes, *Political Economy*, 23.

III. Civil War in Lebanon and the Rise of the Moslem Brotherhood

The Syrian-Lebanese relationship is a bond with deep historical and economic roots. Indeed historical Syria was once known as the “bilad al-Sham” or the “lands of Damascus”, whose territory once stretched from the Taurus Mountains to the southern deserts and from the Euphrates River to the Mediterranean Sea⁴⁴. Although never politically unified, the people were ethnically homogenous and maintained close economic ties. Great resentment accompanied the French mandate and truncation of greater Syria into four ministates: modern-day Syria, Palestine, Jordan and Lebanon⁴⁵. Indeed, Syria lost many strategic and lucrative ports to the creation of Lebanon including Tyre, Sidon, and Tripoli⁴⁶.

However, even under French rule the two countries maintained close economic ties “in terms of customs, currency, and taxation, as well as preserving open borders for travelers and trade.”⁴⁷ Beirut of the early 1970s was considered the shining, democratic jewel of the Middle East—a country whose cultural accomplishments came to rival Cairo in the Arab world.⁴⁸ Moreover, Lebanon provided a necessary economic service to Syria. Indeed, prior to the opening hostilities of the 1975 war, Lebanon provided a home to approximately 1 million Syrian workers⁴⁹. Not only did this relieve the employment burdens on the state, but remittances from Lebanon accounted for some \$2 billion per year⁵⁰. Indeed, Syria maintains the all-important “Lebanon File” dedicated to overseeing Syria’s economic and strategic interests in country.

⁴⁴ Seale, *Asad*, 15

⁴⁵ Seale, *Asad*, 14

⁴⁶ Wright, Robin. *Dreams and Shadows*. New York: Penguin Press, 2008. 15

⁴⁷ Lesch, *New Lion*, 38

⁴⁸ Negotiating Change, 103-104

⁴⁹ Lesch, *New Lion* 40

⁵⁰ Lesch, *New Lion*, 37.

When questioned on the significance of Lebanon, Bashar al-Asad (the current president) reinforced the importance of the Syrian-Lebanese relationship:

“We depend on each other economically. Thursday and Friday most of the Syrians living middle-class lives and above go to Lebanon to have fun, buy things, or go to the hotels. On Saturday and Sunday most of the Lebanese middle and lower classes come here to buy cheaper things, clothes, food, sometimes gasoline since it is much cheaper here. So we complement each other. We are becoming one market.”⁵¹

Unsurprisingly, when sectarian violence erupted in Lebanon in 1975, Syria felt that it had little choice but to intervene. Particularly in light of Sadat’s betrayal and the loss of Jordan to the Arab moderates, Asad could not tolerate instability in Lebanon which, if prolonged, might lead to further foreign power machinations within Syria’s sphere of influence. Moreover, intervention in Lebanon created an opportunity for the regime to gain greater influence over not only Lebanese political affairs⁵² but also over the PLO—which had fled to Lebanon after its eviction from Jordan.⁵³ Although Syria initially supported the Palestinians, it quickly switched allegiances in 1976 to the Maronite-Christians. Not only did Asad fear that greater casualties to the Israeli-backed Maronites would force an intervention from Israel, but the emergence of a Palestinian dominated Lebanon would be a mortal blow to Syrian interests in the region.

Ultimately, the violence in Lebanon effectively lasted some 14 years, and prompted Israeli, US, French, Syrian and UN intervention in 1982.⁵⁴ Not only did Syrian enterprises lose access to the deregulated economic market of a peaceful Lebanon, but refugees from Beirut (both Syrian and Lebanese) fled to Syria in mass droves—exacerbating Syrian demographic imbalances and population growth.⁵⁵ In particular, the capital of Damascus saw influxes of some

⁵¹ Lesch, *New Lion*, 37

⁵² Seale, *Asad*, 347

⁵³ Lesch, *New Lion*, 42.

⁵⁴ “Lebanon” 2010. *New York Times Topic: Lebanon*. August 4.

⁵⁵ Seale, *Asad*, 320.

one million people, mainly consisting of the rural poor who lived on squatter encampments and slum housing located at the entrance to the city.⁵⁶ In response, the regime began to initiate mass public works and city planning projects—injecting aid dollars into building new roads, schools, and clinics as well as providing electricity, running water, and transportation rails to satellite cities⁵⁷.

However, it was clear that unrestrained population growth, unemployment and Islamic resentment of Syria's secular regime created a set of conditions that would soon explode. The cost of living in major cities had increased seven-fold from 1972-1977 and ten times by the end of the decade.⁵⁸ Merchants, prominent Ba'ath Party members, and religious authorities found their wealth and power quickly eroding.⁵⁹ Moreover, Syria's elites became targets of popular frustration and eventually the government itself established the Committee for the Investigation of Illegal Profits, which arrested several businessmen and clergy guilty of illegal profiteering.⁶⁰ However, the regime left untouched the real targets of enrichment who were nevertheless vital to the regime's security—especially Asad's brother and the commander of the Defense Companies Rifat Asad, who was spared in the interests of regime security.

Moreover, in 1976 Syria began to see a slowdown in both Gulf state petro-dollars and foreign aid due to these countries' disapproval over Syria's invasion of Lebanon.⁶¹ Meanwhile, 1970-1978 saw \$570 million in arms purchases per year and Syrian budget deficits remained at some 20% of GDP due largely to military expenditures.⁶² In response, by 1977 the government finally issued the last substantial measure of its first *intifah*, entrusting private entrepreneurs and

⁵⁶ Seale, *Asad*, 443.

⁵⁷ Hopfinger, Hans. "The Development of the Transportation Sector in Syria and the Actual Investment Policy." *Middle Eastern Studies* 35, no. 3 (1999): 64-71. 2

⁵⁸ Seale, *Asad*, 320.

⁵⁹ Syria Between two Transitions, 3.

⁶⁰ Seale, *Asad*, 321

⁶¹ Syria Between Two Transitions. 4.

⁶² Perthes, *Political Economy*, 31-32.

companies with roles in the ever privatizing tourism industry.⁶³ This mixed sector enterprise was private in all but name and was unofficially charged with generating quick economic returns and employment to ease public tensions. For instance, Law no. 56 of 1977 led to the establishment of the Arab Syrian Company for Touristic Establishments, led by entrepreneur Uthman A'idi and later in 1978 the Syrian Transport and Tourism Marketing Company (TRANSTOUR).⁶⁴ These efforts were fledgling but did establish a precedent for cooperation between state and private enterprises that would be further solidified in the legislation of the 1980s and 1990s.

However by 1979, a Syrian chapter of an Islamic group known as the Moslem Brotherhood became radicalized in these turbulent political and societal conditions and turned violent. Undoubtedly drawing inspiration from Khomeini's Islamic revolution in Iran and opposing Asad's secular regime, the group began to cut a bloody swath in the major Syrian cities of Aleppo, Damascus and Hama.⁶⁵ Indeed, galvanized by Asad's support of Maronite Christians in Lebanon and by the jihadist assassination of Anwar Sadat in October 1981, this traditionally apolitical group resorted to terrorism.⁶⁶ From 1979 to 1980, they were responsible for several incidents of arson, suicide attacks in the streets, and the murder a prominent Ba'ath Party member in front of his family—later displaying his body in the streets.⁶⁷ On June 26, 1980, Asad himself survived an assassination attempt by kicking away what turned out to be a dud grenade.⁶⁸ Soon, the Brotherhood escalated to full-scale urban uprisings and the threat of mass violence was a daily concern. Internal unrest was frightening enough, but Asad believed that foreign powers were intervening in support of the Brotherhood. In fact, Asad and the regime publicly accused

⁶³ Perthes, *Political Economy*, 51-52.

⁶⁴ Kniele, *Contemporary Liberalization* 15.

⁶⁵ Wright, *Dreams and Shadows*, 233-235.

⁶⁶ Lesch, *New Lion*, 45.

⁶⁷ Seale, *Asad*, 327.

⁶⁸ Seale, *Asad* 329.

the CIA of attempting to “bring the entire Arab world under joint US-Israeli domination”, accused King Husayn of Jordan of allowing Muslim Brotherhood training camps in his territory, implicated Iraq in weapons smuggling, and Asad himself seized arms from Lebanese Christian militias.⁶⁹ Indeed, Syria had previously seen a brief six-month lull in Brotherhood activities after Asad signed a truce with Saddam Hussein in October 1978.

By 1979, though, it was clear that the Moslem Brotherhood represented a significant risk to the security of the Asad regime. The government began to court the loyalty of wealthy businessmen and stake-owners in mixed industrial businesses by lifting import restrictions on both luxury items and sophisticated industry parts. Asad also increased civil servant wages an astonishing 65% to buy loyalty from party members who increasingly were becoming the targets of Brotherhood violence.⁷⁰ No doubt the regime also wanted state employees to be insulated against bribery by foreign powers—particularly from Israel and Iraq. Moreover, the government drastically ratcheted up its arms acquisitions in response to these internal and regional tensions—shelling out some \$2.8 billion for arms shipments in 1979.⁷¹

Finally in August 1980, the regime reached its limits and embarked on a particularly bloody retribution. Asad began to dismantle aspects of the Popular Organizations which he had as recently as seven years ago empowered. Doctors, engineers, and citizen sympathizers were arrested while security forces marched into the Muslim Brotherhood stronghold of Hama. There, they rounded up males over 14 years of age and shot them without reason, and raided Brotherhood training camps. They also established a security zone in Damascus by December. In response, Brotherhood members set fire to government food stores and disrupted civil bureaucracy as well as private/state businesses. In February 1982 the situation had deteriorated

⁶⁹ Seale, *Asad*, 335.

⁷⁰ Perthes, *Political Economy*, 53.

⁷¹ Perthes, *Political Economy*, 33.

further and Asad ordered a full-scale destruction of Hama that saw sniper-fire in the city, tanks, and the looting of mosques. At the conclusion of hostilities, nearly a third of the city was razed and Amnesty International estimates casualties of 10,000 to 25,000.⁷²

Quickly, the regime moved to repair its public image, pumping massive amounts of government funding into the rebuilding of Hama and the construction of various public works projects. Clinics, hospitals, malls, playgrounds, two new mosques and an institute for girls replaced the bullet-riddled Hama infrastructure.⁷³ Moreover, the government established new headquarters for the peasants union, civil engineering groups, and teacher associations.⁷⁴

IV. Economic Decline and the Iran-Iraq War (1980s)

Undoubtedly, the 1980s was a lost decade for Syria. The regime had already contended with internal unrest by the Moslem Brotherhood, 1979 Egyptian-Israeli peace treaty, and continuing violence in Lebanon. In addition, Syria's isolation and regional insecurity were compounded by the 1982 Israeli invasion of southern Lebanon. However, the defining aspect of the 1980s would be a severe economic slump against the backdrop of the 1980-1988 Iran-Iraq War.

When Saddam Hussein invaded Iran in 1980, Asad quickly sided with Iran—an odd choice perhaps considering that Iraq shared a Ba'athist ideology and leadership.⁷⁵ However, historical power rivalries between the two countries, mutual dislike between Hafiz al-Asad and Saddam Hussein, as well as Iraqi support of the Muslim Brotherhood uprisings prompted Asad

⁷² Wright, *Dreams and Shadows*, 243.

⁷³ Wright, *Dreams and Shadows*, 244.

⁷⁴ Seale, *Asad*, 334.

⁷⁵ Karsh, Efraim. *The Iran-Iraq War, 1980-1988*. London: Osprey Publishing, 2002. 87

to support Iran—a nation he termed as the “implacable foe of Israel and the United States.”⁷⁶ Moreover, Syria and Iraq were struggling to emerge as the dominant power to fill the void left by the departure of Egypt to the Arab moderate group. Asad personally disapproved of Hussein’s initiation of hostilities against Iran, viewing it as a waste of Arab resources⁷⁷ which could instead have been used to resist Israeli domination of the region. Two of the largest oil producers in the region waging war against one another upset the economic balance of the Middle East, and Arab states were increasingly distracted from the Israeli conflict by the eight-year long Iran-Iraq War. Moreover, Iran suspended oil production in 1979; by the 1980 invasion Iranian oil exports came to a full halt, causing the spot price of oil to sky-rocket.⁷⁸ Since Iran used its oil wealth to fund Hizbollah post 1983, Syria had now lost a potential ally and financial backer to waging war against Israel in Lebanon.

Syrian political support of Iran, however, had dire economic consequences. Members of Syria’s Steadfastness Front, a loose coalition of Syria, Libya, Algeria and the People’s Republic of Yemen formed to oppose the group of moderate Arab states, as well as its rich Gulf-state patrons, did not approve of Asad’s support of Persian-Iran against an Arab brother.⁷⁹ Due in part to this disapproval and to resentment of Syria’s meddling in Lebanon, remittances and Gulf aid therefore peaked in 1981 respectively.⁸⁰ In fact between 1982 and 1984, net transfers were cut by almost \$3 billion, the population was expanding at a rate of 3.4%, and economic growth slowed to less than 1%.⁸¹

⁷⁶ Kniele, *Contemporary Liberalization*, 28.

⁷⁷ Wright, *Dreams and Shadows*, 324.

⁷⁸ Anderson, *Geography and Geopolitics*, 185.

⁷⁹ “Syrian President Visits Saudis” 1981. *New York Times*, December 23.

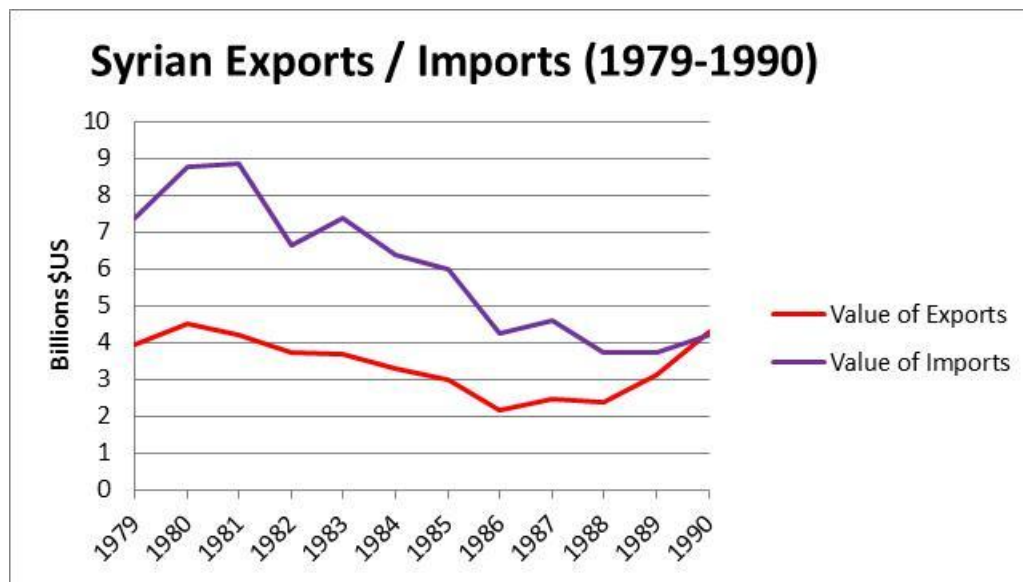
⁸⁰ Perthes, *Political Economy*, 23.

⁸¹ Kniele, *Contemporary Liberalization* 17.

This resulted in an overall loss of individual income for the average Syrian. In addition, a severe drought throughout much of the decade nearly decimated the agricultural sector, upsetting the regime's strategy of export substitution and forcing the government to drastically increase importation and subsidization of foodstuffs. Moreover, by the 1980s, general Third World debt had increased tremendously and reduced Syria's ability to borrow from institutions such as the World Bank and IMF.⁸² To make matters worse, the decade saw a severe imbalance of trade payments and a foreign exchange currency crisis. In fact, by the mid-1980s Syria was viewed as an unreliable creditor and many international banks refused to extend any more loans to the nation⁸³.

Table 3, based on data from World Development Indicators online, shows the severity of Syrian trade imbalance in \$US—adjusted for inflation.

Table 3



Here we see, that at the beginning of the decade, imports peaked at just under 9 billion US dollars, while the value of Syrian exports was much lower at 4.5 million or so. As Gulf aid

⁸² Lesch, *New Lion*, 42.

⁸³ Perthes, *Political Economy*, 204.

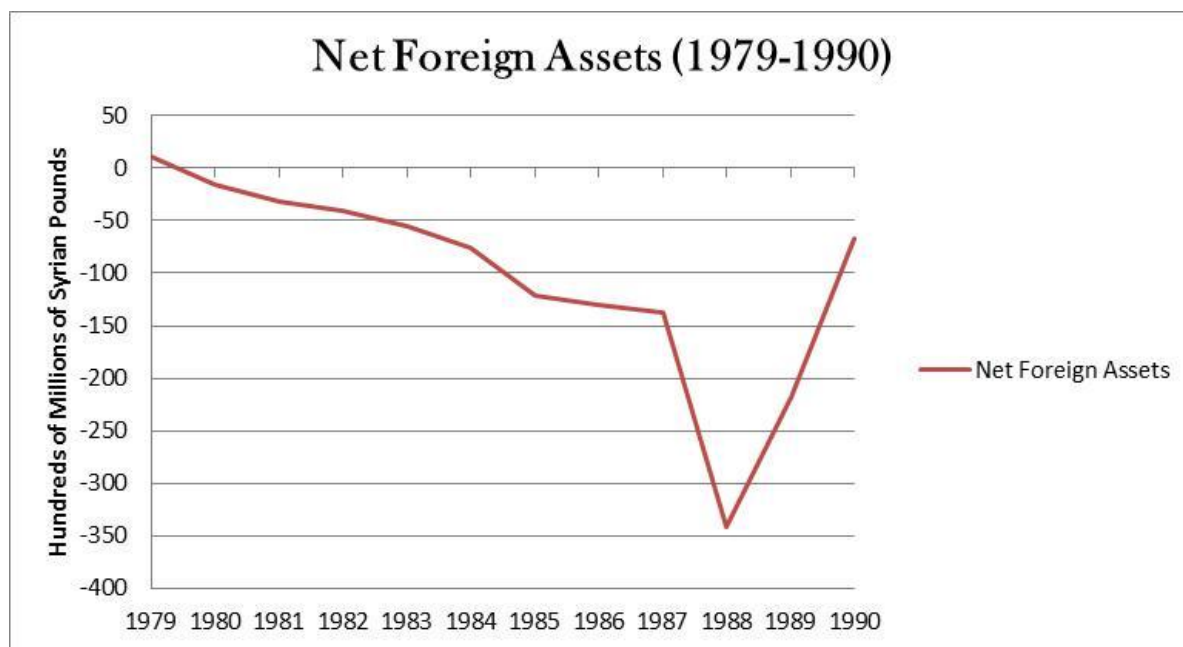
and remittances peaked around 1981-1982, we begin to see a precipitous decline in the amount of imports Syria was able to finance through foreign assets, and exports further decrease due to regional conflict. At this time, the majority of imports (industrial and commercial) were financed through the state central bank.

Due to these dire conditions, the Asad regime's second *infatih* differed qualitatively from its predecessor. In the 1970s, selective liberalization was needed in order to disperse immense amounts of foreign wealth. However, in the 1980s severe reductions in capital flow and the inability of the state to generate wealth necessitated an enlargement of the private sector. The regime had lost the privilege of economic largesse from its Arab neighbors, and instead confronted two major regional wars which precipitated a period of economic crisis. Falling oil prices after 1982 caused both official aid transfers from Gulf states and private remittances from expatriate workers to drop precipitously. In 1973-1976, official state transfers amounted to \$2.1 billion and in 1976-1981 \$7 billion—or some 12.7% of GDP.⁸⁴ However, by 1983 the estimated amount of both official aid and unreported remittances was estimated at only \$3.3 billion between 1982-1985 or 2.5% of GDP.⁸⁵ Syria's GDP declined some 5% during this period, and as Syria's foreign reserves plummeted, it began to fall into arrears on its foreign exchange obligations.

⁸⁴ Kniele, *Contemporary Liberalization* 27.

⁸⁵ Kniele, *Contemporary Liberalization* 28.

Table 4



This table illustrates the slow decline of net foreign assets throughout the early 1980s, which became negative in 1980, declined steadily until 1983, when it begins to accelerate with the decline of global oil prices and decreases in petro-dollar aid. The dramatic plunge between 1987-1988 can be seen as an extension of this trend as well as the decreasing foreign aid from Syria's Soviet patron prior to its collapse in 1991—which will be discussed later in this section.

In the early 1980s, however, the regime looked to the Soviet Union in order to finance its military expenditures in the wake of isolation from former Arab allies. In 1980, Asad signed a 20 year Treaty of Friendship and Cooperation with the USSR; although he had long resisted such ties deepening his obligations to the Soviet Union, Asad felt he had little choice in light of two major regional conflicts in neighboring states.⁸⁶ Indeed, Asad continued to increase military expenditures in order to achieve strategic parity against Israel and to deter any Iraqi retribution.

⁸⁶ Seale, *Asad*, 346.

From 1973-1982, Syria was the single largest importer of Soviet arms—representing 29% of Soviet-Middle East arms deals in the region.⁸⁷

Indeed, by 1986 Syria had an impressive military for its size—mainly due to Soviet financing. It consisted of 5,000 tanks, 650 planes, 500,000 troops (or 20% of Syria's overall manpower), 105 tactical missile batteries, chemical weapons, and 400 Soviet ballistic missiles⁸⁸. Although this represented no real offensive threat to a nuclear Israel, it provided a real deterrent against any escalation of hostilities if the theater of conflict should expand beyond Lebanon. Unsurprisingly, by 1984, military expenditures amounted to 30% of GDP.⁸⁹ From 1977 to 1984, military spending had increased from \$1.8 billion to \$5.4 billion.⁹⁰ To put this in perspective, nearly half of overall public/state spending went towards military hardware and personnel.

In response to dire economic straits, the government began to advocate austerity measures. In 1976, imports financed by the state accounted for 72% of all imports—including machinery, foodstuffs, pharmaceuticals etc. By 1984 this had increased to 79% (excluding military material) and represented an enormous financial burden on the state. The regime quickly moved to replace the import restrictions which it had temporarily loosened during the Moslem Brotherhood uprising and reformed the exchange rate. This provided incentives for the private sector to finance imports from abroad rather than through the state government.⁹¹ This did indeed have the effect of reducing Syrian import activities financed by the central government. Indeed,

⁸⁷ Bennet, Alexander. "Arms Transfer as an Instrument of Soviet Policy in the Middle East." *Middle East Journal*. 39.4 (1985): 745-774. 757

⁸⁸ Hinnenbush, Raymond A. and Ehteshami, Anishourivan. *The Foreign Policies of Middle East States*. Boulder: Lynne Rienner Publishing, 2002. 150.

⁸⁹ Hinnenbush, *Foreign Policies* 150.

⁹⁰ Perthes, *Political Economy*, 173.

⁹¹ Kniele, *Contemporary Liberalization*, 28.

this policy, along with a partial freeze on industrial imports in 1983, cut central government import expenditures by 3.6 billion Syrian pounds from 1981-1984.⁹²

However, these adjustments combined with the slumping value of Syria's own oil exports, created an exchange currency crisis, and the value of the Syrian pound plummeted. In an effort to halt the free-fall of Syrian currency, the national congress enacted Law no. 24 in September of 1986 which exacted harsh penalties on illegal foreign exchange activities which contributed towards depreciation of the national currency—including harsh fines and even prison sentences.⁹³ In fact, in 1985 black-market trade was estimated to be around \$1 billion, or about a quarter of legitimate Syrian trade, as private businessmen benefited from Syria's presence in Lebanon in order to circumvent government restrictions and bureaucracy.⁹⁴ Moreover, ordinary citizens wishing to purchase commodities beyond the government-rationed subsidy could now do so at open, black-market prices in Lebanon. This law while temporarily mitigating the effects of the currency crisis also had the effect of cutting into smuggling activities—which exacerbated a growing commodities shortage.

The continuing hostilities in Lebanon and the ongoing Iran-Iraq war, along with Syria's courting of the USSR, drastically cut European/Western investment and Syria's access to specialized industrial machinery. Western Europe once accounted for almost half of total imports in the 1970s, but by 1986 imports from Europe declined to a mere 32%.⁹⁵ Instead, Syria increasingly relied on the USSR and Eastern Europe as both a supplier of goods as well and market for Syrian agricultural products and phosphates. However, by 1989 the foreign exchange currency crisis and Lebanese banking instability had ground the private sector to a virtual halt

⁹² Collelo, Thomas. *Syria: A Country Study*. Washington D.C.: Library of Congress, 1987.

⁹³ Kniele, *Contemporary Liberalization*, 28.

⁹⁴ Collelo, *Syria*.

⁹⁵ Collelo, *Syria*.

and by necessity many of these transactions were conducted through counter-trade or bartering deals.⁹⁶ For instance, Syria would export phosphates to Yugoslavia in exchange for raw materials and industrial machinery.⁹⁷ Even then, Asad was forced to borrow extensively from the Syrian central bank; government indebtedness to the Central Bank increased fourfold from 1980-1985.⁹⁸ This triggered massive inflation (estimated at 100%). For instance, from 1977 to 1984, the price of wholesale goods had more than doubled.⁹⁹

Thus the government was forced to empower the private sector and widen the scope of its previous *infitah* in order to prevent economic collapse. By 1985, and despite previous reforms, the burden on the state was still immense—with nearly 40% of the industrial worker population employed by the government.¹⁰⁰ In addition, public industry suffered from the usual statist inefficiencies as the regime considered social pressures before market rationality. State businesses suffered from poor profitability and productivity and were often forced to employ thousands of unneeded workers simply in a ploy to reduce official unemployment figures. By 1985, state worker wages, which were already falling, were frozen and industrial employment levels were capped. These quotas could only be overridden by the personal approval of the prime minister of labor.¹⁰¹ Only higher education sectors such as engineering, medicine and teaching were exempt.

In late 1987, Asad began to issue the first measures of his second round of *infitah*, beginning with the easing of import restrictions. Furthermore, the regime allowed private entrepreneurs to generate their own foreign currency reserves—bypassing the state-run

⁹⁶ Kniele, *Contemporary Liberalization* 28.

⁹⁷ Collelo, *Syria*.

⁹⁸ Kniele, *Contemporary Liberalization* 29.

⁹⁹ Collelo, *Syria*

¹⁰⁰ Perthes, *Political Economy*, 44.

¹⁰¹ Perthes, *Political Economy*, 45.

Commercial Bank of Syria, which had frozen all applications for foreign-exchange credit by 1984. By 1987, the lack of foreign exchange reserves caused public-sector businesses to come to a virtual stand-still and severely hampered private-sector institutions' ability to finance imports.¹⁰² Indeed, private sector firms were now able to retain 75% of their hard currency for the purposes of financing their own imports as specified by the Ministry of Economic and Foreign Trade (representing a 25% increase from 1984).¹⁰³ This had the result of delegating foreign-currency exchanges largely to the open market, while state financial institutions merely facilitated as intermediaries. Furthermore, the state began to ease restrictions on its licensing of private sector businesses.¹⁰⁴ Previously industries eligible for privatization were listed annually by the government, and the inclusion of an industry one year was no guarantee for its inclusion the next. Thus, entrepreneurs were understandably wary of starting new business enterprises. However, in 1988 the government introduced a negative list of industries—that is, sectors that would remain as solely state enterprises.¹⁰⁵ This negative list greatly assuaged private entrepreneurs' fears and encouraged an enlargement of the private sector.

By the late 1980s, some effects of the second *infītah* were finally apparent in the growth of the private sector. Overall market share generated by the private sector increased from 10% in the early 1980s, to 20% in 1985, finally reaching 30% by 1988.¹⁰⁶ Despite the wider overall economic crisis, capital formation in the private sector remained relatively healthy and increased 32% throughout the 1980s.¹⁰⁷ Moreover, the poor Soviet economy of the late 1980s resulted in a resurgence of Syrian exports to the USSR and Eastern Europe. For instance, trade Syrian exports

¹⁰² Kniele, *Contemporary Liberalization* 28.

¹⁰³ Perthes, *Political Economy*, 54.

¹⁰⁴ Collelo, *Syria*.

¹⁰⁵ Perthes, *Political Economy*, 44.

¹⁰⁶ Kniele, *Contemporary Liberalization*, 149.

¹⁰⁷ Kniele, *Contemporary Liberalization*, 150.

to the USSR averaged some \$300-400 million/annum and were purchased at premium prices to those of the open, global market.¹⁰⁸ In fact, Syria began to export certain goods at fixed quantities to the USSR as repayment of military debt, and the Ba'ath regime began to encourage the production of goods such as textiles and phosphates specifically earmarked for its patron.¹⁰⁹ Such earmarked private export industries did not significantly contribute towards the overall economic development of Syria. They imported 100% of their materials and bartered their exports to the Soviet Union and satellite states in exchange for a forgiveness of military debt.¹¹⁰

Moreover, a record rainfall in the late 1980s as well as the success of newly established mixed-agricultural companies led to a surge in agricultural exports which helped to finance Syria's foodstuffs purchases¹¹¹. These mixed agricultural companies mirrored the structure of previous joint public-private enterprises in the tourism and transport sectors; the government retained a 25% stake and the company itself was exempt from import and export currency restrictions, labor union law, and the worst of currency restrictions.¹¹² The government provided its share of capital by supplying the land for the project.¹¹³ In this way, agricultural land ownership was virtually privatized outside of previous land reform policy.

V. The Gulf War and Shifting Alliances (1990s)

By the late 1980s, the prevailing Cold War alliances and power balances in the Middle East began to shift. Iraq, in particular, had emerged in 1988 as a massive military machine and was looking to establish its dominance in the region. In fact, Iraq specifically looked to challenge

¹⁰⁸ Kniele, *Contemporary Liberalization*, 152.

¹⁰⁹ Perthes, *Political Economy* 47.

¹¹⁰ Perthes, Volker. "The Syrian Private Industrial and Commercial Sectors and the State." *International Journal of Middle East Studies*. 24.2 (1992): 207-230. 223

¹¹¹ Colello, *Syria*.

¹¹² Perthes *Syrian Private...Sectors* 15

¹¹³ Perthes, *Syrian Private...Sectors* 16.

Syria, backing the anti-Asad, Christian militia headed by General Aoun in Lebanon¹¹⁴.

Moreover, that same year the PLO accepted UN Resolutions 232 and 348, officially renouncing terrorism. The 1989 Ta'if Accords, brokered by Saudi Arabia, brought a halt to major sectarian violence in Lebanon, calling on both Israel and Syria to withdraw troops from the Bekaa Valley and southern Lebanon and for the disarming of armed militias.¹¹⁵ Finally, the Soviet Union was on the verge of collapse, and Gorbachev had warned Asad to seek other sources of funding as early as 1987—saying that the role of military force in settling the Arab-Israeli conflict had lost all credibility.¹¹⁶ Finally, in 1989 the Soviets admitted defeat and pulled out of Afghanistan.

The 1991 Gulf War provided Asad with a prime opportunity to simultaneously bloody his major Arab rival as well as capitalize on the US-dominated, post-Cold War climate. Once again, Syria's status as a regional lynch-pin came into play when Asad joined the Gulf War coalition in moving to expel Iraqi forces from Kuwait. That is, Syria's inclusion in the alliance was a prime goal of the George H.W. Bush administration—Syria's status as vanguard of the Steadfastness Front legitimized the efforts of an otherwise US/pro-Western Arab operation.¹¹⁷ Moreover, Asad had clear economic priorities for doing so; if ally Saudi Arabia's lucrative oil fields came under Iraqi control,¹¹⁸ Syria could lose a significant portion of its remaining petro-dollars. Furthermore, without financial assistance from the Soviet Union, Syria could ill-afford to continue its quest of strategic parity with Israel. Instead Asad sensed the opportunity to reintegrate itself into the peace process, feeling that Western indebtedness could be an important bargaining chip in his long crusade towards regaining the Golan Heights.

¹¹⁴ Fattah, Hassan. 2007. "An Egnimatic Wild Card in Lebanon's High-Stakes Politics." *New York Times*, January 20.

¹¹⁵ Lesch, *New Lion*, 48.

¹¹⁶ Lesch, *New Lion*, 52.

¹¹⁷ Lesch, *New Lion*, 54.

¹¹⁸ Ibrahim, Youseff. 1991. "Saudis Lay Plans to Surpass Soviets in Production of Oil". *New York Times*, November 27.

Syria's diplomatic and economic transformation was undoubtedly a pragmatic response to the restructuring of Middle Eastern politics and alliances. Asad successfully capitalized on American good-will, signing the 1991 US-Syrian Brotherhood Treaty—which acknowledged Syrian dominance in Lebanon¹¹⁹. Moreover, that same year, Washington apparently gave Syria a tacit green-light to move against General Aoun's militia in Beirut¹²⁰. Moreover, Syria became a major partner in the Madrid Peace Conference talks¹²¹ and seemed well on its way toward acquiring the Golan Heights. In fact, in 1993 Israel officially acknowledged the plateau as Syrian territory. However, from 1991-1993 Asad often took a hard-line negotiating stance in Madrid, no doubt due in part to his general suspicions of the process. He also faced severe domestic criticism from members of the old guard, who protested the extent of *infatih* measures which had begun to erode Ba'ath party patronage structures. Moreover, in 1993 Asad would begin to doubt the sincerity of US overtures, as Washington blocked Syrian weapons acquisitions and refused to remove it from the state sponsors of terrorism list¹²². To make matters worse, Jordan capitulated and signed a peace treaty with Israel in 1994—once again compromising Syria's bargaining position in a scenario eerily similar to Sadat's betrayal twenty years prior. Finally in 1996-1999 the ultra right-wing Likud Party headed by PM Netanyahu came into power in Israel, effectively killing the Madrid process¹²³.

Syria's then-tenuous position while navigating these various alliance shifts is reflected in its economic policy. First, Syria began to look for alternate sources of military funding and arms acquisition—purchasing military hardware from North Korea, China and (at particularly good

¹¹⁹ Lesch, *New Lion*, 56.

¹²⁰ Hinnenbush, *Foreign Policies* 158.

¹²¹ Lesch, *New Lion*, 55.

¹²² Hinnenbush, *Foreign Policies*, 159.

¹²³ Schmemmann, Serge. 1996. "Israeli Opposition Chief Making a Comeback". *New York Times*, March 30. <http://query.nytimes.com/gst/fullpage.html/People/N/Netanyahu,%20Benjamin&scp=19&sq=netanyahu%201996&st=cse>

prices) from Russia. Asad did, however, still act to empower the private sector with Law no. 10 of 1991 which provided further incentives for private investment. Indeed, prior to 1991, government investment in the private sector was some 60 billion Syrian pounds; after the 1991 investment law this figure increased to 93 billion Syrian pounds.¹²⁴ By the end of the 1990s, Arab, Syrian and foreign investors could launch mixed public-private projects in nearly any sector of the economy. New laws lowered corporate taxes (which could be as high as 90% on paper), granted special status such as tax holidays to export-oriented businesses, and provided easier access to foreign exchange reserves.¹²⁵

As the regime relaxed restrictions on the growth and efficiency of private enterprises, expatriates grew more willing to invest in their home country and did so at an estimated rate of tens of billions of dollars per annum. To facilitate this process, in 1992 the government established two private investment branches of the Commercial Bank of Syria.¹²⁶ Although this represented an important step, radical Ba'athis and Communists disapproved, and government bureaucracy reduced the capability of these branches to effectively direct capital. Therefore, businessmen soon began to conduct banking through (a then relatively peaceful) Beirut.¹²⁷ In fact, during the 1990s, a large portion of Syrian private citizens remained unbanked domestically—preferring to avoid the interest rates that had been fixed at 7-9% for well over a decade, regardless of inflation by diverting funds through the Lebanese banking sector.¹²⁸

During these early years, capital formation in the private sector surpassed those of the state, and according to the Damascus Chamber of Commerce private contribution to GNP stood

¹²⁴ Lesch, *New Lion* 21-22.

¹²⁵ Seale, *Asad* 58.

¹²⁶ Perthes, *Political Economy* 21-22.

¹²⁷ Kniele, *Contemporary Liberalization*, 21-22.

¹²⁸ *Economist Intelligence Unit*, Country Report: Syria. August 1998.

at 50-55% .¹²⁹ The majority of the agricultural, transport, and trade sectors of the economy were now privatized.¹³⁰ By 1992, privately owned pharmaceutical companies, food processing, and textiles were all flourishing in the suburbs around Aleppo and Damascus.¹³¹ In 1997, the government expanded privatization in the agricultural sector by lifting all taxes on agricultural exports, allowing farmers to keep all foreign exchange proceeds. Such measures did seem to be reviving the economy; after the lean 1980s, real GDP growth averaged 7-8% from 1991-1994.¹³²

By contrast, floundering reforms in state-owned industries led to mass desertion of workers from state manufacturing; furthermore, the central government was forced to replace thousands of skilled workers with cheap labor due to the financial burden on the state.¹³³ Evidence of strain on the central government was evident. In fact, in 1993 the Military Housing Establishment was forced to delay wages due to deficient cash flows.¹³⁴ Hafiz al-Asad was forced to address labor unions personally in order to improve morale, saying “You were, and still are, dear workers the substance of social and economic changes. In addition, each gain of the Correctionist Movement's achievements was basically aimed at achieving the people's prosperity, security and stability; and you are in the front.”¹³⁵

As previously mentioned, domestic criticism from radical leftist Ba’athis, trade unions, and peasant unions peaked with the 1992-1993 budget draft. Indeed the budget, which both decreased public welfare services and lowered taxes on private enterprise, became a keystone of disaffection concerning liberalization policy¹³⁶. This discontent emerged again that same year,

¹²⁹ Perthes, *Political Economy*, 53.

¹³⁰ Perthes, *Political Economy* 58.

¹³¹ Lesch, *New Lion* 152.

¹³² Melham, Hisham. "Syria between Two Transitions." *Middle East Report*, Lebanon and Syria: The Geopolitics of Change, no. 23, Spring (1997): 2-7.

¹³³ Lesch, *New Lion* 152.

¹³⁴ Lesch, *New Lion* 153.

¹³⁵ Lesch, *New Lion* 157.

¹³⁶ Seale, *Asad*, 602.

when PM Mahmud al-Zu'bi advocated for expanding agricultural exports for private agricultural companies¹³⁷. This was driven by a record state cotton crop (which represented a 20% increase in yield over prior years) and resource scarcity in both Russia and Eastern Europe. When these funds were earmarked for private instead of public enterprises, the General Federation Trade Union began to protest that such measures were adversely affecting its members and issued a public list of grievances¹³⁸. Public workers began to desert state employment for private enterprise and state hospitals in particular suffered when compared to their newer and better equipped private counterparts¹³⁹.

The regime soon began to accede to public protests, beginning to limit the more widespread measures of *infitah*. Regime paranoia was resurging, as renewed geopolitical tensions caused Asad to look to moderating his economic policy in order to reassert domestic security. Because the bedrock of Asad's regime is composed of minority Al'awites, who are viewed as a nearly heretical sect by some Syrian Sunnis, the government is particularly vulnerable to domestic unrest that could erode its platform of nationalist unity. The future of Asad's rule was also in doubt as Basil, his charismatic son and heir-apparent, died suddenly in an automobile crash in 1994¹⁴⁰. The youngest Asad son, Bashar, was then recalled from his medical studies in London—apparently so his father could begin grooming him for future rule¹⁴¹. Asad's own health was uncertain, and government officials began to note his increasing reclusiveness from affairs of state.

Moreover, by the mid-1990s, the momentum of the Syrian-Israeli peace process was shattered by the assassination of Yitzhak Rabin in 1995 and subsequent instability. Although his

¹³⁷ Kniele, *Contemporary Liberalization*, 144-145.

¹³⁸ Seale, *Asad* 612.

¹³⁹ Seale, *Asad* 615.

¹⁴⁰ Schmidt, William. 1994. "Assad's Son Killed in Auto Crash". *New York Times*, Jan 22.

¹⁴¹ Lesch, *New Lion*, 57-59.

successor Shimon Peres was more amenable to a land-for-peace agreement, Hamas responded to his ascension with two major bombings in Israel in February and March of 1996.¹⁴² By this time, Hamas' headquarters were located in Damascus, and Asad (unlike the majority of Arab leaders) refused to issue public condemnation of the attacks—fearful of exacerbating domestic criticism¹⁴³. Indeed, popular support for Hamas was widespread in Syria and many radio programs (although gagged by the government) were cautiously supportive of the bombings.¹⁴⁴ Israel had likely expected some sort of grand gesture from Asad, yet was rebuffed by his silence on the matter. As a result, meetings in Maryland between the two countries' respective negotiators were called off. Hizbollah, known to be an instrument of Iran and to a certain extent Syria, began firing Katayusha rockets into Israeli territory, hoping to weaken both Peres and the peace process.¹⁴⁵ Peres immediately responded with a retaliatory attack in 1996, appropriately named Operation Grapes of Wrath.¹⁴⁶ Unfortunately the terrorist attacks ultimately achieved their objectives, as security-minded Israel voters swept the right-wing Likud party and Benjamin Netanyahu into power.

The Netanyahu years were a period of marginalization for Syria's role in the peace process. Indeed, during 1996-1999, Clinton's ambassador David Ross (who had the previous term spoken with Asad some 23 times) never once visited Damascus. There was still, however, a hope for peace; the Clinton administration was particularly eager to sign an agreement before he left office in 2001. Moreover, Asad very likely wanted peace with Israel for the future rule of his son Bashar. By January of 2000, the two sides were about 80% of the way through negotiations

¹⁴² Schmemmann, Serge. 1996. "Peres Promises a War on Hamas". *New York Times*, Feb 27.

¹⁴³ Erlanger, Steven . 1996. "Summit In Egypt: The Symbolism; the Meeting's Message: Put Terrorists on Notice". *New York Times*, March 14.

¹⁴⁴ Lesch, *New Lion*, 150.

¹⁴⁵ Wright, *Dreams and Shadows*, 87.

¹⁴⁶ Schmemmann, Serge. 1996. "Israel and Guerillas Joined Again in Deadly Dance." *New York Times*, April 14.

when the Israelis leaked a trial balloon of the proposed agreement¹⁴⁷. Asad was infuriated, as it left him vulnerable to domestic critics who claimed he had given too many concessions without sufficient concessions on the part of Israel. He immediately lurched away from the negotiating table, and, desperate to salvage the peace process, President Clinton visited him personally in March of that same year in Damascus. However, Asad's ill health intruded; he noticeably began to focus his attention inward, looking to remove enough domestic opposition in order to facilitate a smooth transition of power to his son.¹⁴⁸ He then died in June 2000.

By the mid to late 1990s, it was clear that Syria was looking for ways to distance itself from Washington, reviving its economic alliances with both the European Union and its former Soviet patrons. This was prompted in part by slumping oil prices in the late 1990s which cut Syrian oil export value by some 35%. According to the April 1998 edition of the Economist Intelligence Unit, Syria signed free trade agreements with Lebanon in 1997, with Russia and Belarus in 1998, and was slated to receive some \$60 million in economic aid from the European Union's Barcelona Process in 1995-1998.¹⁴⁹ Indeed by 1998, the EU bought 58% of Syrian oil exports and provided 30% of Syrian heavy machinery and industrial imports.

In the late 1990s, Syria also began to look towards its Arab neighbors for economic revivification. By 1991, the Kuwait Fund for Arab Economic Development gave Syria \$60.5 million dollars for the development of a cotton mill, Saudi Arabia invested some \$500 million in the Al-Zahara steel complex, and royalties flowed into the treasury from phosphate/agricultural production and illegal trade activities in Lebanon.¹⁵⁰ Moreover, in 1998 Syria signed free trade agreements with its former enemy, Iraq, agreeing to export 10 tons of Syrian goods--to be paid

¹⁴⁷ Lesch, *New Lion*, 155

¹⁴⁸ Ziser, Eyal. *Commanding Syria: Bashar al-Asad and the first years in power*. New York: I.B. Tauris and Co., 2007. 32-35

¹⁴⁹ Economist Intelligence Unit, Country Report: Syria. August 1998.

¹⁵⁰ Lesch, *New Lion* 151.

for with \$300 million worth of Iraqi oil.¹⁵¹ Moreover, that same year, Syria signed free trade agreements with neighboring Egypt which established a 10% reduction in customs duties on trade between the two countries. Ironically this renewed Arab investment in export-related industries allowed the revival of Syria's eastern connection. In fact, these funds allowed for government officials in certain provinces to contract with companies in such countries as Czechoslovakia, Yugoslavia, and Bulgaria to provide industrial/agricultural machinery and expertise.¹⁵²

Table 4 compiled with data from World Development Indicators Online shows that Syria's overall holdings of foreign assets increased greatly post 1991-1992, when renewed Arab and Western economic aid helped push these numbers higher.

Table 5

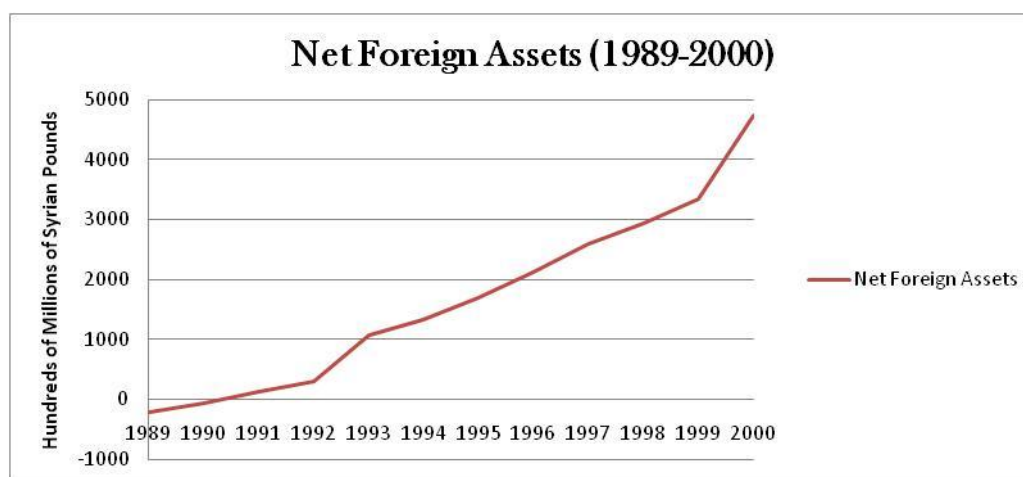
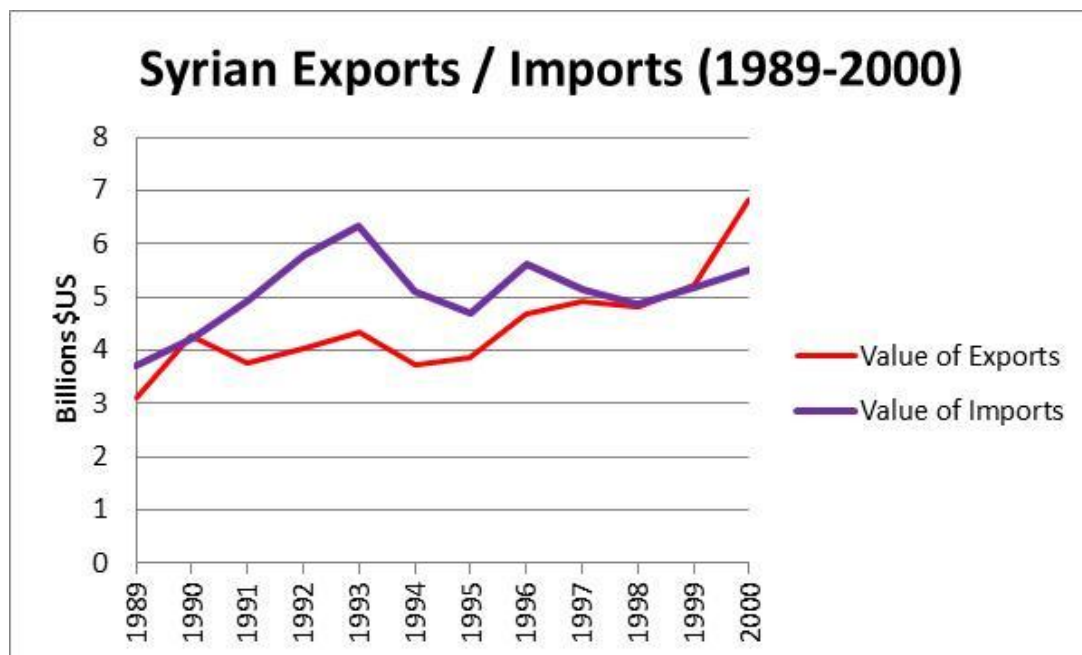


Table 6

¹⁵¹ *Economist Intelligence Unit*, Country Report: Syria. April 1998. 24.

¹⁵² Perthes, *Political Economy* 151.



As we can see, Syrian net foreign asset holdings increased throughout the decade—particularly after renewed investment from the EU and Arab allies after 1991. Private sector export business also increased, while the value of imports declined in the middle years. The overall increase in export activity can be explained not only by the empowerment of the private sector but also by events after Gulf War. Indeed, Syrian oil revenues remained high throughout the decade despite slumping peak production in 1994, largely due to illicit trade with Iraq in defiance of UN sanctions. Since the mid-1990s, Syria has been bartering large amounts of cheap, manufactured goods to Iraq in exchange for crude oil.¹⁵³ This oil has largely gone to Syrian domestic consumption and freed up increasing amounts of Syria's own oil for export. (Throughout the 1990s, oil comprised some 70% of Syria's export value.)¹⁵⁴ Especially with the renewed Eastern export connection in the late 1990s, we consequently see a sharp increase in total value of exports and a positive trade balance going into 2000.

¹⁵³ Economist Intelligence Unit, Country Report: Syria. August 2001.

¹⁵⁴ Perthes, *Political Economy* 30.

VI. A New Era: Bashar al-Asad and Post-9/11 (2000s)

When Hafiz al-Asad died on June 9, 2000, the reins of state were assumed by his youngest son Bashar. It is important to note that Bashar al-Asad represents a significant shift in both temperament and ideology from his father. Whereas his father was a life-long military man who had risen to empower the impoverished Al'awite minority¹⁵⁵, Bashar was a mild-mannered and Western educated academic who never expected to assume his father's figurehead status. When recalled to Syria from ophthalmology studies in London after the death of his elder brother, Bashar was quickly reintegrated into national politics and was rapidly advanced through the military ranks¹⁵⁶. By 1997, he achieved the rank of captain, then lieutenant, and finally lieutenant-colonel just two years later in 1999. Moreover, in 1998, he was given the all-important "Lebanon File" and the regime spear-headed an anticorruption campaign to remove potential old-guard opposition with the potential to block his future succession¹⁵⁷.

Upon the death of his father, the Syrian Constitution was quickly amended to lower the minimum age for the presidency—to Bashar's then age of 34. On June 11, he was unanimously nominated for president and won with 97% of the vote,¹⁵⁸ and his opening address was a striking parallel to his father's—emphasizing national unity and economic reform. However, Bashar's language was far more radical, declaring that statist bureaucracy had become a "major obstacle" to economic progress. Uneven application of liberalization measures by the state had indeed led to economic stagnation and the diversion of legitimate business to either the black-market or foreign governments, but it is particularly interesting that Bashar openly acknowledged this fact. However, Bashar, cognizant of his perilous transition, did state that Syria could not become a

¹⁵⁵ Seale, *Asad*, 43.

¹⁵⁶ Lesch, *New Lion*, 45.

¹⁵⁷ Lesch, *New Lion*, 52.

¹⁵⁸ Lesch, *New Lion*, 81.

Western-style democracy and that such political reformations should be secondary to the goals of modernization and economic development.

This represented a hopeful, yet pragmatic view of Syria's economic status as well as the uncertainty of regional stability. By the time of this speech, the continuation of the peace process was in doubt with the imminent departure of Clinton's administration in 2001, Israel had withdrawn from southern Lebanon just one month before his father's death¹⁵⁹, and globalization in the form of cellular phones and internet was knocking on Syria's door¹⁶⁰. Undoubtedly, Bashar faced a precarious situation, trying to steer Syria into a new, modern era without the benefit of his father's experience or widespread cult of personality.

The first year or so of his reign is known as the Damascus Spring—a reference to the “Prague Spring” of liberalization in Czechoslovakia.¹⁶¹ This was a time of relative political openness, signaling a new round of *infitah* and the relaxation of regime restrictions. First, however, Bashar sought to strike a decidedly different tone from his father's move to consolidate the regime. Instead of cracking down on political opponents and regime dissidents, he instead released some 1,640 political prisoners between June 2000 and November 2001.¹⁶² Moreover, Asad began tolerating mild forms of dissent and criticism as the state lifted certain strictures on public media. May 2001 saw the rise of Committees for the Revival of Civil Society, a group of Syrian intelligentsia led by Parliament member Riyadh Seif, who advocated for the revival of “institutions of civil society and the balance between their role and that of the state in the context

¹⁵⁹ Sachs, Susan. 2000. “UN Says Syria Agrees That Israel is Out of Lebanon”. *New York Times*, June 1.

¹⁶⁰ Ziser, Eyal. "Bashar al-Asad: In or Out of the New World Order?." *The Washington Quarterly* 28, no. 3 (2005): 115-131. 6-7.

¹⁶¹ Lesch, *New Lion* 82.

¹⁶² Lesch, *New Lion* 83.

of a real partnership between them in the higher national interest.”¹⁶³ The group was allowed to exist on the condition that it have no relations with Westerners.

Moreover, further measures were targeted at creating both private institutions and cautious outlets for public criticism. For instance, in late September of 2001, Decree no. 50 allowed the establishment of private newspapers, magazines, and periodicals to apply for government operational licenses. However, they could only publish content at the discretion of the regime, and severe penalties were enacted for “false” reports and fabrications.¹⁶⁴ In 2002, the regime allowed for the creation of private radio stations on the condition that they not air political programming.

However, the Damascus Spring soon gave way to a Damascus winter. It seems clear that members of the old-guard vanguard and security force veterans were alarmed at the rapid growth of civil societies.¹⁶⁵ Moreover, the 9/11 attacks by Al-Qaeda and the resulting US invasion of Afghanistan in October 2001 significantly upset the precarious regional balance that had been achieved at the conclusion of the Gulf War. Syria was no friend of Al-Qaeda and its jihadist, militant-Islamist ideology. Bashar al-Asad sent President Bush a cable in the aftermath of 9/11 to offer his condolences¹⁶⁶. He went further domestically, issuing statements on Syrian radio stations condemning the “terrorist attacks that targeted civilians and vital centers in the US” and called for “international cooperation to eradicate all forms of terrorism and guarantee the protection of basic human rights, notably the right of humans to live in security and peace wherever they are.”¹⁶⁷

¹⁶³ Lesch, *New Lion* 87.

¹⁶⁴ Lesch, *New Lion* 92-93.

¹⁶⁵ Ziser, *Bashar and the West*, 4.

¹⁶⁶ “After the Attack; Reaction from Around the World.” 2001. *New York Times*, September 13.

¹⁶⁷ Lesch, *New Lion*, 101-102

According to US reports, Bashar's regime provided the US with intelligence on Al-Qaeda and Syrian-born members of the group in the wake of the 9/11 attacks¹⁶⁸ and is rumored to have served as a third party rendition country for the purpose of secret interrogations—at the behest of the US and Canada.¹⁶⁹ For instance, one New York Times article of 2008 indicates that Maher Arar, a Syrian-born Canadian citizen, was arrested at JFK airport in New York, turned over to immigration officials in Jordan, and then sent to Syria where he claimed he was subject to severe torture.¹⁷⁰ Moreover, on June 18, 2001, the US Assistant Secretary of State claimed that the “cooperation the Syrians have provided in their own self-interest on Al-Qaeda have saved American lives.”¹⁷¹

Despite this assistance, Syria increasingly became the target of bellicose rhetoric from the Bush administration. Syria, which strategically (and not ideologically) supports mainly Palestinian terrorist groups in and around Lebanon, came under fire as a state sponsor of terrorism. President Bush, in his prosecution of the War on Terror, began to demonize Syria as a safe haven for terrorists of all sorts—completely ignoring the distinction between nationalist Palestinian organizations and militant Islamists who represented the very antithesis of the Asad secular regime. President Bush was quoted as saying on April 4, 2002 that “Syria has spoken out against al-Qaida. We expect it to act against Hamas and Hizbollah as well.”¹⁷² In June of that same year, he exhorted Syria to “choose the right side in the war on terror by closing terrorist camps and expelling terrorist organizations.”¹⁷³

¹⁶⁸ Risen, James and Weiner, Tim. 2001. “A Nation Challenged: Collaboration; CIA is Said to Have Sought Help From Syria”. *New York Times*, October 30

¹⁶⁹ Kraus, Clifford. 2005. “Evidence Grows that Canada Aided in Having Terrorists Interrogated in Syria.” *New York Times*, September 17.

¹⁷⁰ Feuer, Alan. 2008. “Court Dismisses Rendition Suit.” *New York Times*, July 1.

¹⁷¹ Lesch, *New Lion*, 100.

¹⁷² “Arab League: Bush: 'The world finds itself at a critical moment'.” April 4 2002.

¹⁷³ “The Guardian: Full Text of George Bush's Speech on Israel and a Palestinian State.” June 2002.

Shortly before the 2003 invasion of Iraq, Syria had gained a temporary seat on the UN Security Council and such rhetoric was probably intended to pressure Asad into issuing a vote for the November 2001 Resolution 1441, which called for support of an Iraqi invasion.¹⁷⁴ In March of 2003, the United States invaded neighboring Iraq and “Pentagon officials were dropping hints to Syrian officials that the US could very well move on from Iraq towards other venues close by; since its troops and tanks were already in the area—that the main cost of war is not the fighting itself but getting all of the men and material to the theater of combat.”¹⁷⁵ In addition, a bill in Congress entitled the Syrian Accountability Act, which leveled sanctions against Damascus, was finally signed into law in December of 2003. These sanctions hit Syria’s fledgling private banking industry, the Syrian Trade Bank, particularly hard, complicating Syria’s ability to carry out financial transactions with international banks and scaring away foreign investment.¹⁷⁶

Thus Syria had good reason to be paranoid, and it is hardly surprising that Bashar’s regime clamped down on internal unrest during this period. By 2005, Syria still had a significant presence in Lebanon amounting to some 15,000 troops and an unknown number of intelligence officers. In the upcoming parliamentary elections, Syria supported a friendly candidate, Emile Lahoud, to run against the popular Rafiq al-Hariri, who wanted to distance Lebanon from Syria’s rule.¹⁷⁷ His dream of an economically and politically independent Lebanon represented a serious threat to Syrian interests there—particularly in light of the US invasion in Iraq. Although Lahoud won the reelection, the next day UN Resolution 1559 called for the respect of Lebanon’s sovereignty, the withdrawal of all foreign troops, and the disarming of all non-Lebanese militias.

¹⁷⁴ "UN Security Council Resolutions-2002." 2002.<http://www.un.org/Docs/scres/2002/sc2002.htm>

¹⁷⁵ Lesch, *New Lion*, 118

¹⁷⁶ Ziser, *Bashar and the West*, 13.

¹⁷⁷ Wright, *Dreams and Shadows*, 243.

Syria had already lost a significant amount of revenue when the US took over Iraq; in the previous decade, the regime had benefitted enormously from illegal oil smuggling through Iraqi pipelines in the wake of economic sanctions leveled after the Gulf War. Indeed, according to analyst estimates, the illegal reopening of trans-Iraqi/Syria pipeline resulted in the transport of 100,000 barrels/day of oil pumped to Syria at a significant discount.¹⁷⁸ It was estimated that prior to the 2003 invasion, various smuggling activities between the two countries resulted in some \$1.5-2 billion in annual revenue for Syria.¹⁷⁹ After the invasion this figure dropped to a mere \$100-200 million.

Then in February 2005, Prime Minister Rafiq al-Hariri was assassinated, and Lebanese opposition was quick to blame Syria for the murder. Protesters took to the streets against Syrian occupation, while Hizbollah organized counter-protests on behalf of its patron¹⁸⁰. Although the United States was careful to avoid directly accusing Bashar's regime, it did withdraw its ambassador for "consultations". In March 2005, Syria was forced to withdraw troops from Lebanon, and it was not until 2008 that the two countries reestablished full diplomatic relations. In 2010, Prime Minister Saad al-Hariri (Rafiq's son) visited Bashar personally in Damascus and withdrew his previous accusations that indicted Syria in his father's murder.¹⁸¹ Moreover, Hizbollah has threatened violence to those who aid a tribunal charged with the investigation, putting pressure on the currently fragile coalition government.¹⁸²

Syrian relations with the United States are further strained by the on-going American presence in Iraq and tensions over Iran's nuclear program. For instance, since the US invaded

¹⁷⁸ Economist Intelligence Unit, Country Report: Syria. August 2001.

¹⁷⁹ Economist Intelligence Unit, Country Report: Syria. August 2003.

¹⁸⁰ Byman, Daniel. "Confronting Syrian-Backed Terrorism." *The Washington Quarterly* 28, no. 3 (2005): 99-113. 105

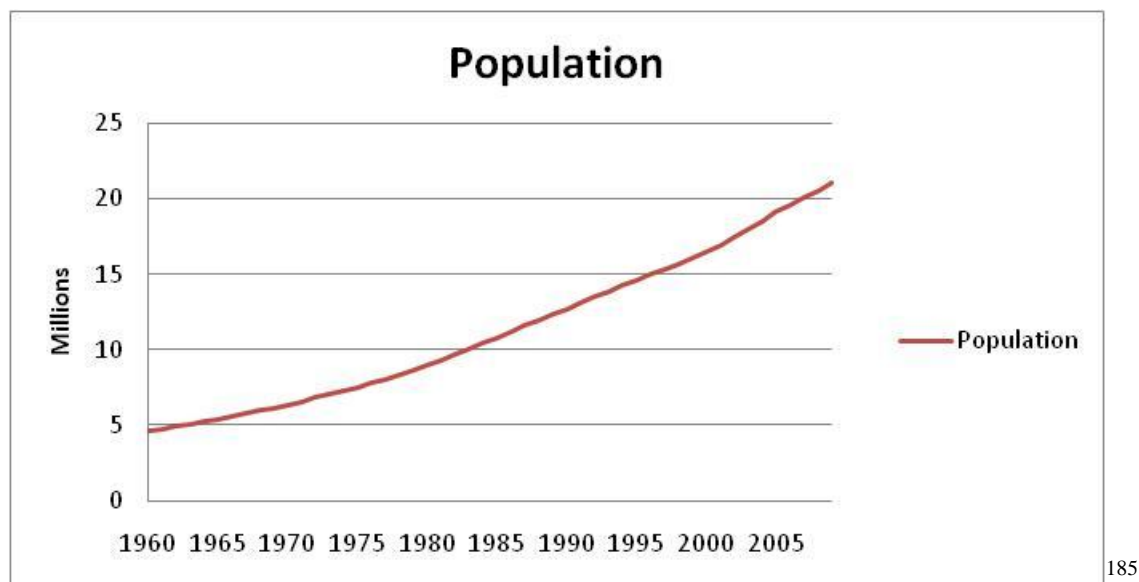
¹⁸¹ "Syria and Lebanon Establish First Full Diplomatic Relations". 2008. *New York Times*, August 13.

¹⁸² Worth, Robert and Bakra, Nadi. 2010. "Don't Aid Hariri Tribunal, Hizbollah Warns". *New York Times*, October 28.

Iraq in 2003, Syria has been providing broad, but discrete support for various anti-US Iraqi insurgents. Such actions include lax policing of the Iraq-Syrian border, and Iraqi insurgents have been known to organize and commit attacks from bases in Syrian territory¹⁸³. However, Damascus' support is cautious and passive; undoubtedly, Bashar wishes to wear down American troops in Iraq and maintain control of its jihadist groups. The Bashar regime feared, that should it cooperate fully with the US and regime change, foreign enemies of Syria such as Israel and Turkey might dominate such oppositional groups and direct their resentments against Syria.

Syria, however, is faced with a dilemma and must take further steps towards liberalization and integration into the global economy. Its population has already more than doubled since the 1970s, and some 300,000 youth are without gainful employment; official state figures estimate unemployment at 12%, but in reality this figure may be closer to 25%.¹⁸⁴

Table 7



¹⁸³ Byman, *Countering Syrian-Backed Terrorism*, 106.

¹⁸⁴ Wright, *Dreams and Shadows*, 251

¹⁸⁵ World Development Indicators Online, Population, (1960-2007).

Syria's own domestic oil production peaked in 2000 and analysts estimate that Syria has now become a net importer of oil and petroleum products.¹⁸⁶ The regime is also forced to maintain burdensome subsidies on foodstuffs and basic commodities—which in some cases cost Syrians only one-third of market price.¹⁸⁷ Energy subsidies, for instance, remain a significant burden on the state, to the tune of some \$6-8 billion per annum.¹⁸⁸ The government has needed to roll back its extensive subsidies for the past decade, but fears revolts such as those now seen in Egypt and Jordan. Moreover, the Barcelona Process talks with the EU have stalled, as substantive reforms in both municipal banking and the finance ministry have been slow to materialize.¹⁸⁹ In short, it remains to be seen if Bashar al-Asad can execute much-needed economic reforms while maintaining domestic stability and the primacy of the Ba'ath Party.

Despite threats to regime stability, Bashar al-Asad seems to have the spirit of a reformer and is striving to continue liberalization measures in spite of fierce opposition from entrenched members of the old guard. For instance, in 2001 after Bashar initiated a cabinet reshuffle, a new law was passed allowing for establishment of private banks in Syria.¹⁹⁰ However, it was not until 2003 that four banks (3 Arab and one French) obtained licenses; according to government estimates these private banks would represent a 25% decline in state bank deposits.¹⁹¹ Later that same year, Bashar also issued decree no. 23, which repealed aspects of Law no. 24 of 1986, abolishing prison sentences for illegally holding/trading foreign exchange.¹⁹² Moreover, in

¹⁸⁶ Jones, *Negotiating Change*, 178.

¹⁸⁷ Wright, *Dreams and Shadows*, 256.

¹⁸⁸ *Economist Intelligence Unit*, Country Report: Syria. April 2000.

¹⁸⁹ *Economist Intelligence Unit*, Country Report: Syria. April 2000.

¹⁹⁰ *Economist Intelligence Unit*, Country Report: Syria. August 2002.

¹⁹¹ *Economist Intelligence Unit*, Country Report: Syria. August 2002.

¹⁹² *Economist Intelligence Unit*, Country Report: Syria. August 2003.

August 2004, Law no. 24 finally reduced corporate taxes from 63% to 35% and provided clarity on how foreign corporations could operate with regards to tax law.¹⁹³

Another large milestone for Syria was the establishment of the Damascus Security Exchange in 2009; although largely symbolic (indirectly controlled by the government, open 5hrs/week, with only six stocks on the market, and share price fluctuations capped at 2%), billboards heralded this as the beginning of a “different Syria, a good Syria.”¹⁹⁴ As recently as August 2010, there were plans to loosen foreign currency restrictions, reduce fuel subsidies, increase investment for private investors, and to expand the Damascus Security Exchange.¹⁹⁵

VII. Looking to the Future

Despite the fact that Bashar’s hands seem tied for the moment by entrenched elites of the old guard, it is clear that Bashar is maneuvering to remove such obstacles to reform. In order to facilitate this transition to market liberalization, Bashar promoted various Western-educated liberals to economic leadership positions at state-owned banks and the State Planning Commission with the hope of ratcheting up privatization rhetoric.¹⁹⁶ In particular, the head of the SPC, Abdullah al-Dardari is not even a Ba’ath Party member and has publicly stated that Syria needs a “clean break” from the past. In his mind it is impractical to continue to “sacrifice economic efficiency”, and he advocates financial reform “dominated by the market mechanism”.¹⁹⁷ This rhetoric seems to be having some effect. As early as August 2005, Congress approved of the replacement of “Arab socialism” with “market economics” as the ruling party’s

¹⁹³ *Economist Intelligence Unit*. Country Report: Syria. August 2004.

¹⁹⁴ Worth, Robert. "Syria Finds Right Ingredients to Start a Stock Market from Scratch." *New York Times* 01 April 2009,

¹⁹⁵ *Economist Intelligence Unit*. Country Report: Syria. August 2010, 8.

¹⁹⁶ *Economist Intelligence Unit*, Country Report: Syria. August 2004.

¹⁹⁷ *Economist Intelligence Unit*. Country Report: Syria. August 2004.

official economic strategy.¹⁹⁸ Moreover, in 2010, the transport minister began to promote private investment in transportation projects—including the construction of highways with Turkish, Jordanian and Iraqi borders, a railway with Jordan, the addition of new airport terminals and the rehabilitation of the Latakia port.¹⁹⁹

Bashar himself has been a study of contradictions. It seems clear that he wants to maintain the stability of both Syria and the regime—especially in light of the American invasions of Afghanistan and Iraq. On one hand, when speaking with Kuwaiti newspaper *Al-Watan* in the 1990s, Bashar stressed that globalization was the central issue of the modern age (as opposed to Israel) and would determine Syria's ability to compete in the 21st century. However, upon assuming the mantle of state, he moderated his rhetoric somewhat, stating

“[t]he nations of the world who work together to achieve peace, security, stability and development, today face a series of challenges topped by the challenge of globalization. This perception constitutes a flag but also a mask for those who work to bring about ... cultural and economic hegemony ... that abolishes national identity.”²⁰⁰

Recent events, however, have placed the future of the al-Asad regime and the uniformity of this national identity in doubt. The recent protests in Bahrain, Jordan, Libya, and Yemen and the revolutions in Tunisia and Egypt have established precedence for the overthrow of long-standing autocratic regimes. Despite social networking sites calling for a “Day of Rage” in Syria, protests failed to materialize at the time. However, on March 18, 2011, small-scale protests emerged in four Syrian cities--but were violently suppressed by police forces.²⁰¹ Protestor postings on social media outlets such as Facebook call for “a Syria free of tyranny, emergency

¹⁹⁸ *Economist Intelligence Unit*. Country Report: Syria. August 2005.

¹⁹⁹ *Economist Intelligence Unit*, Country Report: Syria. August 2010.

²⁰⁰ Ziser, *Bashar and the West* 7.

²⁰¹ “Police Kill 6 Protesters in Syria.” *New York Times* 18 Mar 2011,

law and special tribunals; a Syria without corruption or theft or monopoly of wealth, exempt from poverty and illiteracy; and for a civil state.”²⁰²

Thus, Syria faces a dilemma similar to the one it tackled with Hafiz al-Asad’s assumption in the 1970s. Should it adopt pragmatic economic policies in response to shifting power alliances and the eruption of populist protests in the Middle East? To what extent does such economic liberalization encourage societal pluralism and perhaps the erosion of Ba’ath Party nationalist foundations? How can Syrian economic and foreign policy adapt itself to regional conflict and perhaps domestic instability?

We have seen that conflict directly and indirectly affects the quality of liberalization in Syrian economic policy. It is important to remember that each conflict is unique in its effects and closely tied with how Syria is perceived by both the Arab world and Western powers. Consequences of Middle Eastern conflict including an influx of refugees, world oil prices, increased military spending, and the availability of foreign assistance all have dramatic impacts upon the Asad regime stability and consequently its economic policy. Recent protests have only exacerbated regional tensions and shown that Syria may be forced to expand economic liberalization and civil liberties, or face collapse.

Moreover, it seems that Syria’s role as lynch-pin is more important than ever, and analysis of future economic policy will almost certainly serve as a barometer of Middle Eastern instability as well as the Asad regime’s future foreign policies. Considering Syria’s role as a lynch-pin of the region, it is absolutely vital that the US and other countries with a vested stake in Middle Eastern stability take the time to understand this complex nation. The Middle East, already unstable, has now become increasingly volatile with the uprisings of the past few months. Now, the future of traditional US alliances with Arab powers is increasingly in doubt.

²⁰² "Dozens of Syrians Defy Emergency Law in Damascus." 2011. *Middle East Online* 16 Mar .

Syria's ties with Iran continue to deepen. Meanwhile, established autocratic regimes throughout the region are under assault. In such turbulent times, Syria could be a valuable friend in the region—if we take time to understand their interests. Hopefully, this paper will lend insight into the complex interplay between regional conflict, Syrian economic policy, and regime stability—with the goal of not only clarifying Syria's national interests but also laying the ground for future diplomacy.

Annotated Timeline

1966 -- Baath coup in Syria. Military ill-equipped, suffering from military conspiracy and experienced-officer purges.

1967: Six Days War

June 5, 1967 -- Hafiz al-Asad as Defense Minister sees partial destruction of air force.

June 10, 1967 -- Syria loses the Golan Heights to Israel.

1969 -- Hafiz al-Asad visits Jordan.

May 1969 -- Hafiz al-Asad takes measures to curtail operating freedom of PLO in Syria.

Sept. 1970 --- Black September. King Hussein moves to quash PLO in Jordan and sparks civil war.

1970 -- Hafiz al-Asad comes to power, launches the Corrective Movement. Population reaches 6.3 million

1972 - Sadat expels all Soviet advisors

1973 - Arab-Israeli War

1974 -- Sinai I Treaty --- Israelis withdrew and relinquished part of GH to serve as DMZ for UNDOF. Nixon visits Damascus.

1975 -- Civil unrest in Lebanon

1976 -- Syria intervenes in Lebanese civil war

May 1977 -- Ultra-right wing Menachem Begin becomes PM of Israel. Israel makes sweeps into southern Lebanon.

1978 -- Arms shipments reach a peak of 900 million dollars. Remittances peak. UN Security Council Resolution 425 called on Israel to withdraw its troops from southern Lebanon.

Jan 1979 -- Shah of Iran in exile

March 1979 --- Camp David Accords, peace treaty b/n Israel and Egypt

April 1979 -- Islamic Republic of Iran founded. Khomeini becomes supreme leader in December

1979 -- Arms shipments reach a new high of 2 billion dollars. Rise of the domestic Islamic-led, anti-regime Muslim Brotherhood. Regime increases state wages 65% in a bid for loyalty.

Sep 1980 -- Iraq invades Iran

1980 - Treaty of Friendship and Cooperation between Syria and USSR.

Oct 1981 -- assassination of Sadat by Islamic jihad elements.

1981 -- Israel in effect annexes Golan Heights. Official Gulf state aid to Syria peaks

Feb 1982 -- Hafiz al-Asad orders full-scale attack against Muslim Brotherhood in Syria's historic district

Aug 1982 -- MNF enters Lebanon to quell violence and escort PLO forces from Beirut.

1983 -- Syria initiates uprising in Tripoli, Lebanon against Yasser Arafat's Fatha faction.

Nov 1983 -- Hafiz al-Assad falls ill. His brother Rifaat attempts a military coup.

Mar 1984 -- Military forces of both brothers meet in the streets of Damascus.

1984 -- Syrian military spending increases from 1.8 billion in 1977 to 5.4 billion.

1985 -- State now employs 40% of Syrian industrial forces.

1985 -- Reagan administration avoids naming Syria among its "outlaw states" who threaten US interests.

1986 -- Syrian military capacity now impressive for its size. Oil slump cuts revenues in half.

September 1986 --

April 1987 -- Gorbachev visits Damascus and suggests Syria pursue other avenues of support

1987 -- Talk within regime elites of a second intifah.

1988 -- PLO renounces terrorism. acceptance of UN SC Resolutions 242 and 338.

October 22, 1989 -- Taif Accord results in Syrian dominance in Lebanon. Soviets withdraw from Afghanistan. Syria reestablishes diplomatic relations with Cairo. Trade with USSR resurges 1989-1990. Syria has first positive trade balance in decades.

1991 -- Brotherhood Treaty brokered by H.W. Bush administration. Acknowledged Syrian dominance in Lebanon.

1991-- Madrid Peace Conference

1992 -- Oil export now at 70% of total export revenue. Future president Bashar studying in London.

1992-1993 -- Yitzhak Rabin and President Clinton emphasize Israeli-Syrian tract for peace. Israel acknowledges the Golan Heights as Syrian territory.

1993 -- Washington blocks a Syrian weapons acquisition. Refuses to remove Syria from state sponsors of terrorism list.

1994 -- Basil al-Asad dies in an automobile accident. Bashar returns to Syria from London. Clinton visits Damascus to inject life into the peace process.

Nov 1995 -- Assassination of Yitzhak Rabin

April 1996 -- Operation Grapes of Wrath

1997 - Bashar attains rank of captain.

1998 -- Syria abandons support for PKK. Bashar given oversight over the "Lebanese File".

May 1999 -- Ehud Barak won election as PM of Israel.

Fall 1999 -- Peace negotiations begin under Clinton's second term.

Jan 2000 ---- President Clinton and staff meet with Syrian Foreign Minister Farouk al-Sharaa and staff at Shepherdstown, WV.

March 2000 -- Clinton visits Damascus to persuade Hafiz to rejoin negotiations.

June 2000 -- Hafiz dies. On June 11, Bashar assumes presidency.

May 2000 -- Rise of civil society organizations in Syria under "Damascus Spring".

2000 - Bashar al-Asad establishes Syrian Computer Society

Nov 2000 -- political prisoners granted amnesty. Syria's human rights record improves from 1991.

Sept 22, 2001 -- Decree no. 50 allows for privately owned newspapers, magazines and periodicals to obtain licenses to operate from government.

Oct. 8, 2001 -- Syria gains a seat on UN Security Council.

Feb 2002 -- Ariel Sharon wins Israeli elections by a landslide. Syria establishes first private radio stations.

Mar 2002 -- Syria joins Arab coalition of Saudi Arabia's King Abdullah which called for Israeli withdrawal from Arab lands to the 1967 borders in exchange for full normal relations and peace.

June 2002 -- Report shows that Syria aided US agencies by providing intelligence on Al-Qaida and serving as a base of rendition interrogation.

Sep 2002 -- Syrian Accountability Act in House committee. National Security Strategy of Sep 2002 as applied to Iraq which advocates pre-emptive war.

April 2003 -- Bush demands "cooperation" from Syrians.

Nov 30, 2003 -- Bashar al-Asad gives interview with NYT

Dec 2003 -- Syrian Accountability Act signed into law.

2003 -- Dr. Imad Moustapha appointed Syrian ambassador to US

2004 -- Syria begins cooperation with interim Iraqi government.

July 2004 -- Iraqi interim PM visits Beirut and Damascus to improve relations. Syria initiates economic deal with EU.

Feb 14, 2005 -- Lebanese PM Rafik Hariri assassinated. George Bush state of the union speech calls on Syria to abandon support for terrorism.

2005 -- US ambassador to Syria withdrawn.

April 2005 -- Syrian troop withdrawal from Lebanon.

2006 -- Fighting breaks out between Israeli and Hizbollah forces.

Sep 2007 -- US confirms Israeli air strikes on Syrian territory. Syria lodges complaint with UN.

2008 -- Turkey mediates indirect talks between Israel and Syria.

Sep 2008 -- Peace talks between Israel and Syria postponed due to upcoming Israeli elections

March 2009 -- Opening of the Damascus Securities Exchange.

Sep 2009 -- Turkey and Syria lift respective visa restrictions.

Oct 2009 -- Syrian envoy visits Washington.

Dec 2009 -- Syria and Lebanon reinstate full diplomatic relations. Lebanese PM Saad Hariri (son of murdered Rafik Hariri) visits Bashar in Damascus; he has publicly accused Syria as being responsible for his father's assassination.

Feb 2010 -- Barack Obama nominates Robert Ford to serve as ambassador to Damascus--reinstating the position that had been left vacant since 2005. US lifts travel ban on Syria.

April 2010 -- Senator John Kerry (a co-sponsor of the Syrian Accountability Act) meets with Bashar al-Asad in Damascus.

May 2010 -- Obama renews sanctions on Syria.

July 2010 -- President al-Asad and King Abdullah of Saudi Arabia travel to Beirut, pledging to calm tensions in the wake of the UN Hariri Tribunal announcement.

October 2010 -- US accuses Syria of destabilizing Lebanon.

Jan 13, 2011 -- Hizbollah forces collapse of Lebanese coalition government.

Feb 5, 2011 -- "Day of Rage" fails to materialize in Syria.

Feb 16, 2011 -- Two Iranian warships pass through Suez Canal bound for Syria.

March 11, 2011 -- Syria security forces intercept weapons, explosives, night vision goggles at Tanaf border, originating from Iraq.

March 19, 2011 -- Police kill six protesters in Syria.

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