Syria deregulates its economy to further rapprochement with Washington

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Porsche, the luxury carmaker, opened its first sales and service centre in Damascus, Syria, last May. It is testimony to the increasing wealth enjoyed by a thin social layer in the last five years that this fiercely protectionist and nationalist regime has sought to integrate into the wider regional economy and improve relations with Washington.

The government of President Bashar al-Assad has partially opened up the banking sector, and Lebanese and Gulf state banks have moved in. It has slashed corporate taxes, import duties and subsidies and lifted restrictions on prices and imports. After more than 40 years, the stock exchange has reopened. As yet, just 12 companies, mainly banks, are traded.

The government has sought a closer relationship with France, the former colonial power, and the European Union, which takes 23 percent of Syria's exports, mainly energy and agricultural products, although it has still to finalise a formal agreement. It is seeking closer links with Jordan, with which relations have long been strained.

Syria has now achieved observer status at the World Trade Organisation, a step towards full membership, which was only possible due to Egypt's support and the abandonment by the United States and Israel of their long-standing vetoes against Syria's bid to join.

Damascus has signed trade agreements with Turkey and scrapped visa requirements for travel between the two countries. It has signed joint venture deals with a Turkish company for a giant cement factory in Tadmor, Saudi Arabia, for water treatment plants and India to develop oil shale and phosphate extraction.

While Syria's small oilfields are in decline and are set to produce about 340,000 barrels per day for the next 15 years, gas production is increasing and is expected to yield 32 million cubic metres a day by the end of 2010. The industry has long suffered under the US trade embargo, which has seen many Western firms steer clear of Syria.

The government has invited international companies to bid for the exploration, development and production of eight gas and oil blocks near its borders with Turkey, Iraq and Jordan, and four offshore blocks. China has aggressively targeted Syria's oil and gas sector over the last 18 months. Syria is also seeking to become a route for major gas and oil pipelines.

In April, the government brought in new labour laws allowing employers to fire workers without providing a reason, in an attempt to make Syria a low-wage platform attractive to inward investors. Under the previous arrangements, most employers refused to give their staff any formal contract at all in order to evade the limited rights that do exist for workers and avoid paying contributions into the National Social Insurance Fund for their employees. As a result, few other than public sector employees are covered for health and other social insurance benefits. While the new law requires employers to register their workers in the National Social Insurance Fund, the low level of the fines and the lack of effective enforcement mean that this will be a dead letter.

Presented by the government as a major improvement for workers' rights, the new legislation seeks to undermine the informal economy that accounts for 45 percent of the workforce and to eliminate "unfair competition". The minimum wage remains at SYP6,000 (US$120) a month, which is not enough to keep two people above the US$2-a-day poverty line.

Damascus has seen the renovation and conversion of its large old houses in the Old City into fancy bars, restaurants and boutique hotels and the development of shopping malls and fast-food outlets in the suburbs. Visitors have come from Turkey, Lebanon and the Gulf to take advantage of Syria's lower prices. Tourism, particularly from France, increased by 12 percent last year, while more than 1 million refugees have fled from

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neighbouring Iraq, the vast majority to Damascus.

The turn to the market and 5 percent annual economic growth in recent years has not brought better living standards for workers and the poor. It has served to increase social inequality in what has always been a grossly unequal society. The vast majority of Syria's 21 million population have experienced only rising prices—inflation is now running at 15 percent a year—and ever increasing poverty as wages fail to keep up with inflation (see "Growing poverty in Syria").

Under these conditions, the government is sitting on a time bomb. But it has staunchly defended its pro-market policies and rejected any reining in of its economic liberalisation programme. Its notorious secret police, aggressive police force, armed forces and courts enforce one of the most repressive regimes in the world in order to keep themselves and the new business elite, the mobile phone operators and franchise owners of cars, computers and other big-ticket items in control at the expense of the vast majority of the population. The social and welfare services available to the Syrian police force are second to none.

Earlier this month, a military court jailed for three years Haitham al-Maleh, a 79-year-old human rights activist and lawyer who was detained without trial for seven years in the 1980s, on a charge of "weakening national morale" after he criticised the government in a television interview. This followed a similar jail term for another human rights activist, Mohammed al-Hassani.

A few weeks ago, Ali Abdullah was rearrested the day after completing a three-year prison sentence for trying to revive the Damascus Declaration, a civil rights movement named after the document of the same name. It calls for the right to free speech and assembly and an end to the emergency laws that have been in place since 1992 and give the government carte blanche to suppress all opposition to its rule without any pretence of due legal process.

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