

## THE ECONOMY OF SYRIA

This study is concerned with the economic development of Syria; the rate of economic growth of the economy and of its sub-sectors; and the factors which have engendered or inhibited growth. The study will concentrate on the 1950s, and to a greater extent on the 1960s. Data for the first half of the 1970s will be analyzed to the extent that they are available at this writing. Of particular interest are the growing military expenditures and their effects on the economy. By implication, we might project the possible future course of economic development under conditions of peace in the Middle East.

The Dimensions of Economic Growth

There are some estimates of national income for the 1950-52 period, but more detailed accounts date from 1953. Regrettably - as will be noted later - there are serious gaps in the accounts, and, what is worse, many contradictions and inconsistencies. For the period preceding the 1950s we must rely on some broad generalizations. A mission of the International Bank for Reconstruction and Development (The World Bank) visited Syria in 1954 and noted that "One of the most noteworthy features of the Syrian economy has been its rapid growth over the last two decades (between the 1930s and 1953).... Agriculture and industry have both featured prominently in this development... The area under cultivation, including fallow land, rose from about 1.75 million hectares in 1938 to 2.3 million in 1945 (due to wartime food shortages) and has since continued to expand ... to 3.65 million in 1953. By 1953 the irrigated area was officially estimated at 509,000 hectares (one hectare equals 2.471 acres) as compared with 284,000 hectares in 1946. The resulting rise in the value of agricultural production was particularly marked..... With the stimulus originally imparted by the Korean war boom, cotton, which had long been grown in Syria, but on a small scale, has developed into one of the country's most valuable crops. Manufacturing has expanded rapidly in the postwar period.... The expansion of agriculture and industry has in turn stimulated commerce, transport and construction. .... The increase in national income since before the (second World)

war has undoubtedly been very great.... Total gross investment ... is surprisingly high. On the average, it has probably amounted, over the four years 1950-53, to 13-14% of the Gross National Product. By comparison with other underdeveloped countries in Asia, this rate of investment represents a remarkable record of achievement. (A characteristic feature of Syria's rapid economic development is that it has been almost wholly due to private enterprise.) In spite of frequent changes in government, private enterprise has retained a buoyant outlook and continued to expand.... The most significant, though indirect, contribution made by the government to development has been in the field of education.<sup>1</sup>

There were a number of special factors which aided and stimulated the rapid economic development of the postwar period, including the large foreign currency reserves accumulated during the war; the protection against foreign competition offered by the state after it attained its independence in 1946; the rise in agricultural prices, and the rapid growth in cotton production as a result of the Korean war boom. It is noteworthy that the Syrian merchant class provided both the entrepreneurship and the capital for the rapid development of agriculture as well as of commerce and industry. The business community was described as "investment conscious" and as having "engaged in little conspicuous spending except perhaps for housing." The high and rising level of private investment was mainly financed" by the ploughing back of entrepreneurial profits".<sup>2</sup>

The discrepancies and inconsistencies in the various official national accounts are many. These are particularly pronounced in most of the years, since 1955, for which more than one series is available. Some illustrations would be relevant:<sup>3</sup>

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- 1 The International Bank for Reconstruction and Development, The Economic Development of Syria, The Johns Hopkins Press, Baltimore, 1955, pp. 18-23 - this publication will be referred to as The World Bank Report.
  - 2 M.C. Challah, Economic Development and Planning in Syria 1950-1962 Unpublished Ph.D. Dissertation, University of Oklahoma, 1965, pp. 60-62.
  - 3 See Table No. 1A.

TABLE No. 1A

NATIONAL INCOME AND NET DOMESTIC PRODUCT  
(Millions of Syrian Pounds)

Year	National Income- 1956 prices	Change from Previous Year (%)	National Income- 1963 prices	Change from Previous Year (%)	Net Domestic Product at Factor Cost- 1963 prices	Change from Previous Year (%)
1950	1522				1652	
1951	1573	3.4			1713	3.7
1952	1783	13.4			1964	14.7
1953	2034	14.1			2264	15.3
1954	2318	14.0			2624	15.9
1955	2062	-11.0			2496	-4.9
1956	2445	18.6	2257		2769	10.9
1957	2593	6.1	2753	22.0	2801	1.2
1958	2244	-13.5	2383	-13.4	2726	-2.7
1959	2275	1.4	2427	1.8	2611	-4.2
1960	2265	-0.4	2402	-1.0	2576	-2.3
1961	2496	10.2	2667	11.0	2831	9.9
1962	3183	27.5	3377	26.6	3543	25.2
1963	3311	4.0	3115	-7.8	3509	-1.0
1964	3594	8.6	3289	5.6	3833	9.2
1965	3589	-0.1	3141	-4.5	3873	1.0
1966	3392	-5.5	3435	9.4	3720	-4.0
1967			3737	8.8	3998	7.5
1968			4052	8.4	4222	5.6
1969			4926	21.6	4790	13.5
1970					4893	2.2
1971					5377	9.9
1972					5742	6.8

Sources: Syrian Arab Republic, Central Bureau of Statistics, Statistical Abstract 1973, pp. 762-3, and earlier issues.

Banque Centrale de Syrie, Bulletin Periodique, various issues.

TABLE NO. 1A (contd.)

United Nations, Studies on Selected Development Problems in Various Countries in the Middle East, 1971, p. 49.

Notes:

1. The 1950-52 figures for Net Domestic Product are the author's estimates. In 1970 the Central Bureau of Statistics made major revisions in its national income accounts dating back to 1953. I have made similar revisions for 1950-52. See Banque Centrale De Syrie, Bulletin Periodique, no. XXXI-XXXII, 1970, p. 41.
2. The official national accounts published since mid-1970 make no estimates of national income. Net domestic product at constant factor cost is the closest available approximation to national income (net national product at constant factor cost). Presumably, the difference should be net factor income from abroad.
3. Official estimates of net factor income from abroad are available for the years 1956 to 1969. They were of minor significance in terms of national income, ranging between SL 10-17 million annually. See United Nations, Studies on Selected Development Problems in Various Countries in the Middle East, 1971 p. 49; International Monetary Fund, International Financial Statistics, November 1974, p. 344, and earlier issues.

TABLE No. 1B  
AVERAGE ANNUAL RATES OF GROWTH OF NET DOMESTIC PRODUCT  
(in Percentages)

Period	Average Annual Rate of Growth	Average Annual Rate of Growth Per Capita
1950-72	5.8	2.5
<u>Sub-Periods</u>		
1950-57	7.8 (9.7)	4.4 (6.2)
1957-64	4.6 (2.6)	1.2 (-0.7)
1964-69	4.6 (8.4)	1.2 (5.0)
1969-72	6.2	2.9

Notes:

1. The figures, other than those in parentheses, are based on the latest available series, the net domestic product at factor cost, in constant 1963 prices. It is also the only series available for the whole period.
2. The figures in parentheses for 1950-57 are from Ziad Keilany "Socialism and Economic Change in Syria", Middle Eastern Studies, Vol. 9, No. 1, January 1973, p. 61.
3. The figures in parentheses for 1957-64 and for 1964-69 are derived from the estimates of national income at constant 1963 prices. The very wide discrepancy between these estimates, and those of net domestic product are difficult to explain, since both are, presumably, in constant 1963 prices, and net factor income from abroad was very minor throughout this period. See Note 3, Table No. 1A.
4. In order to avoid the distorting effect of years of drought, the terminal years chosen were all years of good crops.

1. Net domestic product (at constant factor cost in 1963 prices) should be somewhat less than national income (i.e., net national product at constant factor cost in 1963 prices) by the estimated net factor income from abroad, which ranged between SL 10 to 17 million annually, between 1956 and 1969. According to the latest estimates of net domestic product, the latter was between SL 48 million (1957) and SL 732 million (1965) higher than the corresponding estimates for national income.<sup>4</sup>

2. Of greater importance than the absolute magnitudes are the frequent wide differences in the annual changes, and even in the direction of change. Thus, according to the first series, 1957 was a year of moderate economic growth (6.1%); a year of very rapid growth (22%) according to the second series; and a year of stagnation (1.2%), with a decline in per capita income, according to the latest series. 1958 was a year of serious drought, and according to the first two series national income declined severely (over 13%); according to the latest revisions the decline was rather moderate (less than 3%). According to the first series, 1963 was a year of modest economic growth (4%) slightly exceeding the population growth rate (3.3%); according to the second series it was a year of severe decline, with per capita income falling by about 11%; and according to the latest revisions the decline was moderate, 1%, or about 4% per capita. 1966 was a year of severe decline (5.5%) according to the first series; a year of rapid growth (9.4%) according to the second series; and a year of severe decline (4%) according to the latest series. 1969 is the latest year for which more than one estimate is available, and though according to both estimates it was a boom year, the differences in the rates of growth indicated by both series, are very significant.

3. The wide discrepancies between the various estimates are applicable to longer time spans, as well. Thus, according to the latest series, the average annual rate of growth was 4.6% in 1957-64; according to the earlier estimates (also in constant 1963 prices) the rate of growth was 2.6%. The latter would imply that per capita income was declining by about 1% annually; the former,

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4 See Table No. 1A, and notes 2 and 3.

that it was rising by over 1% annually. Similarly, the previous estimates (national income in constant 1963 prices) indicated that per capita income was rising by an annual average rate of 5% between 1964 and 1969; according to the latest revisions the growth rate was very small (1.2%)<sup>5</sup>. According to the Statistical Abstract 1968 (p. 430) national income per capita in 1964 was 26% lower than in 1957; The Statistical Abstract 1971 (pp. 488-9) indicates an increase of 9%.

Edmund Asfour noted, in a 1959 publication, that "such estimates (of national income) as exist for Syria are unfortunately no better than rough calculations based on patchy data which is itself of questionable reliability". He also noted that "A more serious study of Syria's national income is at present being undertaken by the Department of Statistics."<sup>6</sup> The indications are quite clear that this undertaking was not very successful during the 1960s. We can only assume that the latest revisions of the national accounts, published since 1970, (with data going back to 1953) present a more accurate picture of Syrian economic reality. Unless otherwise indicated, we shall refer to these figures. Population estimates have also been revised, going back to 1953. These would indicate that the population growth rate has been relatively high - 3.3% annually - and steady, throughout the 1953-72 period.<sup>7</sup>

Aside from the above-mentioned problems, the measurement of the rates of growth of the Syrian economy is seriously hampered by the very wide annual fluctuations in agricultural production. The importance of agriculture has diminished over time (from 37% of net domestic product in 1953-55 to 23% of net domestic product in 1970-72), primarily as a result of the stagnancy of the farm sector throughout most of this period. But it continues to be the main sector, indirectly affecting many other sectors, as well. Thus, the selection of the terminal years for the measurement of annual rates of growth, is crucial. The years selected in Tables 1B and 2B, were years of good crops.

5 See Table 1B.

6 E.Y. Asfour, Syria: Development and Monetary Policy, Harvard University, 1959, pp. 15, 134.

7 Statistical Abstract 1973, pp. 762-3).

TABLE No. 2A

NET DOMESTIC PRODUCT AND THE MAIN ECONOMIC SECTORS  
(In Constant 1963 prices - millions of Syrian Pounds)

Year	NDP (at Factor Cost)	of which		
		Agriculture	Industry	Government
1953	2264	873	285	75
1954	2624	1049	328	78
1955	2496	817	368	99
1956	2769	1047	364	103
1957	2801	1109	386	129
1958	2726	827	432	147
1959	2611	693	455	183
1960	2576	565	470	202
1961	2831	767	475	260
1962	3543	1227	501	319
1963	3509	1127	532	358
1964	3833	1292	574	429
1965	3873	1227	571	436
1966	3720	1008	577	474
1967	3997	1202	616	482
1968	4222	1025	693	571
1969	4790	1337	832	592
1970	4893	1086	920	701
1971	5377	1118	985	809
1972	5742	1442	1005	912

Sources: Syrian Arab Republic, Central Bureau of Statistics, Statistical Abstract 1971, pp. 484-5; 1973, pp. 759, 763.

Central Bank of Syria, Quarterly Bulletin, Vol. 12, No. 2, 1974, p. 38.

Notes:

1. Agriculture includes forestry and fisheries; industry includes manufacturing, mining (including crude oil production), electricity, gas and water; government, includes expenditures on public administration and the military. Publicly-owned enterprises are included in their respective economic sectors.
2. More detailed national accounts are unavailable for earlier years.
3. The very rapid growth of the government sector, i.e., public administration and military spending, has greatly exceeded that of any other sector of the economy. Since 1970 it has exceeded, in absolute terms, all other sectors, except for agriculture and industry.

TABLE No. 2B

AVERAGE ANNUAL RATES OF GROWTH  
(In Percentages)

Years	Net Domestic Product	Net Domestic Product - Excluding Government	Agriculture Plus Industry
1953-72	5.0	4.3	4.0
<u>Sub-Periods</u>			
1953-57	5.5	5.1	6.6
1957-64	4.6	3.5	3.2
1964-69	4.6	4.3	3.1
1969-72	6.2	4.8	4.1

However, 1972 was a year of exceptional bumper crops; hence, the rate of growth for 1969-72 has an upward bias.

For the 1950-72 period, as a whole, the growth rate of the economy averaged 5.8% per annum, or 2.5% on a per capita basis.<sup>8</sup> On the basis of international comparisons, this could be considered satisfactory. What is far more relevant is an analysis of the sub-periods. The 1950-57 period was marked by rapid growth - other than in years of serious drought. Net Domestic Product increased by 7.8% per annum, or by 4.4% per capita. Ziad Keilany, in a recent study, estimated the growth rate at 9.7%, or 6.2% per capita, for this period.<sup>9</sup> This rate of economic growth was matched by few countries during that period, or since that time, excluding those with large petroleum resources and small populations. Though official data for the pre-1950 period are unavailable, it would appear that the high growth rates in 1950-57 were a continuation of developments in Syria at least, since the mid-1940s.<sup>10</sup> Samir Makdisi estimated that the average annual rate of growth of national income between 1946-48 and 1955-57 was about 8%.<sup>11</sup>

1958 marks an important turning point in Syrian history. It was the year of the merger with Egypt, forming the United Arab Republic. During the three and a half years of the United Arab Republic, Egyptian economic policies were introduced, including land reform, and various forms of state socialism. In July 1961 the nationalization of all banks, insurance companies, and of many industrial firms was decreed. A Syrian army coup in September

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8 See Table 1B.

9 See Table 1B, note 2.

10 World Bank Report pp. 18-9.

11 S.A. Makdisi, "Syria: Rate of Economic Growth and Fixed Capital Formation 1936-68", Middle East Journal, Spring 1971, Vol. 25, No. 2, p. 163. The author uses three-year periods for his terminal points, each of which included two good and one poor crop years.

1961 overthrew the Egyptian-dominated government, and there was a short-lived modification of the economic policies which had been introduced during the period of the United Arab Republic. The Baath party took over control in 1963, and since 1964 most of the industrial sector and foreign trade, as well as financial institutions, have been nationalized. In 1966 the left-wing Baathists seized power, and state control of the economy was further extended. Since the emergence of General Assad as the strongest member of the government in 1969, and the military takeover of the government in 1970, there has been some reversal of earlier economic policies. Greater encouragement has been given to what remains of the private sector.<sup>12</sup> Various factors account for the marked changes in Syrian economic development since 1958, many of which will be discussed in subsequent chapters, but there is no doubt that the shift from a policy of private enterprise to state socialism, was of crucial importance.

During the 1957-64 period, and again in 1964-69, the net domestic product increased by an annual rate of 4.6% or 1.2% per capita. However, even this (small) growth rate is biased upward. Expenditures on public administration, not the least of which was due to the sharp rise in outlays on the military (including internal security), are, by definition, included in national income and product. Net domestic product - excluding, public administration and military expenditures, increased by 3.5% annually between 1957 and 1964; in effect, product per capita was unchanged. In 1964-69 the rate of growth improved slightly to 4.3%, about 1% per capita.

A better indicator of the sharp downtrend after 1957 is the rate of growth of agriculture and industry, the primary economic sectors. The industrial sector includes manufacturing, mining, electricity, gas and water. Between 1953 and 1957 agriculture plus industry, increased by an average of 6.6% annually.

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<sup>12</sup> Economist Intelligence Unit, Syria, Lebanon, Jordan - Annual Supplement, July 1965, pp. 2-3; 1974, pp. 2-3.

Though detailed national accounts are unavailable for earlier years, there is every indication that the rapid growth of both sectors during this period was a continuation of a trend which had begun at least since the mid-1940s. Between 1957 and 1969 the growth rate fell to about 3%, indicating per capita stagnancy or even decline.

1969-1972 may be too short a period for detecting underlying trends. Furthermore, there are certain special factors such as the development of petroleum resources since 1968 which affected economic growth. 1972 was also a year of very exceptional bumper crops. Nonetheless, the shifts in economic policies during this period may have been an important contributing factor to what appears to have been a minor reversal in trend. Net domestic product increased by an annual average rate of 6.2% or almost 3% per capita. However excluding the effects of sharply rising government expenditures on public administration and the military, the growth rate was less than 5% per annum, or 1.5% per capita, a slight improvement over the earlier period - though far less than the rapid pace of economic development (8-9% annually) in the 1950-57 period, and earlier.<sup>13</sup>

#### Investment and Economic Growth

The rate of economic growth of a country is determined by many factors, including the rate of growth of its capital stock, improvements in the skill and managerial levels of the labor force, technological improvements (over and above those reflected in the data on capital stock), the utilization of previously idle resources, and other factors. The impact of capital investment on the rate of economic growth, depends, among other things, on the incremental capital-output ratio. In the case of Syria, the high rate of economic growth of the 1940's until the mid-1950s, involved the utilization of idle land resources, aided and stimulated by the special factors, noted

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13 I have used 1972 as the terminal point, since, 1973 was both a year of drought, and was affected by the war of October 1973 and its aftermath. Hence, using 1973 as a terminal point would give a downward bias, just as using 1972 as a terminal point - a year of very exceptional bumper crops - gives an upward bias to the 1969-72 period.

earlier. Though political instability was the norm, the various regimes did little to deter the investment and production activities of the private entrepreneurs.<sup>14</sup> With relatively little investment in infrastructure, the gross marginal capital-output ratio was quite low, estimated by Asfour at less than 2.5.<sup>15</sup> Since the estimates for gross fixed capital formation for the 1950's have subsequently been revised downwards, and the gross domestic product figures have been revised upwards for this period, it would appear that the gross marginal capital-output ratio for this period was actually below 2.<sup>16</sup> Under these conditions, the ratio of gross investment to gross domestic product, which was 14-15% during the 1950-56 period, was associated with an annual average growth rate of about 8% of gross domestic product. The World Bank Mission in its 1955 Report to the Syrian government noted that further expansion would require a much higher rate of public investment in irrigation and land reclamation, transport and communications, electrification programs, as well as in health, education and other social services.<sup>17</sup>

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14 According to an unofficial estimate, gross investment (gross fixed capital formation) as a ratio of gross national product rose from about 7% in 1946-47 to about 15% in 1954-56. See S.A. Makdisi Loc. Cit. p. 169. Gross domestic product and gross national product in Syria differ very slightly, since net factor income from abroad has been insignificant. His estimates of the ratio of gross investment to gross national product in 1954-56 are slightly higher than those in Table No. 3, but the difference is not significant. However, his estimate for 1946-47 appear to be biased downward. It is difficult to envisage a rate of growth in investment in the short period 1946-47 to 1950-52 which would raise the ratio of gross investment to gross national product from 7% to 15%. All we can conclude is that gross investment was increasing rapidly during this period.

15 E.Y. Asfour, Syria: Development and Monetary Policy, Harvard University Press, 1959, p. 72.

16 See Table No. 3, and notes.

17 World Bank Report, pp. 24-5.

TABLE No. 3

## GROSS INVESTMENT IN THE SYRIAN ECONOMY

(Millions of Syrian Pounds)

Year	Gross Fixed Capital Formation (1963 prices)	Gross Domestic Product at 1963 market prices	Ratio of column 1 to column 2 (percentages)	Ratio of private gross investment to total investment (%)
1950	275	1801	15 (13)	82
1951	301	1867	16	82
1952	275	2141	13	78
1953	355	2470	14 (15)	82
1954	375	2848	13	85 (88)
1955	396	2746	14 (16)	81 (83)
1956	432	3066	14 (15)	76 (82)
1957	312	3120	10 (11)	77
1958	407	3017	14 (15)	74
1959	447	2954	15 (16)	N.A.
1960	457	2962	15 (16)	N.A.
1961	488	3219	15 (16)	58
1962	654	3983	16 (17-19)	72
1963	525	3980	13	67
1964	529	4349	12	70
1965	457	4450	10	47
1966	556	4322	13	44
1967	575	4551	13	19
1968	715	4749	15	30
1969	932	5487	17	42
1970	788	5617	14	30
1971	932	6186	15	33
1972	1012	6986	15	41

## Sources and Notes:

1. The Figures for gross domestic product in 1963 market prices for the years 1953-72 are from the Syrian Arab Republic, Central Bureau of Statistics, Statistical Abstract 1971, pp. 472-3

Table No. 3 - Contd.

Central Bank of Syria, Quarterly Bulletin, Vol. 12, No. 2, p. 38.  
The 1950-52 figures are estimates - See Table No. 1A, note 1.

2. Figures for gross fixed capital formation were revised by the Central Bureau of Statistics only as far back as 1963. For the 1956-64 period estimates are found in United Nations, Studies on Selected Development Problems in Various Countries in the Middle East, N.Y. 1969, p. 37. In the latter publication the estimates for fixed capital formation are higher for 1963 and 1964. For 1963 the figure given is LS 703 million, as compared with LS 525 million in the Statistical Abstract. On the other hand, gross domestic product figures for 1956-64 are substantially lower than those found in the Statistical Abstract. All of these are in 1963 prices. For 1961 and 1962 we used the figures found in United Nations, Yearbook of National Accounts Statistics 1967, p. 648. For 1956-60 the data were those found in the above-mentioned study of the Middle East. For 1950-55 the data used are estimates based on E.Y. Asfour, Syria: Development and Monetary Policy, Harvard University Press, 1959, p. 73; B. Hansen, "Economic Development of Syria" in C.A. Cooper & S.S. Alexander, Economic Development and Population Growth in the Middle East, N.Y. 1972, p. 340; and M.C. Challah, Economic Development and Planning in Syria 1950-62, Unpublished Ph.D. Dissertation, University of Oklahoma, 1965, p. 40. In all cases, the gross investment figures are gross domestic fixed capital formation, i.e., excluding changes in inventories, for which data are unavailable.
3. Column 3, the ratio of gross fixed capital formation to gross domestic product, is dependent on the accuracy of the first two columns. In view of our earlier discussion of Syrian Statistical data these ratios should be viewed with caution. The figures in parentheses are those based on the other sources cited above. Since subsequent revisions made by the Central Bureau of Statistics of Syria tended to raise the gross domestic product of the earlier years going back to 1953, and lowered gross investment, going back to 1963, it would appear that the lower ratio is more accurate.
4. Column 4, the ratio of private gross investment to total gross investment, is derived from the above-mentioned sources. The figures in parentheses are those found in these sources, where they differ from the underlying data used in this table.
5. The Ratio of Gross Investment to Gross Domestic Product (in Percentages)
- | <u>1950-56</u> | <u>1957-62</u> | <u>1963-67</u> | <u>1968-72</u> |
|----------------|----------------|----------------|----------------|
| 14.2           | 14.4           | 12.2           | 15.2           |
- The Ratio of Net Investment to net domestic product at Factor Cost (in Percentages)
- | <u>1950-56</u> | <u>1957-62</u> | <u>1963-67</u> | <u>1968-72</u> |
|----------------|----------------|----------------|----------------|
| 11.7           | 11.7           | 9.0            | 12.5           |
6. Estimates for the consumption of fixed capital (1963 prices) were obtained from the above-mentioned Statistical Abstract 1971, pp. 460-1, and 1973, p. 735, for the years 1953-70. 1950-52 estimates are based on these data.

During the 1957-62 period Syria underwent a number of major political upheavals. The Suez war towards the end of 1956 had its repercussions on Syria, in terms of higher military expenditures, and the closing of the pipeline from Iraq which cut off oil transit dues for Syria during the latter months of 1956 and in part of 1957. As noted earlier, in March 1958 Syria joined with Egypt to form the United Arab Republic. "Arab Socialism" became the official slogan, followed by the introduction of some relatively mild measures of nationalization and land reform. The plans called for a substantial increase in public investment. In reality, the latter increased far less than planned, but the rate of growth of private investment was adversely affected. The break-up of the merger with Egypt, in 1961, was followed by the revocation of some of the earlier socialization measures. Gross investment increased by 34% (in constant prices) in 1962, including a sharp increase of 66% in private investment, and an 11% decline in public investment. For the 1957-62 period as a whole, the ratio of gross investment to gross domestic product, (or of net investment to net domestic product) was about the same as in the 1950-56 period. However, as the World Bank Mission had indicated, further expansion of the economy required a much higher rate of investments, especially in infrastructure. The failure to increase the rate of investment accounted, in part, for the substantial fall in the rate of economic growth.

The take-over of the government by the Ba'ath party in March 1963 brought about a re-nationalization of the banks, the re-imposition of strict foreign currency controls, and the large-scale nationalization of most of the industrial sector. Since most of the public utilities (railways, airlines, electricity, petroleum refining, and minerals) were already publicly-owned, the public sector had, by 1965, replaced private enterprise as the mainspring of economic activity in Syria.<sup>18</sup> The replacement of more experienced owner-businessmen by political appointees loyal to the party, had severe disruptive effects on the economy. According to one unofficial estimate about 200,000 left the country between 1963 and 1966, many of these, skilled and managerial personnel.

18 The Economist Intelligence Unit, Syria, Lebanon, Cyprus, Annual Supplement 1969, London, pp. 2-3; United Nations Studies on Selected Development Problems in Various Countries in the Middle East 1969, N.Y. 1969, p. 34.

There was, in addition, large-scale illegal smuggling of capital from the country. There is a clear presumption that the shift from private to public enterprise raised the capital-output ratio as a result of less efficient operation of the enterprises, as well as a rise in the rate of capital depreciation, owing to less efficient maintenance.<sup>19</sup> There was a decline in the pace of investment. Gross Investment in 1967 was 12% lower than the high level reached in 1962, mainly due to a very sharp drop in private investment. No doubt the Arab-Israeli War of 1967 had an adverse effect on investment in that year, but it apparently was not of serious proportions. Gross investment in 1967 was slightly higher than in 1966, and the ratio of gross investment to gross domestic product was about the same in both years. However, for the 1963-67 period as a whole this ratio was far lower, 12.2%, as compared with over 14% in 1950-56, and in 1957-62. The ratio of net investment to net domestic product fell even more sharply, to 9.0%, as compared with 11.7% in each of the previous two periods. The growth rate of the economy (net domestic product at factor cost) was about 2.5%, which meant an absolute decline on a per capita basis.

Towards the end of the 1960s a reaction seems to have set in, to the more extreme policies of nationalization and rigid governmental economic controls.<sup>20</sup> The new regime which came into power in November, 1970, took further measures in the direction of liberalization of controls, and attempted to bring back some of the flight capital of Syrians who had emigrated in large numbers since 1963.<sup>21</sup> These were, by no means, the only factors involved, but it would appear that a more pragmatic approach to economic development, did contribute to a reversal in the economic downtrend. Gross investment increased sharply

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19 Ziad Keilany, "Economic Planning in Syria, 1960-65: An Evaluation", The Journal of Developing Areas, April, 1970, p. 362.

20 Economist, London, March 8, 1969, p. 25.

21 Economist Intelligence Unit, Quarterly Economic Review of Syria, Lebanon, and Cyprus, May, 1970, p. 3.