PART 1

State–Business Networks and the Politics of Economic Reform

CHAPTER 2

The Formation and Development of Economic Networks in Syria: Implications for Economic and Fiscal Reforms, 1986–2000

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The Social, Economic, and Political Context of Exclusionary Networks

In virtually all developing countries,[1] and beyond,[2] relations between the state and business have taken the form of economic or policy networks that may or may not operate through formal institutions. Though networks are ubiquitous in nearly all settings where state and business cooperate, their impact on economic growth and development can be more or less detrimental or positive depending on the conditions of their emergence, their internal dynamics, and their relation to the broader institutional and social context.[3] This chapter posits that the effects of the maturing economic networks—combining capitalists and bureaucrats—in Syria in the late 1980s became extant in the economic, regulatory, and fiscal policy reforms of the late 1980s and the 1990s. The foreign exchange crisis of 1986 marks the acceleration of economic networks' consolidation and influence, albeit at an informal level, until 1991 when these networks hijacked the official institutional expression of the "private sector" under the rubric of the government's reform policy, that is, *al-ta`adudiyya al-iqtisadiyya* (economic pluralism).The role of privileged economic networks[4] in bringing about economic and fiscal

change can be analyzed by examining the institutional and social context within which these networks emerge and on which their sustenance rests. Although the impact of such networks has been largely limited to middle- and lower-range policies, their ability to bypass or manipulate laws and regulations has significantly widened their reach and allowed them, intentionally or inadvertently, to shape general developmental change in idiosyncratic ways that were detrimental to economic productivity.[5] These economic downturns were not desired or intended by the state, the business community, or the network participants who represent the primary beneficiaries from the reform process. Economic decline was in large part a result of rampant rent seeking and rent allocation that was almost totally unchecked on the one hand, and misdirected by a widely penetrated and incoherent bureaucracy on the other.[6] The proximity of these networks to, and overlap with, decision-making bodies made rent seeking and rent allocation an extremely efficient process during the post-1986 reforms. What, then, is the source of these networks' endurance, and why did they emerge in the first place?

Networks and Institutions: Why Do Economic Networks Emerge?

Pervasive and powerful economic networks combining webs of bureaucrats and capitalists have been prominent features of political economies in transition from a centralized arrangement to a more decentralized and not necessarily market-oriented one.[7] In this sense, networks do not "replace" existing institutions, but they operate side by side as shadow forms of organization that are largely responsible for the dramatic growth of shadow economies so pervasive in reforming states, from Russia to Egypt. Though economic networks are ubiquitous, the context in which they emerge shapes their nature, dynamics, and development. Why, for example, did the Syrian regime resort to networking with business elites rather than formally extending or reforming its own economic institutions after the "Corrective Movement" in the 1970s. Why did the regime avoid "opening" the door to all possible investors and generate opportunities amenable to exploitation across the entire business community?

In the case of Syria, networks did not precede state or market, however limited the latter, nor were they merely the product of economically inefficient institutions. They emerged within existing states and markets as a means for state elites and business partners to secure extraordinary benefits that neither could obtain under formal state–business arrangements.

However, the motives for each party differed: state elites were looking for security, first and foremost, and business partners were looking for profits that could not be obtained under the constraints imposed on the private sector as a whole. Without examining the institutional and social context in which state elites and business actors were operating, the development of pervasive, informal, and selective relations between state and business remains incomprehensible.

The institutional context in which these networks emerged is the dilution or unraveling of a "populist-authoritarian" system, whereby the distributive commitments of populist-authoritarian states begin to give way to populist demobilization and alliance shuffling in favor of excluded business actors. Although ideological constraints related to distributive commitments and the exclusion of business from the state's corporatist structure proved surmountable in the case of populist-authoritarian regimes like Egypt, the challenge remains one of security for cases such as Syria.[8] The lack of trust between the regime and the business community, based on deep-seated historical antagonism, has prevented the state elite in Syria from pursuing rapprochement with business à la Egypt: the Syrian regime could neither dissolve its ruling Ba`th Party (as the Egyptian regime did with the Arab Socialist Union) nor replace it with a new one (such as Egypt's National Democratic Party) that is institutionally and ideologically more amenable to the official incorporation of business interests. The Syrian political elite had reasons to fear a resurgence of the traditional business community, despite their institutionally weakened position since the 1963 Ba`th takeover. According to Heydemann,

> [t]he union [UAR] educated this generation of radical reformers about the resilience of the private sector, the intensity of business opposition to social reform, and the strategies capitalists could employ to undermine the radical restructuring of Syria's political economy. . . . The union experience became its [the Ba`th's] touchstone and its antimodel, the crucible within which many elements of the Ba`th's political repertoire took shape.[9]

By 1970, the socio-institutional context made rational some informal networking in the service of capital accumulation and security. It also prevented the regime from disciplining or safely mobilizing the business community as a whole. As a result, the official institutions of the business community were further suppressed and contained at the expense of collective collaboration and efficiency. Ironically, it is these emerging informal state–business networks that

developed an interest in rejuvenating business associations after the late 1980s, particularly in 1991, when reform measures were formally formulated and implemented as such.

Because networks take on a life of their own as alternative mechanisms of association, their conditions of emergence are not the sole reason for their development and consolidation.[10] In the Syrian case they were also fostered by a political crisis of waning legitimacy and attendant institutional atrophy. The conflict between the state and the Islamists in the 1970s and early 1980s was in many ways spurred by the perceived lack of legitimacy of the regime, both political and economic, from the perspective of excluded traditional sectors and most small businesses in the traditional urban *suq* (traditional market of manufacturers and artisans). The state–opposition showdown between 1979 and 1982 catalyzed selective rapprochement between the state and business in the form of informal networks.[11] The civil unrest—very much tied to the power of the then weakened traditional business classes—accelerated the formation and consolidation of economic networks as a safeguarding strategy (i.e., state elites would try to create a business elite in their own image and would themselves become even more heavily involved in business).

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The Genesis of Economic Networks in Syria

As part of the regime's retrenching strategy after Asad's 1970 coup, top elites took the initiative in bringing back into the political economic equation part of the business community. Unable to officially incorporate the business community as a whole for security concerns, state elites embarked on the creation and development of informal ties with particular established and ascending business actors. More broadly, we witness the formation of key economic networks in the mid- to late-1970s, comprising top state officials (including military, security, and bureaucratic personnel), select business actors, and para-official actors connected to the regime mainly through familial and communal, but also through professional ties (e.g., former teachers, doctors, engineers). (See table 2.1.) What is significant here is that, early on, these networks included state actors that had little or no business history/experience in the professional sense and were thus more dependent on their proximity to the state for "staying in business." Also included in these networks are lay individuals that have largely been catapulted by state officials from various professional and blue-collar backgrounds into the business world during the investment boom of the mid-1970s[12] and, later, through mixed-sector ventures, smuggling, black-marketeering, and cronyism. These actors were

Table 2.1 Patterns of state–business relations: networks, rent, and economic change

	State–business relations in Syria: development periods		
Nature of business incorporation	*1970–1990 informal*		*1991 onward formal*
	1970–1977	*1978–1986*	*(1987–2000)*
Character of state–business relations	Rapprochement	Selective cooperation	Fragmented collusion
Type of economic reform	Controlled liberalization	Selective liberalization	Circumscribed liberalization
State's role	Producer	Midwife (creating private wealth)	Rent guarantor (of Rentierism)
Rent opportunities	Public investments/ purchases/ contracts with foreign agents	Mixed-sector ventures smuggling/ black market USSR debt repayment	Tailored reregulation (imports/exports), investment law #10 USSR D/R, black market
Formation/ consolidation of economic networks	(Consolidation) within the state	(Formation) between state and private sector	(Consolidation) within economic networks
Formal business incorporation	—	—	Chambers of commerce/industry Guidance Committee Parliament (1991)

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seen by the regime as the most loyal, because they had few or no options compared to formerly more established and trained business actors drawn from the ranks of the old, but culturally vigorous bourgeoisie.[13] By the same token, the adversarial state–business legacy left an evident imprint on emerging state–business networks, not least because of the communal as well as the socioeconomic differences between the political elite and capitalists in the pre-populist periods (1946–1958 and 1961–1963). Institutionalized as they became after 1970,[14] such differences reinforced the narrowness of the ruling coalition at the top rungs, and rendered the regime vulnerable by reducing its capacity for incorporating/absorbing social forces without being overtaken by

them. Hence, the pattern of incorporation the state pursued was to include similarly vulnerable individuals and groups—ones that generally lacked strong social bases of support.

Sustained by a particular configuration of factors and interest,[15] this situation of mutual dependence within state–business networks shaped their development and consolidation throughout the 1970s, 1980s, and 1990s. (See table 2.1.) Mutual vulnerability fostered the conditions for collusive relations between state and business and, by the mid-1990s, produced collectively costly outcomes, socially, administratively, and economically. The operating dynamic has been the organization and reorganization of rent-seeking opportunities in the context of protracted economic liberalization. Exacerbating collusive state–business relations is the fact that a growing number among the political, military, and bureaucratic elite including, later, their offspring, went into business either directly or through protégés in the 1970s, but more vigorously in the 1980s and 1990s. The fusion of the roles of public decision-maker and capitalist in the hands of officials and para-officials has had a tremendous impact on the nature of the economic decision-making process in its formulation and implementation phases, especially before and after liberalization agendas began to appear.

Notably, state–business networks did not acquire a formal expression until the early 1990s when the government implicitly proclaimed a shift in its economic policy and development strategy, one that gave recognition to and conferred legitimacy on the developmental role of the hitherto admonished private sector. Not only did these rent-seeking networks survive this shift, they actually participated in shaping it and in shaping the ensuing process of liberalization, if not by totally hijacking it then by circumscribing further the limits of economic liberalization by diverting resources from collective to private targets. The unintended effect of these particularist policies was a deep economic slump beginning in 1994. By the end of the 1990s, a serious liquidity crisis led to the dramatic shrinking of rent opportunities. Throughout the period of economic downturn, the logic of rent-seeking economic networks collided with the broader political logic of regime maintenance: the developmental cost of rent seeking began to outweigh the benefits of instrumental reform as a regime maintenance strategy. Record lows in economic productivity and public/private investments were evidenced by potentially destabilizing widespread unemployment—reaching 20–25 percent by nearly all nongovernment estimates in 2000.[16] Such notable downturns sounded serious alarm signals to the regime, especially in the absence of new oil finds as an alternative source of state revenue, as was the case in 1991.[17]

Despite competition for shrinking rent opportunities within economic networks in the late 1990s, individuals[18] involved—especially private actors—found common cause in coming together among calls for the overhaul of the entire economic system from the larger business community and the (re)emerging civil society. Opportunities for alternative social alliance-making that involve the reorganization, if not dissolution, of these networks coincided with the succession struggle and were tainted by it. Until Asad's death in June 2000, the economy was at a standstill but was poised to undergo some change in the medium run. Entrenched economic networks were able to survive yet another challenging transition. Forming the nexus of continued state–business collusion, these economic networks represent an important research area and an explanatory variable in the study of both the politics of economic change and limits of state–business collusion in periods of economic liberalization.

Characteristics of Economic Networks: A Summary

Based on the foregoing discussion, the operative attributes of emerging networks can be summarized as follows:

1. They are strategic in nature (as opposed to organic) and largely responsive to security concerns, that is, they are interest based—"interest" here is defined broadly, encompassing economic, social, and political interests—and instrumentally formed. Empirically, network members have come and gone based on security and other concerns, revealing the loose bonds that exist between them. Relations within networks are based on calculative trust[19] (see section on networks and institutions).
2. They include civil (public officials and private citizens) and military elements. (See figure 2.1 on the "Sectoral and Institutional Sources of Economic Networks Members.")
3. They are cross-sectarian (including Sunnis, Shi`is, `Alawis, and some Christians).
4. Internally, they are informally organized in a pyramidical structure with the military/security service component at the top (possessing decisional and coercive power), a bureaucratic component (possessing administrative power/keys), and a private component (possessing capital and/or entrepreneurial skills of sorts). Externally, the combinations of such networks are organized along the lines of prominent power centers in the top leadership, the military, the bureaucracy, and the

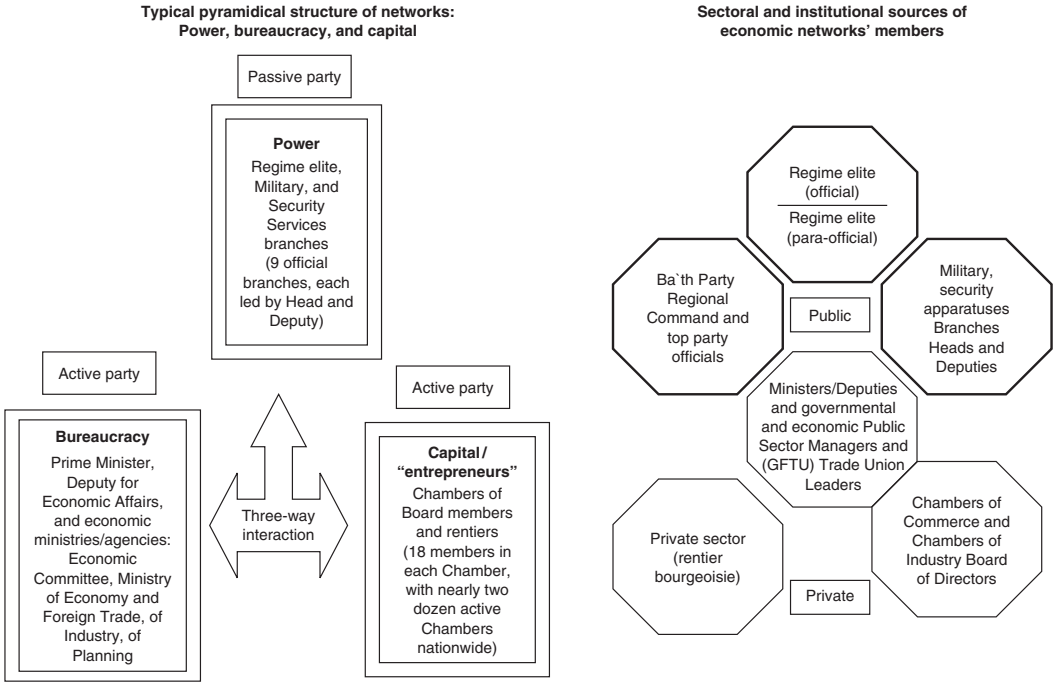

Figure 2.1 Structure and source of economic networks.

party. (See figure 2.1 on the "Typical Pyramidal Structure of Networks: Power, Bureaucracy, and Capital.")

5. These network structures are characterized by modularity, that is, made up of various relational parts that can be exchanged, interchanged, and/or taken out altogether, without affecting the structure of the network as a whole. The most stable component of these networks, however, is related to the top leadership and all coercive apparatuses. The bureaucratic/ministerial component follows. The private component of these networks is most substitutable, particularly those businessmen that were the beneficiaries of the shady deals and partnerships of the 1980s. These businessmen tend to have the least legitimacy vis-à-vis the public and thus are most vulnerable to replacement or forced defection.
6. The networks' connections to institutions are sporadic, inconsistent, and usually irrelevant since informal connections to power centers suffice for bypassing institutional authority.

One caveat should be kept in mind. While it is evident that these networks are ostensibly headed by military and bureaucratic officials, they are by no means always run by them. As both private and public members of these networks accumulate more capital, their bargaining power increases and they become more attuned to the market, where the criteria for leadership differs from those of the state. Policy or economic outcomes, therefore, reflect a subtle form of intra-network bargaining and negotiation, where the capital and skills of private business balance the decisional power of network members in officialdom. The institutional context has so far shaped the development of this subtle form of conflict between the state and "private" capital.

Networks, Trust, and Institutions

The institutions that brought the state and business together after 1991 demonstrate the prevalence of the tendency to preserve particularist gains, either by eroding the operations of such institutions, or through the production of policies tailored to fit members of this alliance. More significantly for our purposes, it is evident that in the Syrian case these institutions represent the organizational expression of maturing economic networks seeking both to secure and to legitimize past, present, and future gains. The principal linking institution, or the Guidance Committee, is the only governmental body with official private sector representation, where state, capital, and labor[20] come together primarily to approve, ignore, or disapprove suggestions and

requests made by private sector or trade union members. But its role is viewed as, at best, vague, and reactionary. The Guidance Committee aborts the role of the legislature because it also exercises that role in a roundabout way, as when it decided to raise the exchange rate of the customs dollar—an indirect infringement of the constitution. At best, the Guidance Committee acquired the role of an ambulance, but one that arrives only after the bleeding is well under way.[21]

Although some bargaining takes place during Guidance Committee meetings, most occurs informally, behind closed doors, as it did between 1986 and 1991.[22] Alternatively, bargaining is not always necessary, as decision makers sitting on the committee are themselves involved in common business ventures. The former prime minister, Mahmoud al-Zu`bi,[23] and the former deputy prime minister for Economic Affairs, Salim Yassin,[24] were heavily involved in public–private economic networks whose businesses extended from commerce to light (though protected) manufacturing.[25] A favorable tax policy or selective implementation thereof, was in their own interest as much as it was in the interest of members of these networks.[26]

Private sector representative institutions such as the Chambers of Commerce and Industry were also rejuvenated in the mid-to-late 1980s, just when economic networks began to consolidate. These institutions constitute the funneling bodies in which identification, initiation, and/or recruitment of potential collaborators occurs. Negotiation and bargaining within these institutions and between them and the government do take place, but on a very limited scale and often concerning the most banal of issues (e.g., what time to close the market in the afternoon during the summer!). Generally, the Chambers are not (yet) taken seriously as representative institutions by prominent members of the business community. As one businessman noted,

> the Chamber of Commerce has approximately 50,000 members, but less than 9,000 actually vote. Why do they join if they don't vote, given that these Chambers are supposed to serve their interests? Also, artisans are registered with both the Chamber of Industry and the Artisans Cooperatives Union. There is no separation between industrialists, professionals, and artisans. . . . There are sectors that are not represented and sectors that are represented more than once. . . . My business [auto dealer] is not represented. There are a thousand reasons why people join or avoid the Chambers.[27]

However, the Chambers are latent arenas of mobilization where, for good or ill, businessmen come together. There, in the Chambers, private sector

power centers are lured, co-opted, or manipulated by the regime—or they play their cards right, exploit their capital, and penetrate the regime elite and state institutions alike. Alternatively, the chambers represent the strategic arena for those who wish to carve out independent space in preparation for the coming stages of Syria's liberalization or turmoil.[28] The former tendency represents that of the rentier bourgeoisie, that is, network members, and the latter that of the recalcitrant old bourgeoisie and the new but largely independent business people.[29] At any rate, powerful members of the Chambers are usually openly associated with the security services or high-ranking regime officials, making the reach of the networks quite deep and debilitating for collective action on the part of any of the Chambers across Syria.

Institutions and Economic Reforms

Institutions can be conceptualized as forms of organization and rules that are intended to serve a given purpose.[30] Whether they serve that purpose or not depends on a larger set of factors that are far more complex than the will and the intention of the powers that be. Nonetheless, the raison d'etre for the emergence of institutions at the time of their establishment can be gleaned from the interests of dominant actors as well as from the rules that govern the institutions, officially and in practice. The manner in which economic institutions were established or rejuvenated in Syria in the late 1980s, along with the rules of participation, inclusion, and operations that pervade them, reflect the interests of those actors that stood to benefit from the impending formalization of reforms.[31] Three factors marked the initial intent behind the establishment/rejuvenation of economic institutions in Syria: (a) access to influence, (b) function, and (c) top–down nature of rules (e.g., for electing board members, granting licenses, etc.).

Only those parties that the regime favored were able to have access to positions of influence within new economic institutions. Access alone was necessary but insufficient for pressing demands: only what is called "subsidized access" (i.e., access supported by strong elements within the regime) could guarantee that the actors' demands would be heard and, often, satisfied in one form or another. The function of these institutions, as with the Guidance Committee, was not to aggregate the interests and demands of the business community for the purpose of formulating positive-sum policies (policies that are within everyone's reach and that, therefore, may benefit both business actors and the economy as a whole). Instead, their function was to circumscribe decision making by limiting it to a small set of actors and, subsequently, manage the demands and preferences of these actors, not

in accordance with what serves the economy, but rather in accordance with what serves whom (i.e., what demands/policies must be adopted because of the weight of the actors and their partners pressing for them).

Finally, these are essentially top–down institutions that are governed wholly by regime, not business, rules. The implications are immense. First, these are not genuinely representative institutions despite the fact that they do represent the interests of some business actors. These institutions take the part for the whole, that is, they consider the interests of affiliated actors as representative of the interests of all those in their sector or line of business. This myopia creates a short circuit vis-à-vis information gathering and exchange (i.e., the information loop) and undercuts the credibility of even the most mundane policies because such policies do not figure among the preferences of the larger business community or are viewed as part of the prioritization of rival actors. Thus, independent business actors do not support them, and, in some cases, elect not to take advantage of them for fear of losing their independence or injuring their reputation among their allies/partners.[32]

Moreover, the manner in which board members of the Chambers of Commerce and Industry are elected further diminishes the credibility of these institutions. For instance, in the Chamber of Industry in Damascus, as is the case with other influential Chambers of both Commerce and Industry elsewhere, the distribution of pro-regime and independent board members is predetermined by the regime. In the Damascus Chamber, "6 out of the 18 board members are appointed by the government. The election for the remaining twelve is real and clean."[33] Nonetheless, according to a number of independent board members in Damascus and Aleppo, where the Chambers are most powerful, the pressure that is exercised by regime officials and their protégés within the Chambers has invariably been more than sufficient to ensure that Chamber presidents are either "men of the regime" (*rijaal al-nithaam*) or men beholden to the regime. It is thus important to examine the process of (s)election of the Chambers' board members, since they are the ones who elect the Chambers' presidents who are represented on the Guidance Committee and are able to weigh in on its decisions with their own and their allies' demands. Hence, the connection between representative business institutions such as the Chambers and institutions such as the Guidance Committee ostensibly link the state with business interests. In reality, such "representative" institutions and "linking" institutions are not only engineered to serve the interests of exclusionary state–business networks, they are also intended to maintain high barriers to entry for "outsiders" lest rent opportunities become further divided or, worse still, erode.

Trust and Institutions: Institutional Dead Ends

Lack of trust between the regime and the business community (based on political as well as social antagonism) produced exclusionary business institutions that were neither representative of the business community nor responsive to the interests of independent businessmen. Instead, they reflected the interests of the increasingly influential networks of capitalists and bureaucrats, networks that served as the launching grounds for rejuvenating old institutions and creating new ones. Furthermore, the intra-network dynamics within these institutions produced unintended consequences that included the undermining of the ability of the state to steer the economy, notwithstanding retrospective sanctioning and *ex post facto* disciplinary actions.

This pattern of exclusionary institutions, itself conditioned by structural variables, has sustained the lack of trust between the regime and the business community while producing what can be called calculative or encapsulated trust between the regime and select business actors. Calculative or encapsulated trust emerges between parties that share short-term interests, and thus, their cooperation is delimited by short-term goals. For an economy to grow in a sustained manner, long-term investments are necessary. In the continued absence of trust between the state and the business community, as well as the "encapsulated" or "calculative" trust that emerges between bureaucrats and select capitalists, the time horizons of investors and their partners are severely shortened, resulting in the promotion of short-term ventures that produce little, if any, added value. This benefits a few parties immensely at the expense of providing collective benefits (e.g., by protecting inefficient manufacturers or monopoly traders, prices of respective products/commodities rise beyond their local, regional, and international market value).

Unintended Consequences of Mistrust Within Institutions

Assume two parties/actors, A and B, both represent a group or individuals within a group. Party A represents individuals within the regime who are willing to cooperate with private partners and party B represents private individuals willing to cooperate with the regime. Assume that both parties cooperate because they need each other, not because they trust each other. Party A seeks capital and entrepreneurship that they do not possess and party B seeks the opportunities and protection that are selectively available to individuals willing to cooperate with party A. A third assumption is that, ultimately, party A must act collectively to achieve its highest goal (i.e., state security) and party B can achieve its highest goal (i.e., profit) either as

individual actors or as a collective. The question is, *at what point do institutions based on calculative mistrust between bargaining partners produce unintended outcomes for the parties involved, especially for the stronger party?*

Mistrust between parties within institutions at the point of their inception is likely to be an outcome of bargaining processes that predate their emergence. Depending on the changes in the conditions under which prior bargaining took place, mistrust within institutions is either increased or reduced.

If mistrust between parties predates the emergence of institutions—understood here as a set of rules—the rules of these institutions are likely to reflect the interests of the more powerful parties. Power differentials are one key factor in determining the dynamics of network relations as well as the individual behavior of actors within institutions.[34] When trust is not an issue between two parties that are asymmetric in terms of their power differentials, the stronger party is likely to have more leverage and is thus able to exact higher distributional gains from cooperation, at least initially. Power differentials can be defined as a function of breakdown values (i.e., the party that has a greater set of alternatives available to it in case of noncooperation is invariably the one with greater power and greater leverage). Since some parties would be more affected by noncooperation, they are likely to seek cooperation in the short and medium run even if their gains are reduced in the process. Thus, the weaker parties (in the Syrian case, private businessmen) cooperate not because they trust the rules of the game or their more powerful partners (among the political elite), but rather, they cooperate because they are able to exact higher distributional gains through cooperation than they would in the case of noncooperation. This calculus holds irrespective of the fact that the more powerful party benefits disproportionately. When mistrust between parties is an issue, what changes is not so much the behavior of individual actors—since all actors will continue to serve their interests—but the type of cooperation that takes place: cooperation in a low-trust system of networks does not involve the kind of open information exchange and reciprocity that is necessary for formulating productive long-term economic policies. Instead, the hoarding of information by the regime and the withholding of information by private actors produce short-term, tailored policies that benefit both parties as individuals at the expense of state coffers, the business community as a whole, the consumer, and the hospitability of the investment climate. Thus, the entire economy suffers. But that is not all. Unintended consequences related to the increase in business power in general end up delimiting the regime's choices for an exit that sustains its security.

Practical Implications of Institutional Dead Ends

Over time, unintended consequences may result as the weaker parties (B) accumulate distributional gains and broaden their alternatives, thus changing breakdown values. At that point, cooperation becomes more strained. However, changes in breakdown values under conditions of sustained mistrust at the macro level between the regime and the business community, relative international insulation, and external sources of state income—such as those existing in Syria—are not sufficient to terminate cooperation. Changes in breakdown values do, however, affect the bargaining that takes place between both parties and the extent to which each party, especially the weaker one, is able to press for advantageous cooperative formulas. The improved bargaining power of the private members of economic networks is a result of tailored policies that were formulated in the late 1980s and early 1990s. By 1995, however, the cumulative effect of tailored policies, combined with decreasing confidence of local and foreign investors vis-à-vis Law #10, have literally brought the economy to a halt. Because of their increasing wealth and decreasing vulnerability to unfavorable cooperation, the mistrusted capitalists—though members of the same networks—stand to benefit from bargaining with the regime. At the same time, the regime is seeking an exit from economic stagnation and decline that has brought economic growth to negative figures for consecutive years. But the regime's choices are rather limited: it is neither able to give more concessions to network members because it would be doing so at a higher risk, nor is it able to broaden the political game to involve hitherto excluded actors, both domestically and internationally (since that would further undermine its decisional autonomy, as Syrian elites observed in the Egyptian case in the 1990s). The most secure exit from the perspective of the regime, then, is to crack down on these networks, reorganize them to the extent it can, and further constrict the largest distributional gains to smaller circles of regime loyalists. This process halts the development even of exclusionary institutions and leads to the reorganization of latent interests in the business community. Crises of succession in contexts such as those that Syria has witnessed since 1998—when former president, Asad, began explicitly preparing his son Bashar to be his successor—can accelerate the process immensely by creating a split between those who stand to gain from the impending succession and those whose fortune is yet to be determined under the new rule. In Syria, this is manifested in the split between the old guard and supporters of Bashar al-Asad. Depending on who benefits disproportionately from existing networks (in the Syrian case, it was the old guard or regime hard-liners) the succession crisis pits relative reformers (the new leadership) against

hard-liners. In Syria, the regime hard-liners (the old guard) aligned themselves with the private network members with stronger ties to the business community, and the soft-liners (the new leadership) opted for diverting the most lucrative rent opportunities to a small number of individuals with high proximity to the family of the president. This latter group had been securing various posts within the government and the military and security apparatuses since 1998. Furthermore, it has been recruiting new, younger, and more dynamic cadres who were not previously affiliated with the dominant economic networks.

The end result as of the time of writing is an institutional gridlock that has put on hold much of the plans for economic opening because of the risks involved even in further reorganization of rent-seeking networks. The institutional dead-end was a creation of the regime, which since the 1980s boxed itself in when it helped to consolidate informal economic networks that monopolized most distributional gains from subsequent processes and policies of economic change. It is noteworthy that even within exclusionary networks, private sector members were deprived of the instruments and information they would need to lend more credibility to their alliance with the state bourgeoisie. Once more, the social mistrust between the regime and the business community as a whole permeated the regime's own networks. However, this did not occur at the expense of the alliance between the state elite and the select business actors within: it occurred at the expense of the health of the economy.

In sum, the exclusionary pattern of state intervention in the context of regime–business mistrust produced unintended consequences within the networks themselves. The unintended consequences involve an unfavorable shift in breakdown values between the regime and its private sector partners (i.e., a shift that puts the regime at a relational disadvantage). A correlate has been a halt in investment both from within and without economic networks after 1995. Politically, these factors have dramatically reduced the regime's room for institutional maneuvering. From the perspective of the most significant faction of the state elite, their immediate private partners within economic networks became less trustworthy: their bargaining power increased without a concomitant deepening of the alliance. The larger business community remained both excluded and, thus, hostile to the regime as a whole. On the other hand, labor had nothing (left) to offer the regime, except passive silence. Only a decisive shift to democracy would revive support among the silent majority, an unlikely prospect in the foreseeable future. Finally, the regime's historic opponents, the Islamists, remain a non-option for alliance making. Given this stalemate, the regime has only the external sphere as an exit.

But even relations with the European Community that included plans for conditional cooperation have fallen through because of the regime's slow pace of reform and its handling of human rights issues domestically.[35] This institutional dead-end has also chipped away at the capacity of the state to extract resources from an increasingly impoverished population and labor force, leaving the regime even more dependent on the international prices of oil (constituting upward of 65 percent of the state's foreign exchange revenue)[36] and residual aid from Arab Gulf countries.

Such institutional dead-ends are dialectically related to network dynamics: lack of trust among network members shortens time horizons for investors within the networks and without; this leads to particularly nonproductive and short-term investment patterns, and to the subsequent formulation of short-term tailored policies. These factors combine to influence general economic performance in a detrimental manner. In the meantime, network members who are private sector actors accumulate capital and improve their bargaining power vis-à-vis their partners in officialdom, thus making it more difficult for the regime willingly to give more concessions. This differential between the individual and institutional levels of analysis gets played out in the intra-network dynamics where both businessmen and "bureaucrats" act as individuals before the (unintended) effects prompt a regime response.

The Impact of Economic Networks on Fiscal Change, 1986–2000

This section constitutes a brief and focused case study on the impact of economic networks on fiscal change in Syria. Fiscal change is part of the general economic change Syria has witnessed since 1986. But as revealed here, fiscal change and change in fiscal policy is not the same thing in Syria: general fiscal policy need not change to accommodate the interests of powerful networks. Members of these networks are able to benefit from tax and other exemptions tacked onto other reform measures, the most important of which are discussed in chapter 1. In a country where tax evasion (SP 50 billion worth) amounts to three times the tax income, official fiscal policy is hardly a measure of any influence.[37] Thus, it is more important to examine actual fiscal change (i.e., from where the fiscal revenue of the state comes) than fiscal policy reform (i.e., new fiscal legislation/measures).

The impact of economic networks on economic and fiscal policies in Syria is evident both in the economic statistics and in the decline in living standards of the majority of Syrians.[38] The focus on fiscal policy is not meant to deflect attention from other areas. On the contrary, it is meant to demonstrate how

the influence of these economic networks has decisively crept into the crucial developmental areas of budgeting, tax laws, and associated regulations. The outcome of states' expenditure policies in any given society is a window into both what is considered socially and politically important/necessary to decision makers (irrespective of the source) and what the medium- to long-term economic future of that society is likely to be. Though the examination of fiscal policy ought not to be isolated from the examination of other areas that impinge on the economy, here it is considered as an indicator that reveals the priorities of the government and how these priorities are formed and executed.

The Empirical Record of Fiscal Change in Syria After 1986: The General Budget

The manner in which the budget is prepared is tailored to avoid pointing out explicitly the beneficiaries or holding any particular party accountable, except of course the state in the abstract. Four cautionary points on how the budget is prepared and what it represents guide this research effort:

- The budget is released six or seven months into the year in which it should take effect. By that time,[39] its effectiveness is dramatically diminished, especially with regard to investment spending.
- Most crucial budgetary decisions are handled by the Ba`th Party leadership and not the government officials entrusted with preparing the budget—hence, the prevalence of the mysterious categories of "other expenditures" and "various expenditures" that amount to 25 percent of the budget.[40] In effect, administrative officials in the economic institutions, that is, those who are supposed to prepare the budget, "have become administrative employees that execute ministerial and *non*-ministerial orders."[41]
- The administrative nature of setting exchange rates allows for selecting different exchange rates for different purposes (e.g., imports, Central Bank loans, customs duties, and exports).[42] This leads to severe economic distortions and renders much of the data in the budget misleading, especially with regard to what are referred to as "achievements" in the Ministry of Finance.
- Although the budget takes into account the regional distribution of the Syrian population, it does so in an unscientific manner: allocations do not reflect year-to-year changes in the regions/populations concerned.[43] The reason is the near-total absence of studies that calculate the effects of

previous budgets on the various regions and population groups/segments (e.g., by region, cost of living, income, age, and sex).

These reasons indicate why the figures of the general budget in Syria are either unreliable on a number of issues or must undergo an informed filtering process before they begin to approximate reality.[44] Nonetheless, the reasons for the lack of credibility of the budget are instructive. They reveal two important points: first, they demonstrate why it is important in most cases to look elsewhere for indicators on public spending and wealth distribution and, second, they begin to tell us where to look. In other words, they tell us to look for those benefiting from the manner in which the budget is prepared. Not incidentally, these are the beneficiaries of vast tax exemptions and their associates in officialdom, and thus, they usually do not contribute much to its revenues (i.e., to the treasury).

Hence, when examining the government's accounts of revenues and expenditures, it is important to note the difference between the nominal conception of budget deficits or surpluses on the one hand and the real social and economic outcomes and effects on the other. According to most critical economists (i.e., not "state intellectuals" beholden to the regime's rhetoric), the methods by which the budget is drafted, and by which the process itself is politicized, tell us much more than the nominal surpluses "achieved" and deficits incurred[45] as well as allow us to better assess the source of shifts in the allocation of public resources.

Shifts in Expenditures, Extraction, and Allocation of Resources

In the Syrian case, it is prudent to start with general figures that reveal broad and readily ascertainable shifts in the distribution of wealth since the 1970s, but more clearly since 1986. The quadrupling of the net domestic product (NDP) at factor cost (1995 fixed prices) has been met with a mere 46 percent increase in per capita income.[46] Evidently, rapid population growth accounts for some of this discrepancy, but not most of it, as the very poor distribution of wealth makes clear. In fact, even according to official Syrian statistics, per capita income at the end of the 1990s was much lower than that of the early 1980s, when the Syrian economy had already suffered sharp downturns partly as a result of the drying up of Arab aid after the oil boom period in the 1970s.[47] Moreover, the distribution of actual per capita income reveals that less than half of that amount goes to the Syrian individual, as evident in the dramatic drop in living standards of most Syrians in the 1990s.[48] The question is: where is the money going?

In response to economic crisis pressures and the growing influence of crony relations in the mid-1980s, the government started to reduce the quantity of goods and services that were subsidized[49] and increased the prices of various subsidized products to "turn governmental institutions from a state of loss to a state of profit."[50] The ways in which the government went about doing so had devastating long-term consequences in both social and macroeconomic terms. Most significantly, for instance, hiking up the price of formerly subsidized crops and especially wheat in the late 1980s caused the government to borrow from the central bank to cover the costs.[51] Such borrowing served to increase inflation and impose an indirect tax on the Syrian population, which was faced with higher prices all around for the same products. Noteworthy here is that the hike in prices was not accompanied by a proportional hike in salaries, forcing most Syrians to borrow, work more, or, in most cases, reduce their already low living standards.[52] Table 2.2 illustrates the near-steady reduction in government subsidies.

It is evident that the numeric figure representing the sum of indirect taxes minus public subsidies has risen dramatically since 1986, after being in the

Table 2.2 Indirect taxes + reduction in subsidies

Year	*Sum of indirect taxes + reduction in subsidies in million SP**
1985	(− 919)
1986	190
1987	5,359
1988	9,149
1989	13,961
1990	13,745
1991	20,532
1992	29,405
1993	40,811
1994	53,047
1995	61,004
1996	51,413
1997	54,961

* `Arif Dalila, "The General Budget Deficit and Methods for Its Treatment," Paper No. 9, 1999 Conference Series (Damascus: Economic Sciences Association, April 20, 1999), 279.

negative in 1985 (when the amount of subsidies was larger than that of indirect taxes),[53] that is, ordinary people are being taxed more and the products they purchase are subsidized less. This situation was caused primarily by keeping wages down while strengthening the mechanisms of tax collection, especially vis-à-vis public sector and lower-income salaried workers.[54] Almost yearly since 1992, the Ministry of Finance has announced budget surpluses[55] drawn from a 30 percent increase in tax collection over projected figures. It fails to announce that, at the same time, government spending on public investment is slashed 25–40 percent while current account spending on matters such as personal luxury commodities exceeds projected figures.[56]

Simultaneously, as discussed later, tax exemptions for a plethora of new commercial activities after 1991 denied the treasury a substantial increase in tax revenue and ended up benefiting a select few who were poised to take advantage of tax loopholes and exemptions.[57] A larger discrepancy lies in the unusual correlation between dramatic increases in domestic public revenues and a dramatic decline in overall economic growth after 1994. According to conventional economic principles, increases in domestic public revenues usually accompany positive, not negative, economic growth rates. In the Syrian case, and based on other statistics on taxation surveyed in this section, this also means that a substantial amount of the accumulated wealth in Syria was/is neither taxed nor recorded. Thus, the wealthy accumulate more untaxed wealth, while the government cuts subsidies, leaving the middle and working classes to pick up the tab by way of strict tax collection measures and rampant inflation caused by central bank loans that finance deficit spending on administratively hiked prices.

All the while, segments of the population in the lower rungs of the economic ladder are being taxed on subsistence income and not surplus income. According to conventional economic principles, taxes should be drawn from income surplus. In Syria, wages continue to be far lower than the value of labor power, or far lower than the cost of living.[58] True, the tax burden in Syria continues to be less than half of what is it in most other countries, that is, 13–15 percent as opposed to 20–30 percent,[59] but, upon inspection, that reflects a serious imbalance in terms of the segments being taxed, not the actual tax burden across the board. The budget does not reveal such imbalance. The reason is not simply administrative; it is political through and through, and can be traced to the increasing power of economic networks beginning in 1986, when the budget replaced the principal mechanism of central planning, the five-year plans.[60]

Other Measures Related to Fiscality: Lending and Foreign Exchange "Policies"/Decisions

The effectiveness of fiscal policy is intimately related to lending and currency exchange policies. However, there is no such thing as an official lending policy in Syria. As of the end of 2000, the banks, ironically, do not provide most of the necessary banking functions for the purpose of investments and loans, let alone the pressing need of the Syrian banking system for a serious overhaul.[61] Lending decisions or policies are usually exegetically administered by officials in various ministries, especially the Ministry of the Economy and Foreign Trade and the Ministry of Finance. On the other hand, the second and last official currency exchange policy in Syria was drafted in 1981,[62] and thus both lending and foreign exchange policies are subject to administrative orders and "necessities." These "necessities" have increasingly reflected the interests of what can be called big business since the mid-1980s, but more visibly since 1991 when Syria took a more explicit, if not decisive, turn vis-à-vis central planning and, ostensibly, toward a more market-oriented economy. Ultimately, the stasis in currency exchange policy served as a powerful mechanism for raising barriers to entry into big business and for monitoring existing members of economic networks who might develop dissident views.

Similarly, since 1991, bank lending practices across the board—from the Central Bank to the agricultural, commercial, public lending, and real estate banks—have increasingly shifted from developmental investments toward short-term commercial activity. For one thing, the Industrial Bank has been effectively frozen by virtue of its limited financial resources. Even these limited financial resources were borrowed by sources that are "exempt" from paying their loans by virtue of the political weight of their associates.[63] According to bank officers, such unpaid loans have not appeared as delinquent in the bank's reports once the loans have been made.

A more general—though less readily ascertainable in official statistics—illustration of networks' influence on economic and fiscal decisions, if not policies, is the actual target and lending pattern of the Central Bank of Syria and its sectoral branches. Those analysts searching for official mechanisms by which lending practices are handled would look to no avail. Because the Central Bank and its sectoral branches are subject to state control and because, for instance, cabinet ministers and the prime minister are themselves silent business partners (not so silent in some cases), lending decisions can be implemented by administrative fiat once a sum of money is earmarked for investment projects.[64] However, what is notable here is that the policy-making process involves the vocal business partners of officials sitting

on the boards of Chambers of Commerce and Industry throughout the country. They have access to pivotal state–business linking institutions such as the Guidance Committee.

Nonetheless, much can be deduced through cross-referencing and informed inference regarding lending practices that are intimately related to the general budget. Between 1991 and 1998, the sum of money borrowed from the Agricultural Bank and the Commercial Bank of Syria doubled, while the sum of borrowed money remained largely the same during that period in the industrial and other sectors (for *both* the public and private sectors). Between December 31, 1991 and June 30, 1998, the amount of money borrowed from the commercial, agricultural, and industrial branches changed respectively in the following manner: SP 71.4 to 156.7 billion, 12 to 28 billion, and 5.9 to 5.07 billion.[65] The import of this lending pattern for the matter at hand is twofold. First, the state-owned and -controlled banks are lending more money (on easy terms, with no guarantees or collateral) to the less productive and notoriously more corrupt commercial sectors where rent-seeking networks are lodged. Second, though these figures apply to both public and private sectors, it is evident that the commercial *private* sector, in both agriculture and trade, is the primary beneficiary: 98 percent of the agricultural sector has historically been in private hands and the commercial sector became predominantly private after 1987, but especially after 1991 when the private sector encroached heavily on external trade. These latter sectors were the dominant private sectors in the pre-reform period of the 1970s and 1980s, when economic networks were formed; hence, the decisional and policy influence of pre-reform economic networks on economic and fiscal reform policies. This clout or preferential treatment reinforces the contention that not only have these networks survived and benefited from reform, they have also played a significant role through institutional and informal avenues in influencing the form and content, if not pace, of economic reform patterns.

Also related to the general budget is the issue of administratively set exchange rates, which represents another area from which economic networks have benefited and worked to perpetuate even as other areas of the economy were undergoing piecemeal liberalization. The year 1986, or the year of the most serious foreign exchange crisis in Syria, created a foreign exchange "obsession" among leading policy-makers as well as prominent business people with accumulating foreign currency, irrespective of the means, the source, or developmental consequences of controlling foreign exchange. The Commercial Bank, for instance, had by the end of 1998 a frozen account of more than $5.5 billion in Swiss banks, presumably

a reflection of the deep sense of insecurity that the 1986 crisis created vis-à-vis foreign exchange.[66] This amount has effectively been denied for domestic investment purposes. Nonetheless, the government continues to sell for hard currency various public sector products to domestic buyers. At the same time, there is a penalty according to Decree 24 of up to a 15-year prison sentence for dealing with hard currency, alongside a myriad of intricate regulations that independently allow for partial dealing with such currency. Thus, various public–private economic networks are benefiting from such "obsession"[67] while the government, including members of the most powerful of these networks, are satisfying their security concerns by reserving the legal right to crack down on those who "must violate the law" to do business, to survive: "only the government has the right to violate the law or force citizens to violate the law so it can selectively persecute them for the violation according to the law!"[68] To avoid the regulatory mess, and the consequential perils, most investors have refrained from investments that would require extensive foreign exchange dealings and most Syrians have their foreign exchange accounts in neighboring countries[69] or in Europe and the United States. Free trade zones and whole cities in both Egypt and the UAE are replete with Syrian investors who are not willing to risk doing business inside Syria because of the various restrictions on dealing with foreign exchange, let alone other monumental bureaucratic hurdles.[70] Most observers estimate the amount of expatriate capital at more than $60 billion.[71] In sum, lending and foreign exchange policies or "decisions" have led to capital flight and provided a disincentive to productive investments, denying the treasury the benefit of both taxes and interest rates. This situation, which could be slowly reversed by the authorities, is sustained because of the rent-seeking benefits that accrue to members of powerful economic networks, including those that have not yet (at the time of writing) repaid their loans from the Central Bank's sectoral branches.

Tax Policy: The Significance of Tax Exemptions

A marked impact of the past two decades of economic change in Syria is the redistribution of wealth from lower income groups to higher income groups. The redistribution does not occur solely as a result of business pressure nor is it a reflection of *dirigisme*. In fact, this is where the analytical utility of the notion of economic networks becomes evident: for neither is the regime interested in polarizing society (no established regime resting on even a modicum of populist legitimacy would have this as its explicit goal), nor is the business community as a whole interested or able to act collectively,

much less to do so for the benefit of some sectors at the expense of others. Economic networks of capitalists and bureaucrats (often fused) in less developed countries (LDCs) help explain the particularist turn away from both the state and the business community as corporate interests. Notably, this diversion of resources has at times undermined the regime as a social force, leading to the freezing of reform measures vis-à-vis high-range economic policies after the commercial boom of the early 1990s. The area of tax law reform and tax exemptions is instructive. The fiscally consequential record of tax and customs duties exemptions is discussed before analyzing the mechanisms through which economic networks influence the implementation and interpretation of tax regulations, if not reform.[72] Though we are interested in changes that occurred after 1986, some regulatory changes have their roots in legislation prior to that year:

1. The 1972 legislative decree 84 regarding duty-free areas exempted all foreign products from all kinds of taxes and customs duties.[73]
2. The 1986 legislative decree #10 exempts stock-holding companies in the agricultural sector from all kinds of taxation and customs duties provided that products are not sold on the local market. This included all factors of production and vehicles imported for "business" purposes.[74]
3. The 1991 law #10 exempted projects in manufacturing, agriculture, and transportation (and other sectors) from paying income tax for seven years, including tax and customs duties on all related imports.
4. The 1985 decision #186 exempts projects in the tourism sector (providing first- or world-class service) from all kinds of taxes and customs duties for seven years and eternally exempts 50 percent of profits from taxation (this includes all necessary imports). The decision was extended to restaurants and bars. This decision is an example of illegal tax exemption. Because it is issued by the executive branch rather than the legislative branch, this decision is a violation of section 81 of the Syrian constitution, which forbids the modification or creation of a tax except through legislative authority.[75]

Most of these exemptions are associated with essentially nonproductive ventures and do not distinguish between a cement factory and a nightclub. This is a result of the increasing pressures of economic networks immersed in legal as well as under the table trade transactions and, at the same time, reflects the type of economic operations that the state is willing to cede to the private sector. In other words, it is not a reflection of the broad-based

business community, but a response to lobbying of economic networks in the Guidance Committee, networks that stand to benefit from the ability to circumvent or ignore the letter of law.[76] Hence, their satisfaction after 1991 and the marked reduction, on the part of powerful beneficiaries, in terms of both efforts and heavy demand to open up the economy in the mid-1990s.[77] The situation changed in the late 1990s, of course, when privileges became less and less economically rewarding as a result of economic downturns and fierce competition from the maturing offspring of entrenched officials.

The empirical record of change in tax policies and decisions supports two conclusions: first, as Syrian economist Raslan Khadour put it, "tax exemptions became a tool for the distribution of poverty instead of being a tool for the distribution of wealth,"[78] since the mid-1980s. Second, tax exemptions are essentially methods for administratively sanctioned tax evasion brought about by deliberately vague tax law regulations and modifications. These regulations, which became more explicitly pro-big business as the 1980s came to a close, are the outcome of various forms of "bargaining" or collusion, either informally or in the institutions that link state and business.[79]

Economic Networks: Domains of Influence

Thus, a principal mechanism by which wealth is redistributed from lower income groups to higher income groups in Syria is found in the realm of taxation, which, in most LDCs, should be divided into formulation of the actual laws and regulations and their implementation. The reason for distinguishing between the formulation and implementation of tax policy is simply that in the absence of the rule of law, the letter of the law becomes a tool that is subject to exegetical use by the powers that be.[80] More specifically, to the extent that the powers that be are able to selectively set aside, or overstep, the rule of law, it becomes more pressing for researchers to focus on implementation rather than on actual tax policies—the latter, in any case, are themselves socially and economically problematic. The lack of separation of powers becomes a crucial factor. Syria is an instructive case in this regard, where the near-literal fusion of the legislative and the judicial branches into that of the executive, and where monitoring and "accountability committees" are firmly under the control of the prime minister.[81] Under such conditions, which have their own causes of emergence, tax policy formulation and implementation is subject to various systemic and social pressures. And, contra Kienle's critique in this volume (chapter 10), it would be a mistake to dismiss the influence of economic networks when we are not able to ascertain all the links in tracing the causal chain between networks and

"policy reform." In fact, the impact of economic networks on *economic policy reform* understates their power simply because, comparatively, there have not been *reform policies* to speak of in Syria (virtually none of significance between 1994 and 2000). But members of these networks are handsomely, some say "criminally,"[82] enriching themselves. Members of these networks have not been keenly interested in *policy reform* as such because the existing policy environment does not constitute a barrier for them. Moreover, many members of these networks have accumulated a large portion of their capital by transgressing laws and regulations that no one else can without incurring a high risk under current policy conditions. Why change the rules when you are the only one who can bend them to your benefit, and why make long-term investments when rent seeking in quick-profit commercial activity brings more capital?

In the Syrian case, where the core of the tax law has not been modified since 1949, implementation processes for both the original letter of the law and the myriad of added regulations of the legal and illegal variety[83] become more important than the actual tax laws or broader policies. This is evident in the areas of direct taxes and customs duties, where the actual state revenue from these categories is but a fraction of what it is supposed to be according to both imports figures and even declared incomes that have already been partly exempted from taxation.[84] In 1992, for instance, the ratio of taxes to GDP was 6.53 percent, by far the lowest among Arab and most other countries.[85] Yet, lower-income groups pay their taxes fully, almost to the last penny in the case of public sector workers. By contrast, the government collected $300 million in taxes from the private sector while the private sector contributes to 60 percent of GDP. This translates into an average tax burden of 3 percent of private sector declared income.[86]

Notes on Fiscal Change in Syria: The Importance of Middle-Range Policies

The tenor of this case study is simple, and it applies to both fiscal and regulatory change: whereas the Syrian regime is able to control what can be termed guiding or high-range economic policies/decisions, on which economic networks have little effect, it is unable[87] or unwilling[88] to meddle with most middle- and lower-range policies/decisions that are indeed subject to ample pressure and veto power from powerful economic networks, especially in commerce and tourism. Here, for instance, high-range policies refer to general matters such as the actual tax law and divisions into income brackets, while middle-range policies refer to the numerous regulations and

exemptions that are tacked onto existing laws. Lower-range policies refer to issue areas that are pertinent to specific activities or commodities and are usually subject to change without explicit referral to, or approval by, institutional authorities. In an economy dominated by small-scale ventures, even if run by "big-business," and where manufacturing is restricted to consumer, not capital goods, influence over middle- and lower-range policies is what most business sectors/interest groups—particularly those in dominant economic networks—are interested in, not least when it comes to tax laws. Hence, the increasing importance in Syria of middle-range economic institutions such as the Guidance Committee (officially titled the Committee for the Guidance of Imports, Exports, and Consumption) at the expense of the more traditional and centralized Economic Committee. Often labeled the "Tailoring Committee," the Guidance Committee has become since the early 1990s the sole economic institution on which the private sector is represented. While the Chambers were considered the institutional expression of the private sector as a whole in the 1990s, the Guidance Committee became the institutional expression of privileged economic networks, despite its stated function as the institution that aggregates and responds to the interests of the private sector, the public sector, the GFTU (General Federation of Trade Unions), and the party.

As discussed earlier, because of the factor of mistrust, the relational dynamics within these institutions have produced unintended consequences that were detrimental to the health of the economy. This is occurring today well beyond the realm of fiscal policy, but other areas are even more difficult to research at this point, for example, the oil sector. The price that the Syrian economy has paid for transgressions and unintended consequences is extremely high, but remains within bounds that can be tolerated by the regime, for the time being. It is questionable how long the Syrian leadership can afford to subordinate the interests of the state to the security of the regime. All indicators since Hafiz al-Asad's death—including the further circumscription of reform benefits—point to the contention that this is not the appropriate question. Rather, one should ask whether the Syrian regime is able to get out of the social and institutional deadlock in which it has been lodging itself for nearly four decades.

Concluding Comments

Using Syria as a case of a low-trust system between state and business, this chapter has identified the institutional and social conditions that gave rise to economic networks between "bureaucrats" and "capitalists," and traced

the impact of these conditions on the intra-network dynamics and, in turn, on fiscal policy change. The relationship between state–business historical legacies and emerging networks is quite complex, as it involves a social history, an institutional history, and various levels of strategic interactions. Key among these is the relationship between trust, networks, institutions, and economic performance. It is often difficult to disentangle these variables in practice. More important is the task of understanding how they relate to one another on the one hand, and how they themselves can always be traced to structural and strategic variables that shape them—that is, external rents, and the economy's relative insulation both domestically and internationally. In the Syrian case, a particular legacy of adversarial state–business relations generated deep-seated suspicion between "bureaucrats" and capitalists. This social antagonism considerably diminished trust between them, leading to the creation of selective informal networks between officials and businessmen. These networks prospered through backdoor deals, semi-legal or illegal. Their internal dynamics were marked by calculative trust, informed by the larger social setting. The institutions these networks spawned were colored by calculative trust as well, leading to various unintended consequences in policy formulation and economic performance as individual interests clashed with regime interests. Calculative trust within networks shortened time horizons, and severely diminished transparency and information exchange, crucial elements for formulating sound economic policies. Ensuing economic activity and change took on a predictable nonproductive turn and reflected the interest of entrenched economic networks.

The case of Syria compels researchers to probe the concept of networks in order to understand political–economic outcomes that cannot be explained adequately by either state-centered or society-centered approaches that focus on statist logic, classes, or particular corporatist interests. Moreover, the Syrian case clearly supports the contention that a dialectical approach to network analysis is crucial for understanding the formation and development of networks. Specifically, the Syrian case confirms two assumptions posited by David Marsh and Martin Smith, authors of the dialectical model:[89] first, that the "broader structural context affects both the network structure and the resources that actors have to utilize within the network," and that "network interaction and bargaining reflects a combination of the actor's resources, the actor's skill, the network structure and the policy interaction."[90] Hence, the ability of the politically impotent private business partners to wield significant influence within economic networks. One contribution from the Syrian case is the importance of the security dimension as an additional incentive of intra-network cooperation, which often rises over

and above that of short-term individual economic interest. Whereas network members collaborate to increase profits, for instance, in the case that Marsh and Smith discuss,[91] network members in Syria cooperate also to survive, either in the political sense from the perspective of the political elite, or in the economic *and* political sense from the perspective of their private business partners. The alliance between the Damascene bourgeoisie and the state against the rising militant Islamist opposition in the late 1980s and early 1990s is a clear and trend-setting case in point. The current retrenchment of network members in the face of the reemerging civil society's calls for fundamental economic reforms is another testament. Another important contribution from the Syrian case is the importance of unintended outcomes as a product of network interaction. Hence, the contention that neither the state nor the business community is guiding economic change. And though networks benefit from rent seeking, the constellation of unintended policy outcomes has run the economy into the ground since the mid-1990s. According to Marsh and Smith, "policy outcomes are the product of the interaction between agents and structures, not merely the sum of the effect of structure and agents."[92] Thus, the less coordination there is within and between institutions, and the less actors are constrained by institutional authority, which is the case in Syria, the more unintended the outcomes.

Notes

1. On economic or policy networks, or alternatively, on distributional coalitions, see Andrew W. Buck, "Networks of Governance and Privatization: A View from Provincial Russia," in Diane E. Davis, ed., *Political Power and Social Theory* (JAI Press: Stamford, CT, 1999) and Hector E. Schamis, "Distributional Coalitions and the Politics of Economic Reform in Latin America," *World Politics* 51 (January 1999): 236–268.
2. See for instance, Edward H. Lorenz, "Neither Friends nor Strangers: Informal Networks of Subcontracting in French Industry," in Diego Gambetta, ed., *Trust: Making and Breaking Cooperative Relations* (New York: Basil Blackwell, 1988), 194–210; and Philippe C. Schmitter and Wolfgang Streeck, "Community, Market, State and Associations? The Prospective Contribution of Interest Governance to Social Order," in Graham Thompson, Jennifer Frances, Rosalind Levacic, and Jeremy Mitchell, eds., *Markets, Hierarchies, and Networks: The Coordination of Social Life* (London: Sage Publications, 1991), 227–241.
3. For an introduction to network analysis, see David Knoke and James H. Kuklinski, "Network Analysis: Basic Concepts," in Graham Thompson, Jennifer Frances, Rosalind Levacic, and Jeremy Mitchell, eds., *Markets, Hierarchies, and*

Networks: The Coordination of Social Life (London: Sage Publications, 1991), 173–182. For empirically grounded research on network analysis, see Paul Dimaggio, "Nadel's Paradox Revisited: Relational and Cultural Aspects of Organizational Structure," in Robert G. Eccles and Nitin Nohria, eds., *Networks and Organizations: Structure, Form, and Action* (Boston: Harvard Business School Press, 1992), 118–142; and Mustafa Emirbayer and Jeff Goodwin, "Network Analysis, Culture, and the Problem Agency," *American Journal of Sociology* 99, no. 6 (1994): 1411–1454.

4. Economic networks in Syria refer to what generically could be called big business. Although one might find wealthy Syrians who are not associated with these networks, seldom can one find powerful *and* continuously active businessmen who are not part of these networks.
5. Signs of economic stagnation beginning in the mid-1990s include an overall drop in production; a rise in unemployment to unprecedented levels; the shrinking of foreign investments; a drop in real wages, purchasing power, and aggregate demand; the closure of some enterprises established under law #10; and finally, the stockpiling of goods in factories and at retail stores. See *Statistical Abstract 1998*, "National Accounts," (Damascus: Central Bureau of Statistics, 1998), chap. 16, 503–563. For more information on indicators regarding Syria's economic stagnation in the late 1990s, see *Syria: Country Profile 1998, 1999*, and *2000* (London: Economist Intelligence Unit).
6. To be sure, economic networks did not cause economic decline, but exacerbated inefficiency in an economy with a declining productivity since the early 1980s, despite numeric growth in the late 1980s. For more on the causes of economic decline in the 1980s and 1990s and on the artificial growth in the late 1980s, see this author's "The Political Dynamics of Economic Liberalization in Populist-Authoritarian Regimes: Administrative Disintegration, Social Polarization, and Economic Stagnation in Syria, 1986–2000," conference paper, First Mediterranean Social and Political Research Meeting, March 2000, European University Institute, Florence, Italy.
7. Such networks exist in normal or non-transitional periods and usually do survive such periods. What is peculiar, however, are the conditions for rent seeking in transitional/reform periods—blurry/contradictory laws and regulations; increased power of discretion given to middle- and lower-range policy makers and regulators while the domain of economic activity expands considerably; the proliferation of new and bigger contracts with foreign companies; the further weakening of institutions and agencies that monitor and adjudicate either by virtue of their incapacity to keep pace with or track of rapid and non-transparent reregulation, or by virtue of their muting by the powers that be.
8. See Raymond Hinnebusch, "Democratization in the Middle East: The Evidence from the Syrian Case," in Gerd Nonneman, ed., *Political and Economic Liberalization: Dynamics and Linkages in Comparative Perspective* (London: Lynne Rienner Publishers, 1996), 163–164.

9. See Steven Heydemann, *Authoritarianism in Syria: Institutions and Social Conflict, 1946–1970* (Ithaca, NY: Cornell University Press, 1999), 85.
10. See David Marsh and Martin Smith, "Understanding Policy Networks: Towards a Dialectical Approach," in which they emphasize the dialectical interaction between network and context, in *Political Studies* 48 (2000): 421.
11. See Hanna Batatu, *Syria's Peasantry, the Descendants of Its Lesser Rural Notables, and Their Politics* (Princeton, NJ: Princeton University Press, 1999), 208.
12. See Volker Perthes, *The Political Economy of Syria Under Asad* (London: I.B. Tauris, 1998), 49–53.
13. For more on generic criteria regarding the reliability of network partners, see Dimaggio, "Nadel's Paradox," 118–142.
14. This occurred in the 1970s through various election and selection processes that benefited individuals primarily from rural backgrounds, but increasingly from `Alawi backgrounds as the decade drew to a close. In many ways, such rural, secular, and sectarian favoritism—always a means, not an end in Syrian politics hitherto—had fueled the growing urban, Sunni, petite bourgeois dissatisfaction with the regime. For more information on the regional, socioeconomic, communal, and sectarian causes for the confrontation between the state and the Islamists between the late 1970s and 1982, see Raymond A. Hinnebusch, *Authoritarian Power and State Formation in Ba`thist Syria: Army, Party and Peasant* (Boulder: Westview Press, 1990), chap. 9.
15. These factors include the relative insulation of Syria from external economic actors; the sectoral distribution/organization of the business community, which is not conducive to collective action; the structure of state revenue, which includes large sums of capital inflow from rent; the lack of administrative autonomy/coherence of state institutions; the socially narrow nature of the leadership; and the balance of social forces, which include an extremist opposition that is feared by both the regime and big business.
16. See *Syria: Country Profile 2000* (London: EIU). For investment figures, see *Statistical Abstract 2000*, "National Accounts."
17. See Steven Heydemann, "Taxation Without Representation," in Ellis Goldberg and Joel Migdal, eds., *Rules and Rights in the Middle East* (University of Washington Press, 1993).
18. These individuals—who shall remain anonymous—have connections with the old bourgeoisie. As the succession crisis intensified, they became more eager to distance themselves temporarily from the regime.
19. Oliver Williamson, "Calculativeness, Trust, and Economic Organization," *Journal of Law and Economics* 36 (April 1993): 453–502.
20. Since 1985, labor representatives have become little more than mouthpieces for the government. Author interview with Dr. Nabil Marzouq, an academic consultant at the GFTU, Damascus, April 21, 1999.
21. This view is very much shared across the board among Syrian businessmen. Few, however, are willing to go on record with such depictions. Ihsan Sanqar has said

as much in his parliamentary commentaries and proposals. Author interview with Ihsan Sanqar, Damascus, December 29, 1998.

22. Business members from the Chambers of Commerce or Industry that are "not in favor," or are outside the crony networks, do occasionally attend and make requests, but such requests are limited and, usually, insignificant. When I asked a prominent member in an Aleppo Chamber, who had sat on some of the meetings, about the progress of the Guidance Committee's role since 1991, he replied, "Yes, a year ago 'we' permitted the export of donkeys to Kuwait." Interview, Aleppo, March 4, 1999.
23. Mahmoud al-Zo`bi was accused of corruption and later committed suicide in the spring of 2000. See the weekly *al-Wasat*, no. 437 (June 12–18, 2000): 12.
24. Salim Yassin was also found to be involved in corruption and has been under house arrest since the end of spring 2000. See ibid.
25. Various informal interviews with former officials at the Industrial Bank and the Commercial Bank of Syria validate this commonly known fact; Damascus, March–April 1999. Although such partnerships are not always formal (i.e., the names of officials do not always appear on contracts), their involvement in running businesses and securing accounts and foreign exchange is evident to bank personalities and to other business partners who know well who is behind various exemptions and protected products.
26. As noted in note 25, both men were placed under house arrest when their economic ventures began to collide with the political interests of the top rung of elites in early 2000. Contrary to official rhetoric, their arrests had much more to do with the then-impending succession crisis.
27. Author interview with Ihsan Sanqar, Damascus, December 29, 1998.
28. Parliament member and prominent industrialist Riad Saif is a prime example of such personalities.
29. Usually, independent businessmen can accumulate only so much capital before they become subject to harassment and/or attempts at co-optation.
30. This conceptualization captures the common denominator among various schools of thought on the emergence of institutions. The difference rests on the actual purpose. More pertinent to this study is the sociopolitical factor that motivated the concerned elites. This does not mean that transaction costs were not considered, as the new institutional economists (NIE) would advance. Simply, transaction costs are determined based on a more sociological and historical calculation that involves a number of social, economic, and political factors. These factors have been the subject of preceding chapters. Thus, an eclectic approach that combines historical, sociological, and rational choice institutionalism serves this study best. As the following makes more apparent, the task is to discern when the logic of consequences dominates behavior (i.e., the basis of rational choice new institutionalism) and when the logic of appropriateness dominates behavior (i.e., the basis of historical and sociological new institutionalism). See Elinor Ostrom, "Rational Choice Theory and Institutional Analysis: Toward Complementarity,"

American Political Science Review 85, no. 1 (March 1991): 238–243; and Peter A. Hall and Rosemary C. R. Taylor, "Political Science and the Three Institutionalisms," *Political Studies* 44 (1996): 936–957. For transaction cost institutionalism, see Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990).

31. Actual economic reforms, which began in 1986, preceded their officially proclaimed variety in Syria. Economic reform as an official policy—defined by a minimal acknowledgment by the government for a need to liberalize the economic system—was not pronounced until 1991, when the government rejuvenated what came to be known as "economic pluralism" (*al-ta`addudiyya al-iqtisadiyya*). This term, used extensively in official statements by Hafiz al-Asad upon his assumption of power in 1970, refers primarily to the actualization of the complementary formula that brings together the public, private, and mixed sectors under the service of the "national economy" (*al-iqtisad al-watani*). For a review of such early statements, which are repeated in nearly every speech or printed text on economic change, see the yearly reports by the Chambers of Commerce and Industry in Damascus and Aleppo, and President Hafiz al-Asad's inauguration speeches in 1992 and 1999. Also, see (virtually all) papers on the topic of economic reform presented at the ESA since 1991, Tuesday Lectures at ESA, *Nadawat al-Thulathá, al-Jam`iyyah al-Iqtisaadiyyah* (Damascus: Economic Sciences Association, 1991–2001). Even papers by otherwise critical writers and economists have adopted one dimension or another of the "*ta`addudiyya*" discourse. See, for instance, papers by Marzouq, Nabulsi, and Khadour, from 1996 to 2000. It is noteworthy that the power of the economic pluralism discourse rests in the fact that parts of it (e.g., division of labor between the public and the private sector) coincide with progressive economic thought worldwide in the 1990s, albeit only in form. Thus, repeating some of its tenets (e.g., that the public and the private sector ought to complement each other) may be intended to reflect the conditions of sound economic policy, but the unintended outcome, especially when particular vocabulary is used (e.g., *al-iqtisad al-watani*), is to reinforce Asad's discourse.
32. One prominent independent businessman notes the following when asked about new opportunities presented by new regulations in 1999: "I would not exploit such opportunities. I may accumulate financial capital on a deal or two, but I may lose respect among my peers." Interview with Ihsan Sanqar, Damascus, April 13, 1999.
33. Interview with Riad Saif, former board member at the Damascus Chamber of Industry and a two-term member of parliament since 1991. At the time of writing, Saif has been sentenced to five years in prison because of his civil-society activism and outspoken criticism of government policies (see *al-Hayat*, April 5, 2002); author interview, Damascus, December 22, 1998.
34. See Henry Farrell and Jack Knight, "Trust, Institutions, and Institutional Evolution: Industrial Districts and the Social Capital Hypothesis," unpublished paper, 2001.

35. See Sami Moubayed, "EU Projects Stall in Syria," and "Vimpex Pulls Technicians from Syria: Working Conditions Were 'Unbelievable,'" in the Lebanese newspaper *Daily Star*, July 2, 2001 and September 17, 2001, respectively. Also see "Syria's Economy Opens to Regional Opportunities," in *The Daily Star*, September 6, 2001.
36. See `Izz al-Din Juni, "Oil, the Lifeblood of Development and Industrialization in Syria: World Prices Substantially Influence Oil Exports," in the Syrian weekly *al-Iqtisadiyyah* 27 (December 30, 2001).
37. See Samar Izmishli, "Syria: The Amount of Tax Evasion Equals Three Times the Revenues, and Weakens the Capacity of the State to Spend on Health, Education, and Services," *al-Hayat*, March 26, 2001.
38. See the 1997 and 1998 reports of the Central Bureau of Statistics in Syria and `Arif Dalila, "The General Budget Deficit and Methods for Its Treatment" [*`Ajz al-Muwazana al-`Amma wa Subul Mu`alajatihi*], Paper No. 9, 1999 Conference Series (Damascus: Economic Sciences Association, April 20, 1999).
39. This has become a part of conventional knowledge in Syria to the point where most Syrians generally disregard the budget's contents. Economists, however, insist on pointing out the social and economic implications of such (deliberate) delinquency in various public forums and, in the late 1990s, in the state-run press. The ESA's annual lectures are one site where prominent economists bring this issue to the fore. See the 1999 collection of ESA's Tuesday Lecture Series.
40. See Dalila, "The General Budget Deficit," 282.
41. Ibid., 284. Emphasis mine.
42. See Perthes, "The Political Economy of Syria under Asad," 56. Perthes states that, "from 1991, the government also began to calculate *certain* budgetary items and public-sector imports and exports on the basis of the neighboring countries' rate." Emphasis mine.
43. See Dalila, "The General Budget," 275.
44. Dalila cites five principal reasons that account for the unreliability of the budget: the budget adopts a lower exchange rate for the U.S. dollar; the largest portion of the supply deficit is excluded from the budget; there are revenues and expenditures that are not accounted for in the budget; the budget does not refer to the revenues and expenditures of local administrations; and the budget ignores some crucial factors, such as dramatic drops in oil prices. See Dalila, "The General Budget," 289.
45. Ibid., 269.
46. Outspoken Syrian economists estimate that at the end of the 1990s nearly all the national income "goes to the hands of five percent of the Syrian people," with a quickly declining middle class and widespread poverty on the horizon. Among other statistics presented in this paper, see *al-Hayat*, October 1, 2000, 4.
47. See *Statistical Abstract* 1998, 526–527. Per capita NDP at factor cost dropped from SP 43,450 in 1980 to SP 3,310 in 1997.
48. The Syrian government does not release such statistics, but independent Syrian economists estimate that average Syrians are making much less today than they

did in the 1960s when NDP was even lower. This has been recorded in various interviews conducted by the author in 1998–2000. For instance, according to the 1997 budget alone, if we calculate the difference between increased extraction measures and expected fiscal revenues (that generally target lower income salaried workers) and decreased government spending, we find that the living standard of the general population has dropped by 15% in one year. See Dalila, "The General Budget Deficit," 284.

49. It is notable that the government could do so only if decision makers were confident that there existed an alternative on the supply end; i.e., the very same economic networks that supplied the Syrian domestic markets with consumer goods that the government was unable to provide or unwilling to subsidize in the early 1980s, when a severe shortage economy took hold.
50. See Dalila, "The General Budget Deficit," 278.
51. See `Arif Dalila, "The Public Sector and Its Role in Development" [*al-Qita`al-`Amm wa Dawrahu fi al-Tanmiya*], Paper No. 3, 1986 Conference Series (Damascus: Economic Sciences Association, 1986).
52. See Dalila, "The General Budget Deficit," 278.
53. Ibid.
54. This includes the belated collection of taxes from delinquent sources. By the time these accounts were paid, inflation had gobbled the initial real value of taxes due. Ibid., 284.
55. There are several key sources for "nominal" budget surpluses. One major structuring source is the fact that investment budgets are not executed until the sixth or seventh month into the respective year. Another serious source is that, by administrative orders, the budget leaves out most figures under the category of supply deficits and, at the same time, inflates the category of "other revenues," which are in essence numeric price differentials that reflect the rise in inflation rates (i.e., inflation here can be considered a form of indirect taxes on the majority of the population). Ibid.
56. See article on Syria's economic troubles, in the Communist Party publication, *al-Sha`b*, by `Arif Dalila, March 1999.
57. Investment Law #10 of 1991 allowed for both legal and illegal maneuvering around tax laws by virtue of the generous tax exemptions that it provided as well as other distinctions that were henceforth abused by the majority of investors. See the section on Tax Exemptions later for more detail.
58. See Dalila, "The General Budget Deficit," 281.
59. See Raslan Khadour, "Tax and Customs Exemption Policy," *Buhuth Iqtisadiyya `Arabiyya*, June 1996.
60. One way to understand the decline of authority of the five-year plans, as well as of the Regional Conferences, is to contrast the content of the last five-year plan and the resolutions of the eighth and last conference held to date with the actual measures that the government adopted in response to the 1986 crisis. While the Regional Command conference and the five-year plan focused on the importance

of the public sector's control and monopoly over imports and agricultural inputs respectively, the measures adopted expanded the role of the private sector in foreign trade and industry and allowed it to encroach on the import and distribution monopoly of the public sector in various economic spheres. See the reports of the eighth Regional Command Conference [*Taqarir wa Muqarrarat al-Muátamar al-Qutri al-Thamin*] (Damascus, 1985) as compared with the actual measures described by Sukkar in "The Crisis of 1986 and Syria's Plan for Reform," in Eberhard Kienle, ed., *Contemporary Syria: Liberalization Between Cold War and Cold Peace* (London: I.B. Taurus, 1997), 32–36.

61. Most critically, state-owned banks do not enjoy any significant measure of autonomy to conduct banking functions, nor does the Central Bank have available to it the traditional banking policy tools that are intended to direct savings and investments. Interview with Dr. Amr Lutfi at the Faculty of Economics, February 1999, Aleppo University, Aleppo. See also articles on the state of the Syrian banking system in the ESA's 1999 Lecture Series.
62. See Dalila, "The General Budget Deficit," 285.
63. Interview with a high-level official at the Industrial Bank in Damascus, May 1999. The names of these individuals are well known to the interested Syrian public, and they include such tycoons as Saáib Nahhas and the recently cast out of favor Anwar al-`Aqqad, both of whom borrowed money to invest in projects under law #10 of 1991. It is noteworthy that despite the large amounts borrowed by more than ten prominent businessmen (each amounting to more than SP 100 million, and some more than SP 200 million), they are borrowed at interest rates lower than those at which public-sector workers borrow from the Public Lending Bank to cover their basic living expenses. The latter loans are collected "to the last drop."
64. The operating mechanism for implementing such lending practices varies from a nonpolicy related letter from a top cabinet official to a simple telephone call. In fact, if there is a system of checks and balances, it works in a more detrimental direction. According to a number of employees (mostly former ones) in the Commercial, Agricultural, and Industrial Banks, permission to grant a loan with no collateral to a particular business partner is sometimes rivaled by a similar loan grant to another partner. As one former employee put it, "they say, 'this way, we are equal.' " These individuals shall remain unnamed.
65. See the 1998 Central Bank of Syria report for a more "muffled" version of these figures. The cited figures were obtained in an interview with a former official at the Commercial Bank of Syria; Damascus, April 1999. Another strikingly similar set of figures were obtained in an interview with an academic who has access to "ministerial papers" that broke down Central Bank figures on lending patterns; Damascus, June 1990. These individuals are to remain anonymous.
66. Interview with former employee at the Commercial Bank of Syria. Also see, Dalila, "The General Budget Deficit," 286.

67. Two of the most extensive hard currency black market networks (i.e., networks of individuals who have a political cover for providing foreign exchange to satisfy domestic demands) are run out of Latakia and Aleppo, and are partners in some of the most powerful economic networks in Syria. These networks, both business and black market ones, have an interest in perpetuating the hard currency shortage situation as the latter benefit directly from speculative exchange deals and the former get a better exchange rate than the rest of the less, or not, well-connected businessmen.
68. See Dalila, "The General Budget Deficit," 287.
69. A number of banks in Lebanon, beginning in the early 1990s, conduct a substantial portion of their business with Syrian investors who are free to travel back and forth for their banking needs. Interviews with two assistant bank managers in Beirut, February–April 1999. It was requested that the names of the banks not be disclosed. Lebanese banks' employees and consultants have begun to provide "special" services to Syrian investors by driving across the border, collecting deposits, and returning to Lebanon to credit their respective accounts. As a participant observer, the author has been on one such trip in which a Lebanese bank employee meeting informally with traders in the traditional Suq al-Hamidiyyah of Damascus conducted such a transaction. Two important facts stand out: first, nearly all of such Syrian "depositors" do not document such transactions, that is, no papers are signed by either party for fear of reprisal and, second, those bank employees who shuttle back and forth carry special passes (*khatt `askari,* or military line) that allows them to bypass heavy traffic and meticulous searching (often excavating) at the border. Such passes are handed out only by official permission from the Syrian government or those who influence the respective agency.
70. Interview with a Syrian businessman residing in Dubai, who was on one of his six yearly visits to see his family in Damascus, June 2000.
71. See Leonard Robinson, "Elite Cohesion, Regime Succession and Political Instability in Syria," *Middle East Policy* 5, no. 4 (January 1998).
72. For an updated account, see Muhammad al-Jlailati, "The Syrian Tax System and Avenues for Its Reform" [*al-Nizam al-Daribi al-Suri wa-Ittijahat Islahihi*], Paper No. 7, 2000 Conference Series (Damascus: Economic Sciences Association, March 2, 1999).
73. Ibid.
74. See Khadour, "Tax and Customs," 94.
75. Ibid.
76. Beneficiaries of exemptions, most often part of powerful public–private economic networks, use(d) their import privilege to satisfy the local market. Moreover, the goods and services provided by projects that benefit from these exemptions are provided at relatively high costs and prices, rendering them non-conducive to exports—an essential part of the conditions of any project under Investment Law #10.

77. A most notable example is the opposition in 1995 of three major business tycoons to the creation of a stock market for agricultural products. These tycoons ran the joint-sector agricultural establishments and were able to freely set the prices of such stocks at a level higher than their market value. Interview with a former official at the Commercial Bank of Syria, December 1998.
78. See Khadour, "Tax and Customs," 108–109.
79. Interview with an Aleppan economist who occasionally sits in on Guidance Committee meetings as a consultant for one of the chambers of industry, Aleppo, February 1999. According to him, many of the explicit decisions at the meetings seem superficial, but certain "requests" are put on the discussion table as ones that would "encourage us to invest," if not attract Arab or even foreign money. Such requests are not explicitly decided upon in reference to those who made the requests—trade unions and party representatives attending would not have this kind of responsiveness!—but they are subsequently decided upon and end up being quite responsive to particular individuals' needs.
80. See the empirical record earlier, which shows how exemptions were abused for purposes not related to exempted investment. The contradictory legal environment in Syria (let alone the notorious category of verbal decrees and decisions issued and reversed regularly by the minister of the Economy and Foreign Trade and through the prime minister's office) makes virtually all major business transactions both legal and illegal at the same time. In other words, the rule of law is replaced by the role of law in sustaining a particular form of economic activity with its attendant winners. The best way to explain this situation is to borrow the example of a popular industrialist: "our situation is like being in a room with one open door that has a 'no exit' sign on it and a guard standing by. If you get out, which you must do to survive, you have violated the law. It is up to the 'officials' (*al-masáulin*) to apply the law or not." This legal context was made possible by the accumulation of laws and regulations, some of which extend to Ottoman times. It creates a ituation in which, for all intents and purposes, the law becomes an arbitrary tool controlled by the regime and its junior partners in their definition and enforcement of barriers to entry into the network of beneficiaries. Riad Saif (Syrian industrialist, parliament member, and board member in the Damascus Chamber of Industry), Goethe Institute Lecture Series, Damascus, April 4, 1999.
81. See Raslan Khadour, "The Economic Effects of Administrative Corruption" [al-Athar al-igtisadiyya lil-fasad al-idari], Paper no. 2, 1999 Conference Series (Damascus: Economic Sciences Association, February 23, 1999).
82. In ESA symposia, what are called the "new bourgeoisie" are often referred to as "criminals, robbing the public." More outspoken critics, such as Dalila, do not shy away from openly associating them with "partners" in the government. Author's notes from ESA's 1999 Conference Series, al-Markaz al-`Arabi al-Thaqafi, Damascus, February–May 1999.
83. For instance, the constitution states that no tax is to be imposed or exempted without undergoing a legal process, which, in most cases, involves ratification by

the legislature; however, several tax exemptions have been decreed by politicians, including decision 186 (1985) issued by the prime minister to exempt all investors in first- and second-class tourism projects from all kinds of taxes, customs, and municipal and financial duties. See Khadour, "Tax and Customs."

84. For various figures on both customs duties and direct taxes revenue, see figures drawn from Khadour, "Tax and Customs," 87–114, and Dalila, "The General Budget Deficit."
85. See Khadour, "Tax and Customs," 103.
86. See `Arif Dalila, "Issues in the General Budget," a news column in *al-Hayat*, March 2001.
87. The state's institutional capacity with regard to economic issues at the end of the 1980s became dismal, leading to various problems including fragmentation of policy making and contradictory regulations. See, for instance, *Tishrin*, May 22, 1997, where six ministries provide through their press staff contradictory answers to the simple question of what agency/organizational body is supposed to monitor exports. Also, in more than one instance at the ESA lectures, audience members would suggest that "we need to pick up our legal and regulatory framework and throw it in the trash;" 1999 ESA lecture series, Damascus, February–May 1999.
88. The unwillingness of the regime refers here to the fact that, in the 1990s, regime officials themselves were benefiting from both a lopsided tax "system" and their ability "legally" to maximize rent under existing conditions.
89. See Marsh and Smith, "Understanding Policy Networks."
90. Ibid., 9–10.
91. The authors discuss "The Agricultural Policy Network in Britain since the 1930s." It is important to note that in the case of Late Developing Countries, certainly in Syria, speaking of networks often refers to networks that operate across most if not all policy areas. In the example here, and others abound in the case of advanced capitalist countries, policy networks are often differentiated by sector.
92. See Marsh and Smith, "Understanding Policy Networks," 11.