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Is Syria's instability an opportunity for Lebanon?

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ABDALLAH HAYEK| The Daily Star

In business, there is nothing worse than making wrong assumptions. These translate into one of two things: bad investments or lost opportunities. In Lebanon, we keep hearing about how the Syrian crisis might negatively impact the security situation or even the economy. Barring a few incidents on the borders, and despite Syrian instability stretching over many months now, there have been no major security or economic incidents in Lebanon.

We'll begin with the good news for Lebanon. The country has stood strong in the face of a global financial crisis, domestic political uncertainty and regional unrest despite a slowdown in economic growth to 1-2 percent in 2011, following a yearly average of 8 percent during the 2007-10 period. GDP growth is expected to rebound to 4 percent in 2012.

The messy international economic situation that began in 2008 also had a moderate effect on Syria. However, the current unrest, foreign trade sanctions and decline in spending on basic items, together with foreign and local investors' reluctance to invest due to uncertainty, are all slowing growth. This was counter to Syria's strong economic outlook as predicted by the International Monetary Fund at the beginning of 2011.

Now foreign capital is fleeing: Qatari Diar recently announced it was terminating two of its real estate projects in Syria, Qatar Electricity and Water Company postponed building two major power plants estimated at $900 million and Emaar Properties halted another $500 million development project. The Institute of International Finance, a global bank group, predicts Syria's $52 billion economy is set to shrink by at least 3 percent.

Meanwhile, a series of Syrian ideological blunders made a bad situation worse. The Syrian government inaugurated a second wave of economic openness meant to replace increasingly waning working-class loyalty by widening the bourgeoisie base and enlarging its support. This strategy backfired in more ways than one. The move was really a continuation of an effort by late Syrian President Hafez Assad who initiated this policy change by loosening the legal framework governing foreign investments.

Bashar Assad's own five-year plan in 2005 went further in the direction of a "social free-market economy," with a series of laws that ended state monopoly of the banking and insurance systems.

However, the very nature of these reforms featured a number of faults that contributed to growing discontent in the country.

First, the liberalization of the economy meant the state had a diminished role in the system, with fewer civil servants' jobs and a decrease in state subsidies, which posed a direct threat to the working classes and hastened their alienation.

Second, the regime's promise to develop Syria's remote agricultural regions such as Deraa, Deir al-Zour, Raqqa and Qamishly) was not fulfilled, instead giving priority to attracting foreign investments in the hope that it would swing state income from oil revenues to direct taxation, envisioning the emergence of a "useful Syria" in vital areas like Damascus and Aleppo, and to a lesser extent, the coastal region.

The result of this misdeed toward the underprivileged was a breach in the "social contract" which assured welfare, jobs and cheap basic goods in exchange for blind allegiance.

When the uprising began in Syria, the government sought to soothe the populace by attempting to restore some balance and easing anger before it spread. It pledged to raise wages and create new jobs in the public sector, but with the unrest still in full swing, this apparently was too little too late.

Third, the economic reforms designed to create more business opportunities were meant to appeal to the upper class, but that did not happen. The bourgeoisie, who had been in power for over 50 years during which they supported the regime and helped it stay at the helm, resented the entry of new local and foreign players in the Syrian economy. For example, wealthy merchants and importers of rice, sugar and other commodities whose business the government would subsidize by reducing prices of wheat, rice, oil and fuel in half now saw an Assad policy that said "anyone can import." This created an uproar because these merchants had ships, warehouses, international relations – especially with countries such as China – and did not appreciate these "reforms."

Furthermore, Assad asked German and French companies to arrange for oil exploration in Syria creating outcries from the "old guard" who had monopolized and profited from this activity for many years. Consequently, the upper class stopped its support, freezing economic activity. Syria had $18 billion in foreign cash reserves, but it spent $6 billion in one year.

While the business community has remained for the large part a silent majority, without taking sides, some have joined the ranks of the opposition. These include the brothers Ali and Wassam Sanqar, sons of Omar Sanqar, a prominent figure of the Damascus business community, and Ryad al-Seif, representative for Adidas in Syria who was been appointed vice president of the Syrian Transitional National Council, which was created Aug. 29, 2011. However, as the social unrest grows, the undecided are likely to align themselves with one side or at least feel it necessary to transfer their assets abroad.

Now that the argument has been made that Syria's woes are socio-economic in nature, the Lebanese are invited to renew their confidence in Lebanon and its real estate sector because of what its stable economy represents as an alternative to the turbulent situation in Syria.

The next argument is to address the options facing the Syrian bourgeoisie, with the most pressing issue at hand outside of the unrest being the loss of confidence in the Syrian currency which might push Syrian entrepreneurs in the country to reallocate their assets abroad.

According to Byblos Bank, deposits in Syrian accounts held by Lebanese banks dropped some 24 percent by the end of April 2011. As more Syrian businessmen sell their enterprises and convert their capital into foreign currencies, most are likely to follow as they begin to realize that supporting demands for a new regime is more in their favor.

Meanwhile, Syrian real estate investors have little choice but to look for markets outside the country. The housing market in Syria has seen prices decline by more than 50 percent, with almost 30,000 vacant residences and 20,000 unfinished housing units in Greater Damascus out of 250,000 units developed between 2002 and 2010. While low prices might seem like an investment opportunity, the unrest and unpredictability of the situation in the country make this an unappealing option for an investor looking for assurances, stability, and a need to know what type of government he is dealing with, what regulations will govern real estate and other facts that are unavailable.

As a result, with Lebanon enjoying stability in its economy and currency, it is expected that Syrian short- and mid-term property investors will find a safe haven in the Lebanese markets.

The Syrian bourgeoisie can benefit from free market conditions and local know-how to make sensible profits on investments that can go beyond $1.8 billion in the foreseeable future. Investments in property development such as hotels, hospitals, retail stores, commercial buildings, and middle-income residential units in the Greater Beirut areas stretching from Bchamoun, Hazmieh and Yarze to Jounieh can provide the Lebanese property market with a renewed momentum.

Since these Syrian investors are using their own capital without having to resort to bank loans and pay interest, the properties they will be building stand a better chance at being sold if their strategic pricing sets affordable margins.

Syria’s troubles are an economic issue. Should the borders close, Lebanon stands to lose $230 million worth of exports to Syria per year, or the price of one downtown building. The impact is minimal. As for the Syrians, it’s too risky to sit on your money. Use it in the country that offers you the best investment environment in the Middle East.

Abdallah Hayek is CEO of Hayek Group s.a.r.l.

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