

The Next Hot Market

Winds of change are sweeping Syria.

By **Barton Biggs** | NEWSWEEK

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The Syrian Arab Republic is a longtime pal of Iran that was once castigated by George W. Bush as part of the Axis of Evil. But like John le Carré's legendary spy, it may be ready to come in from the cold. This would be no minor event for peace and prosperity, and if it happens, the prime mover will be Syria's young president, Bashar al-Assad. The road to peace in the Middle East runs straight through Damascus. As Henry Kissinger once said, you can't make war without Egypt or peace without Syria, and his statement is just as true today as it was then.

Emerging markets are where the growth is, but the tenbaggers are to be made not in the discovered emerging markets where stocks are already at high prices but in the "frontier" markets. Syria, a year or two from now, could be one of them, but don't start salivating because there is nothing a non-resident Syrian can buy at this point. That will change, however. Once the virtuous, self--reinforcing circle of -discovery—foreign direct investment (FDI), infrastructure development, sovereign debt and equity issues, and a functioning stock -market—begins, the economic and financial gains can be staggering.

Syria is strategically located in the heart of the Fertile Crescent. Despite the scenery and the antiquities, it lives in a very tough neighborhood with borders on Iraq, Lebanon, Israel, Turkey, and Jordan. Still, it has a lot going for it: oil; a young, rapidly growing population of 24 million people; an expanding, entrepreneurial (albeit somewhat primitive) economy; minuscule external debt; a stable currency; and only a small budget deficit. Real, non-oil GDP has been growing 6 to 7 percent a year. A recent World Bank report ranked Syria first in "minimizing the costs to business of violence and crime" but "problematic in terms of bureaucracy, infrastructure, and access to financing." A highly successful expat population pours money back into the mother country, and the potential for tourism is immense. Undiscovered Damascus is the most authentic old-time Arab city, with an incredible souk and mosques.

This writer, under the auspices of a prominent Syrian expat, just visited the country and met with President Assad, the deputy prime minister for economic affairs, and the finance minister. We also met businesspeople, academics, bankers, and leaders of the Baathist party. These sessions weren't all hummus and chocolates by any means. Arguments were heated but frank, a few of the presentations were pathetic,

and Syrians in general are angry about what they see as America's one-sided support of Israel, the economic sanctions the U.S. has imposed, and the recent (and ridiculous) refusal to give Assad a visa so that he could attend the September U.N. meeting in New York.

Bashar al-Assad is a fascinating figure. His father ruled Syria with an iron hand for 30 years until his death in 2000. Bashar, the second of his two sons, was a highly regarded young eye surgeon in London, and when his older brother died in an automobile accident, he was called back to become the heir apparent. Now in his mid-40s, he is articulate, enlightened, and very charismatic.

He makes no bones about the fact that his government needs to deliver rising per capita incomes and jobs to the Syrian people. He describes himself as an enemy of extremism, committed to a gradual liberalization of the economy, and to peace. He knows Syria needs and foreign investment to build power plants, dams, schools, and roads. Fortunately, it is in an excellent position to attract FDI. The currency is stable versus the dollar, and its external and internal debt is extremely low. FDI last year was a mere \$2 billion and has been mostly from other Arab countries. The deputy prime minister for finance is bright and sophisticated, and understands what has to be done. Already in the last few months, a rudimentary stock exchange has been created.

The political system is not exactly -Western-style democracy. Security is tight, but Assad says he is committed to gradual political liberalization. However, he admits there are factions in the country opposed to change. As Syria bends away from Iran and toward Turkey and the United States, the Obama administration is beginning to smile. Bear in mind that a wise benevolent dictator has proved to be the best leadership for a developing country pulling itself up by its bootstraps. Singapore with Lee Kuan Yew and China are among the most obvious examples. This brief essay is a gross simplification of a complex situation, but keep your eye on Syria.

Biggs is managing partner of Traxis Partners hedge fund in New York.

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