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ARAB TRADE UNION CONFEDERATION

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Syria: Economic Hardship Feeds Social Unrest

Syria's economic challenges are feeding the population's growing anger, which recently led to protests in the south and are creating a nationwide uprising.

Despite an impressive annual economic growth rate of 5% over the last five years, reforms to gradually shift from a state-led to a market-oriented economy, and a promising trade-diversification strategy, Syria faces critical economic and social challenges. Its poverty rate remains high, with one out of every three Syrians living below the poverty line, and social and regional inequalities are increasing.

The social contract that prevailed in the 1980s and 1990s -- in which the state guaranteed jobs to college graduates and offered free public services and cheap food for its population -- no longer holds.

Five factors are of particular concern:

First, with a steady population growth of 2.5% per year, about 250,000 job-seekers enter the labor market annually. The public sector, which employs about 30% of the workforce, has created about 20,000 jobs per year since the mid-1990s. Although the private sector has created jobs at two to three times this rate, it also has not kept up with population growth. The official unemployment

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rate is around 10% but one of two jobs is of poor quality, with low pay and no social protection. On the other hand, youth unemployment exceeds 30%.

Second, successive seasons of drought have led to a 25% decline in the agricultural sector's output, which provides jobs to 20% of the labor force and contributes a 20% share of the gross domestic product. To improve their living conditions, huge numbers of people have left their villages and migrated to the cities. As a result, the poverty rate in Syria's urban southern region has doubled during the last five years. Although the government recently put in place cash transfers to low-income households -- to offset the effect of reforms on their living conditions -- their affect has been limited.

Third, due to cumbersome bureaucratic procedures and a lack of transparent regulations, the private sector in Syria is dominated by large companies that are well connected to the regime or very small businesses forced to join the informal sector to escape administrative barriers. Corruption throughout the administration has become widespread, with decisions often made on an arbitrary basis. The private sector also faces challenges in securing credit to start businesses. Although 14 private banks operated in the country in 2010 -- compared with just three in 2004 -- access to capital by private entrepreneurs has

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not eased as banks continue to grant loans based on connections rather than the soundness of projects. The 2010 World Bank Doing Business report ranked Syria 181 out of 183 countries when it came to access to credit.

Fourth, the importance of oil revenues as a share of GDP is declining, as are the rents redistributed by the state. Oil revenues fell from more than 14% of GDP in the early 2000s to about 4% last year due to depleting reserves. So far, the poor have borne most of the burden from this decline through cuts in the government's social spending. The government has not been able to offset the loss of oil revenues with an increase in tax revenues, which represented about 11% of GDP during the last decade, compared with 15% in Egypt and 24% in Morocco.

Fifth, income inequality in Syria has increased during the last decade. Although the average monthly salary of employees jumped by more than 20% between 2006 and 2009, the increase was canceled out by excessive inflation. In addition, wage increases benefited those with higher-education degrees much more than less-educated people, who make up 60% of the labor force.

As Syria tries to address these economic problems, it faces several major challenges. One is the unequal distribution of services by region. The eastern and

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southern regions are the most vulnerable due to drought and poor infrastructure, and face declining economic opportunities, increasing child labor and rising deprivation.

Another challenge includes the transition to a market-oriented economy and the need to open trade and investment to competition. The Syrian government still needs to tackle the factors that inhibit a strong private sector by reducing corruption and administrative red tape and providing an efficient physical and technological infrastructure. Though this shift would provide a substitute to the rent-seeking private sector that has flourished, it could also impose new constraints on the government.

Finally, Syria needs to spend part of its sizable foreign assets -- which represent the equivalent of 10 months of imports -- and increase its debt, which is 27% of GDP, to help its population during the economic transition by spending more money on education and healthcare as well as providing safety nets to the poor. Syria's economic reforms will not only help reduce protesters' anger but could help give them the increased freedom that many citizens also seek.

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