

**Syrian Views of an
Association Agreement with
the European Union**

– Ayman Abdel Nour –

14

EuroMeSCo Papers

EuroMeSCo Paper

- 14 -

Title

Syrian Views of an Association Agreement with the European Union

Ayman Abdel Nour

Damascus

December 2001

*This report was produced with the financial assistance of
the Commission of the European Communities, under contract nº ME8/ B7-4100/IB/98/0160-1,
within the framework of the EuroMeSCo network of foreign policy institutes.*

*The text is the sole responsibility of the authors and
in no way reflects the official opinion of the Commission*

EuroMeSCo papers are published with the support of the European Commission
by the EuroMeSCo Secretariat at the IEEI

Largo de S. Sebastião, 8 • Paço do Lumiar • 1600-762 Lisboa • Portugal

Telephone 351.21.030 67 00 • Fax 351.21.759 39 83

E-mail mednet@mail.telepac.pt • Homepage <http://www.euromesco.net>

Contents

Foreword (by Volker Perthes)

| | |
|---|----|
| 1. Essential aspects of the current development and modernisation process in Syria. | 6 |
| 2. A step forwards to reform | 7 |
| 3. The European Union's approach to an association agreement | 11 |
| 4. Syria's current attitudes towards an association agreement..... | 12 |
| 4.1 The risk of association..... | 12 |
| 4.2 Integration as a strategic choice..... | 14 |
| Conclusion | 17 |
| Appendix: Basic data on the Syrian economy | 18 |

Note: Additional material and documentation for the text has been provided by Stefania Spapperi

Foreword

Volker Perthes

When Syria entered the Euro-Mediterranean Partnership – the "Barcelona Process" - in 1995, it did so mainly for political reasons. Even today, as Ayman Abdel Nour stresses, political developments in the region remain key to Syrian calculations and strategies towards the Barcelona process. From a Syrian perspective, there is still an unbreakable link between progress towards peace in the Middle East as well as between Israel and Syria, and progress in both the multilateral and, to a lesser extent, the bilateral dimension of the Euro-Mediterranean Partnership (EMP).

Ayman Abdel Nour's paper deals with the bilateral aspects of a Syrian-European partnership that will eventually be embodied in an Association Agreement. Negotiations between Syria and the European Union (EU) started in 1998 and, although they were stagnant for some time, they speeded up in 2000, after the change in leadership in Damascus. Syria's new leadership under President Bashar al-Assad had realised that European support under an association agreement, even if mainly directed towards economic adjustment, might well help the country enter globalisation in a more benign way, as it were, and also be better prepared for the new regional division of labour which is likely to emerge, once comprehensive peace has been achieved in the Middle East.

It is fair to say that the Arab-Israeli conflict and the consequential peace process, as well as the cluster of problems which generally is referred to today as "globalisation", form the two major external challenges to Syria. Peace may seem far away today but, eventually, as Syria's policy-making elite clearly understands, a peace agreement will not only lead to a "political" or "military" settlement, but will be accompanied by normalisation of economic, cultural and other relations as well as the development of, new patterns of regional competition, particularly in the economic field – a development that may ultimately be even more important than the immediate benefit of peace. Israel, for the first time, will be a direct economic competitor with most Arab states, including Syria. Globalisation, for a country like Syria, mainly implies a closer integration into a more open regional division of labour. Here it will be the ability to co-operate with regional neighbours, whether Arabs or Europeans, that will particularly influence Syria's chances of development and growth, especially in fields such as trade, industrial investment and tourism.

Syria's new political elite has clearly realised, that to confront globalisation as well as regional economic competition in a "new" Middle East successfully, Syria will have to tackle some serious socio-economic challenges and demands for reform. Generally speaking, European support can and should be aimed at helping to make Syria able to respond to such challenges. Ayman Abdel Nour makes several suggestions as to how that could be done. Some might easily persuade Syria's European partners to respond –for example, the suggestion to offer technical aid and training to Syria's tax authority, or to train Syrian judges in the field of international arbitration –others may not. The EU, to mention but one example in this respect, has little influence over rating agencies and will hardly want to get involved in issues such as the international credit rating of one of its partner countries!

Ayman Abdel Nour's paper explains what Syria considers to be her interests in an association agreement with the EU and outlines the different positions that inform the policy debate within Syria with regard to this issue. This is particularly interesting inasmuch as many observers have simply ignored the existence of such debates or doubted their relevance in a country like Syria. Basically, there are two views over this issue. One holds that closer integration of Syria into a wider Euro-Mediterranean economic space and free trade with Europe are not in Syria's best interests. The second view, which is much closer to the thinking of Syria's new political leadership, favours this kind of integration and even considers it in Syria's long-term interests, but raises questions about its speed, scope, and short-term effects. It is important to understand that the Syrian government has to take this debate, and public opinion in general, into consideration in its negotiations with Europe. Syria's European partners may encourage the Syrian government to be more courageous in its reform efforts, but they should also be sensitive to the interests and apprehensions of economic, societal and political actors in Syria.

The Association Agreements

Association agreements are at the core of the Euro-Mediterranean Partnership. The Euro-Mediterranean Partnership (EMP) - also known as the "Barcelona Process" - is implemented along two complementary tracks: the regional dimension which consists of Euro-Mediterranean programmes, networks and activities (EMP); and the bilateral dimension which takes the dual form of association agreements and of EU support for economic reform processes. An association agreement seeks to create close ties between the parties in a vast number of subject areas and aims, in particular, at the gradual introduction of free trade between the parties. In the Euro-Mediterranean context, free trade is conceived, not as an instrument of commercial influence, but rather as a vehicle for economic reform and as an incentive for competitiveness. The provision of the Euro-Mediterranean Association Agreements vary from one Mediterranean Partner to the other, but have certain aspects in common:

- Political dialogue
- Respect for human rights and democracy
- Establishment of a free trade area, compatible with World Trade Organisation (WTO) principles, over a transitional period of up to twelve years
- Provisions relating to intellectual property, services, public procurement, competition rules, state aid and monopolies
- Economic cooperation in a wide range of sectors
- Cooperation relating to social affairs and migration (including return of illegal immigrants)
- Cultural cooperation

The Association Agreements are implemented through two common institutions: the Association Council at the ministerial level and the Association Committee at the senior official level.

The Association Agreements between the EU and its Mediterranean partners are complex in nature for they derive from the authority of both the European Community and of member-states. The latter retain national competence over the common foreign and security policy (the second pillar of the Maastricht Treaty) and over police and judicial cooperation in criminal matters (the third pillar of the Maastricht Treaty). For this reason the Agreements have to undergo a lengthy ratification process by the national parliaments of member-states, once they have been signed, which can take more than four years.

Stefania Spapperi

1. Essential aspects of the current development and modernisation process in Syria

Syria has decided to modernise on its own, in order to achieve sustainable development through reform of its economy and administration. This process of modernisation has not been imposed from outside, as occurred with other emerging nations that had immense foreign debt burdens which were forced to change their economic structures in accordance with the demands of the international community.¹ Instead the impetus for reform arose from internal pressures and from elite awareness that this would be an essential step to confront rapid change in the wider world. Syria will thus not run the risk of confusion between its own national priorities and those of its donors. Furthermore, such an approach does not require Syria to follow a specific economic model for its modernisation but can select models that accord with its national interest and absorptive capacity.

Sustainable development seeks to ensure that the social impact of reforms is taken into consideration in order to create job opportunities and improve living conditions alongside macro-economic change. This requires that decisions over the nature of reform should conform with domestic financial and human resources and not with a pre-determined reform plan imposed from outside. For this reason, economic plans in Syria are not designed by foreign experts who are removed from the country's dynamic reality, but by government and private sector representatives – consultants and researchers who are aware of Syrian economic and social life. In its modernisation process, therefore, Syria tries to keep a balance between the demand of modernisation and the need to guarantee social equity. In effect, this means that decisions designed to revive the private sector are balanced by measures to protect the rights of public employees and the security of pensioners.² Furthermore the modernisation process has not meant that privatisation become an objective in itself for Syria. Privatisation and the reforms of public sector institutions and companies depend on their ability to respond to world market demand.

¹ The prescription applied in such cases was defined by the "Washington Consensus". This term has become a term of art for a general reform plan based on the liberalization of trade and currency regimes, the encouragement of export-oriented industry and the consequent abandonment of import substitution policies. It also involved the reduction of the role of the state within the domestic economy and the elimination of official subsidies, so that the logic of the market was mobilized to satisfy demand.

² In the public sector, a package of measures designed to safeguard the rights of civil servants, such as a wage increase, have been taken. The wage increase has been around 25 per cent for civil servants and 20 per cent for the armed forces and pensioners.

2. A step forwards to reform

A series of laws, legislative decrees and measures have been adopted in the context of Syria's modernisation process: others are still under discussion, either as draft laws or as simple recommendations. All these reforms, however, have been formulated in line with European Partnership requirements.

Banking and Finance. In the financial sector several measures have been adopted since summer 2000. Among these developments, the most significant is the decision to reform the banking sector and to allow the establishment of private banks. The banking law No. 28³, adopted in March 2001, allows foreign investors to own up to 49 per cent of a commercial bank if approved by the Council of Ministers. Law No. 28 defines two types of private bank ownership. The first type will permit outright ownership by private and foreign investors. The second type will be jointly owned by private investors and the Syrian government, which will control not more than 25 per cent. Individual investors are not allowed to own more than 5 per cent of the bank's capital. The minimum capital required to open a commercial bank is stipulated as SL1,500 million (\$33 million). Banking activities will be under the supervision of the Central Bank of Syria. The commercial bank has to deposit as reserve at the Central Bank of Syria an amount equivalent to the 10 per cent of its contributed capital. The proportion of profit to be transferred abroad is subject to a prior agreement between the commercial bank and the Central Bank of Syria. The banking law has been complemented by Law No. 29 on banking secrecy⁴, which is identical to the laws in most countries and applies internationally recognised confidentiality practices. A special law on money laundering will be issued soon. Along with the reform of the banking sector, a Stock Exchange Law has been proposed to the parliament. The establishment of a local stock exchange will be a further source of founding for the private investment sector.

Monetary policy. Syria currently has a multi-tier exchange-rate regime.⁵ Nevertheless, in early February 2001, an important step towards issuing an unified exchange rate was adopted. A free market exchange rate for certain currency transactions was introduced.

Furthermore, a new law, Decree No. 6 of 2000, allows Syrian nationals to hold foreign currency⁶, though dealing in foreign currency is only allowed by authorised institutions.

Table 1: 'Neighbouring country' exchange rates (av) SL: \$

| 1995 | 1996 | 1997 | 1998 | 1999 ¹ | 2000 ¹ |
|------|-------|-------|-------|-------------------|-------------------|
| 42.0 | 42.90 | 44.50 | 46.30 | 46.30 | 46.30 |

Source: The Economic Intelligence Unit (EIU) (2001)

Notes: ¹ EIU estimates

Fiscal policy. The reform of the tax code is under discussion. The purpose is to achieve fair and effective tax collection. The justification for the reform project is to move taxation from production inputs to consumption. This is the reason why a tax on sales should be introduced and a proposal to minimise taxation on industrial and commercial activities has been introduced for the same reasons.

³ See the text of the Law No.28, 29.03.2001 in http://www.syrecon.org/main_frame.html

⁴ See the text of the Law No. 29, 18.03.2001 in http://www.syrecon.org/main_frame.html

⁵ It consists of the official rate of SL11.225:\$1, which is now effectively only used for denominating foreign debt obligations. The special rate of SL22.5: \$1 is used for the importation of certain luxury items. The "neighbouring countries" rate of SL46:\$1 is used for most other purposes, including the repatriation of foreign companies dividends and capital.

⁶ Previously, possession of foreign currency was technically punishable by a large fine or a prison term.

Foreign debt. Syria rescheduled its debt with Italy in 1990, with France in 1996 and with Germany in November 2000. This was an important hurdle for Syria to improve its relations with the EU and to have access to European Investment Bank funds⁷.

Table 2: Current account and debt ratios, 1996 to 1999

| | 1996 | 1997 | 1998 | 1999 |
|---|-------------|-------------|-------------|-------------------|
| Total external debt (\$ billion) | 21.4 | 20.9 | 22.4 | 22.6 |
| Net external debt/GDP% | 134.9 | 126.1 | 131.1 | 128.0 |
| Debt service ratio, due (%) | 21.8 | 24.5 | 25.3 | 24.7 ¹ |
| Debt service ratio, paid (%) | 3.9 | 9.3 | 6.6 | 9.3 ¹ |

Source: Central Bureau of Statistics, *Statistical Abstract*, Damascus (CBS) (2000)/EIU (2000b)

Notes: ¹EIU estimates

Modernisation of the public and private sectors. There is draft legislation now in being that aims to reform state enterprises. The proposed reform is mainly designed to clarify the relationship between public companies and the state. Public companies will acquire economic, financial and administrative independence, which will be guaranteed by separating state ownership from the managerial process. This will allow management of state enterprises to be entrusted to local or foreign companies. Public companies should also be guided by fundamental principles of economic management and accountability and they should be subject to commercial law in terms of price, employment and wage policies are concerned. Company management in terms of competition, profits, quality and pricing policies have to be based on market mechanisms.

As far as the private sector is concerned, the government has proposed to adopt measures to support investment through the development of fair and efficient regulatory legislation. The main elements of the proposed measures concern the establishment of industrial zones and the amendment of laws that obstruct growth in industrial exports. As part of this objective, customs tariffs should be reduced and regulations controlling the grant and costs of investment licenses will have to be simplified.

Industrial Investment. In May 2000, Law 10/1991⁸ was amended to offer new opportunities and tax exemptions to European and other foreign investors. The new regulations allow full foreign ownership of real estate and property for new investment projects.⁹ Foreigners are also permitted to open bank accounts abroad "to secure their requirements, settle their obligations and collect their dues" and, five years after the project investment has been made, to transfer the value in foreign currency of their net share in the project abroad. The amended article 19 of the law allows the establishment of "mixed" shareholder companies to which the public sector can contribute with not less than 25 per cent of the capital. The founders of the company, whether they are Arab or other foreign citizens, can also chair the board of directors. The amended law also establishes an arbitration mechanism to settle disputes between the parties. In addition, they can also insure their investment with the Inter-Arab Investment Guarantee Corporation or with any other establishment, a proposal which provides a further guarantee for investors., The High Council for Investment has decided to allow the establishment of "international hospitals" within the framework of this law

Another important issue under discussion is the encouragement of investment in the tourism sector. In 2000 the government drew up a twenty-year tourism plan which provides for improvements in the current legal basis for investments in the tourism sector (decree No. 186/1985. Syria will be divided into three tourist areas enjoying tax exemptions that range from 9

⁷ The lending activity of European Investment Bank (EIB) was halted in 1995 because of the unresolved debt issues between Syria and EU member-states.

⁸ See the text of the law No.10/1991in: http://www.syrecon.org/main_frame.html

⁹ Previously foreign investors were only allowed to lease land from the government.

to 15 years. In addition, the Minister of Tourism will be entitled to licence investments directly, instead of requiring investors to follow a long and time-consuming bureaucratic process.

Foreign Trade. A new export strategy has been prepared by the Ministry of Economy and Foreign Trade. The main assumption behind the strategy is that only a comprehensive policy could help stimulate exports and support strategic export-oriented projects. The provision of a new commerce law and a business code is still under discussion. The proposals revolve around the establishment of joint stock companies, the clarification of rules governing foreign participation, opportunities for branches of foreign companies opening in Syria and the licensing of holding companies. Meanwhile, a trade law is also under discussion. This is designed to ease procedures that govern commercial activities in Syria, such as harmonised customs tariffs and allowing exporters to retain all of their export incomes in foreign currency, as well as easing regulations on the temporary entry of goods. In addition, in order to create a coherent environment for trade activities, all foreign trade regulations should be amended by reducing restrictions on imports and cancelling the license system which would be replaced by an enlarged list of banned commodities.

Furthermore, other measures have also been taken to attract foreign investment and to promote trade with foreign countries. Inside Syria, an organisation for export promotion has been established and the *Investment Bureau* has been strengthened by setting up official branches in each of the fourteen provinces and at border check points. They thus become an instrument to attract investment and to facilitate trade. Abroad, the appointment of commercial attaches to Syrian embassies will promote Syrian exports in the countries in which they are stationed and thus create new foreign markets for Syrian products.

In the agricultural sector, an important step to improve trade with neighbouring countries was introduced in March 2001 when a forty year-old agricultural tax system was cancelled. This 1957 law levied a standard tax on all agricultural products imported or exported by Syria. The new regulation exempts all agricultural products of Syrian origin and those imported from neighbouring countries from the tax and also covers products that enter Syria on a temporary basis for manufacture and re-export. In the industrial sector, President Bashar al-Assad issued a decree in Spring 2001, which lowered tariffs on industrial raw materials to 1 per cent. In February 2001 Syria also adopted an intellectual property protection law for Syrian authors. This is an important step towards issuing an industrial, commercial and intellectual property rights law, in accordance with international requirements.

Regional Trade. Since last year Syria has taken important steps to increase its economic links with other countries in the region. Agreements for the establishment of free trade zones with a number of Arab countries have been signed.

Job creation. The *State Planning Commission* has introduced a *Law for the Fight Against Unemployment*. The new regulation aims to create over 440 thousand employment opportunities in the period of 2001-2005 at a cost of SL50 billion. The bill calls for the establishment of a *National Commission for the Fight Against Unemployment*, a corporate entity with financial and administrative independence but run by the Planning Ministry and headquartered in Damascus. The Commission will undertake studies aimed at identifying sectors that promise to provide increased income and more jobs. The Commission will also suggest new production ventures in the productive and service sectors. This will be in addition to sponsoring projects on rehabilitation, training and retraining.

Other measures. A special *Ministry for Administrative Development* was established when the government was last changed in March 2000. In June 2001, the Ministry of Information granted a licence for the publication of an weekly economic magazine.¹⁰ In August, President Bashar al-Assad issued Decree No. 36/2001 which allows the creation of private universities. It permits the establishment of private and joint-venture educational establishments that would contribute,

¹⁰ The name of the paper is *al-Iqtisadeyah* and the chief editor is the journalist Waddah Abd Rabbu.

together with existing Syrian universities and intermediate institutes, to providing best level of education possible. These new universities are designated to teach Arab and foreign programmes in collaboration with government, Arab and other foreign universities.

3. The steps requested by the EU on an Association Agreement

Even if Syria has already undertaken a process of modernisation, the EU considers that there is still need for further amendment or development of the regulatory system in Syria if an association agreement is to be signed. The agreement, as proposed by the EU, mainly requires improved market access for industrial exports from European countries and an agreed preferential access for agricultural products. The main purpose of this agreement would be to establish an open market for the exchange of goods and capital, through the application of market economy principles, with the Arab countries as well as Europe itself.

From the EU perspective, Syria, to make progress, must commit itself to reduce trade barriers and respect intellectual property rights, as well as adhere to other fiscal, economic and social standards, reform the public and the private sectors and strengthen investment guarantees. In general, the EU asks Syria to return to the GATT and to join the WTO, as well as accepting international agreements and treaties on international and commercial arbitration and dispute settlement. In particular, the EU requires that commercial law should be amended until it is in line with the legislation applied in European countries, as far as company formation and foreign property rights are concerned. From an European perspective, the investment law should be developed to improve investment guarantees. Therefore, in order to satisfy the requirements of the Partnership, Syria will have to allow the liberalisation of direct investment capital movements and the repatriation of profits in case of liquidation. It is also suggested that the environment for direct investment could be improved with appropriate currency and banking sector legislation. Currency reform will require the removal of all the restriction on payments related to the movement of goods, people, services and capital. In the banking sector, the development of exchange practices and banking transfer procedures could improve the environment for foreign investment. From the European point of view, an attempt should be made to create an attractive private business environment in Syria through the development and expansion of professional unions and business associations amongst other considerations. Syria should also develop its economic and administrative management techniques in both the public and private sectors. Furthermore, government monopolies over certain activities should be cancelled. Syria should also develop environmental in line with European legislation and in accordance with the international agreements that Syria has signed.

Syria considers that, within the context of the transition to a more market-oriented economy which is currently under way, the implementation of the amendments required by the association agreement proposed by the EU, in addition to the phasing out of all custom taxes, will have a negative impact on the national economy. Indeed, if they were adopted, these steps would lead to a decrease in the state's financial resources and could generate a major trade deficit through unequal competition. This would be in addition to the disturbance caused by the free movement of capital. Another indirect effect on state revenues would arise from the reduction of income generated by the substitution of EU imports for non-EU imports (trade diversion). Syrian decisions must therefore be cautious and should be based on sufficient studies that effectively analyse the long-term impact of these changes on the national economy.

4. The current view of an association agreement in Syria

Two points of view are emerging inside Syria over the association agreement. One warns against the adoption of hasty measures that could have an adverse social impact and the other argues that quick decisions are necessary to respond to domestic needs and to face the changing world economy.

4.1 The risk of association

This cautious approach argues against hasty decisions which neither the economic establishment nor the administrative infrastructure are yet ready to take. Advocates of this view argue that the reforms should be undertaken gradually since an appropriate schedule would take a relatively longer time to achieve economic reform whilst avoiding negative impacts on the economy in general and the industrial structure in particular. This would enable the country to achieve social and economic development phase without adverse financial or social shock. For this reason, forcing the reform schedule to meet the repeated requests of the EU to sign the agreement in summer 2001¹¹ or early 2002 would lead to a distortion of the reform programme with negative consequences for its anticipated results.

The EU's approach to development in the Mediterranean countries focuses on trade liberalisation but is both inappropriate and inadequate to achieve the results it seeks. Statistics show a lack of major increases in commercial exchange as a result of the Co-operation Agreement signed with the European Community in 1977.¹² According to the 1977 agreement, Syria was given a tax-free import quota of €150 million, but that figure never materialised in reality.¹³ This suggests that custom duties are not the basic factor in developing trade exchanges and are not the main instrument by which development can be achieved. Non-tariff barriers to commercial exchanges and regulations on issues such as rules-of-origin, environmental policies and intellectual property are more important in this respect.

Studies by Tunisian and Moroccan experts have suggested that the real purpose of the Partnership Agreement is to encourage specialisation in the pattern of industrial production in Northern Africa countries. The same seems to apply to Syria as well. Nevertheless, even if Syria would achieve a level of specialisation and thus increase its exports to Europe beyond a certain limit, it seems likely that the EU would raise obstacles to these increases, such as claiming that Syria was engaged in dumping practices.

In addition, the assistance provided through the MEDA II¹⁴ programme will not cover the revenue impact on the Mediterranean countries of the elimination of tariffs, which is estimated to be around €40 billion. One simply has to compare the assistance that the EU gives to Eastern Europe with those given to its Mediterranean partners in the EMP in this regard to appreciate what this means.

¹¹ The president of the European Commission, Romano Prodi, during his visit in Syria at the beginning of February, publicly stated that negotiations could be concluded by summer 2001. Cf. European Union, *Newsletter of the Delegation of the European Commission in Syria*, No. 2, March-April 2001, p. 8.

¹² Cf. Cooperation Agreement between the European Community and the Syrian Arab Republic (OJ L 269, 27/09/1978).

¹³ Other commentators have pointed out that the advantageous conditions provided in EU cooperation agreements have failed to increase Southern exports to Europe. EU import quotas, for example have often not been filled. See in Kienle, Eberhard, *Destabilization through Partnership? Euro-Mediterranean Relations after the Barcelona Declaration*, in *Mediterranean Politics*, Vol. 3, No.2 (Autumn 1998), p. 6.

¹⁴ The total commitments for 2000-2006 are €5,350 million. Cf. Council Regulation (EC) n. 2698/2000, 27 November 2000 (OJ L 311/1, 12/12/2000).

The assistance per capita provided by the EU to Eastern Europe is €33 per year, while its equivalent in the MEDA countries is only €3.9 per year¹⁵.

Moreover, only 26 per cent of the funds provided under the MEDA I programme were actually used¹⁶, because of executive and bureaucratic delays. Egyptian studies show that even the amounts that have been spent were not usefully used because the procedures employed by the MEDA programme required high spending levels and long implementation times, thus reducing the utility of the programme. In addition, it should be borne in mind that, in the MEDA programme, 75 per cent of the technical assistance is spent on salaries and only 25 per cent on equipment supplies. In fact, qualification procedures for European programmes are undertaken by expensive European experts and if, in some cases, companies choose less costly options to improve profit margins, they run the risk that less qualified experts will be retained. The EU should realise that, in many cases, Syria has excellent specialised expertise trained originally in Europe itself, which would enable the cost base quoted above to be reversed and thus increase the purchases of equipment supplies.

There is also a lack of economic and legal balance in the way the EU deals with its Mediterranean partners. The Association Agreement guarantees the free access to the European market for industrial goods whilst it keeps protective measures in place in sectors that Europeans feel could be competitive with their own output, as in the field of agriculture. This is maintained even though the EU is aware of the importance of the agricultural sector in the economies of Southern Mediterranean countries, for it employs around 30 per cent of the active population. Europeans are, in short, afraid that agricultural produce from Southern Mediterranean countries could penetrate into their market to the detriment of European producers. An analysis of production statistics demonstrates, however, that Northern Mediterranean production is higher than that of Southern Mediterranean countries. Northern Mediterranean countries export \$81 billion-worth of agricultural products, while Southern Mediterranean agricultural exports do not exceed \$6.2 billion. Consequently, even if free trade in agricultural produce were established between the EU and the Mediterranean countries, it is difficult to believe that the EU could be threatened by Southern production.

Table 3: Origins of Syria's Gross Domestic Product, 1997

| | PER CENT |
|---|-----------------|
| Agriculture | 29.2 |
| Mining, manufacturing, electricity and water | 22.3 |
| Wholesale and retail trade | 19.2 |
| Transport and communications | 11.9 |
| Government services | 7.9 |
| Finance and insurance | 3.7 |
| Building and construction | 3.7 |
| <i>GDP at market prices incl others</i> | 100.0 |

Source: EIU (2000)

¹⁵ The data on assistance per capita has been calculated taking into account the total commitments for 2000-2006 of PHARE, ISPA and SAPARD programs (€21,000 million), and the total commitments for MEDA II, (€5,350 million).

¹⁶ The total commitments under MEDA I were €3,435 million and payments have totaled €890 million.

Table 4: Syria's Principal Exports, 1998

| | US\$m |
|----------------------------------|--------------|
| Crude Oil | 1,342 |
| Fruit and vegetables | 380 |
| Textiles | 366 |
| Cotton | 273 |
| <i>Total incl. others</i> | 3,135 |

Source: CBS/EIU (2000)

From a legal point of view, the division of authority laid out in Article 228 of the Treaty of European Community, concerning external relations, is not clear enough to exclude friction between the Community and Partner member-states, as the case of Jordan shows.¹⁷ As this precedent showed, the EU Council as well as the various European parliaments have the right to reopen negotiations after an agreement has been reached between the parties. This creates an asymmetry in the negotiation process that could have a negative impact on the Union's partners. Moreover, the approval process can take several years which is, in itself a severe disadvantage.

4.2 Integration as a strategic choice

This point of view argues for accelerated conclusion of the Partnership Agreement. The decision to negotiate a Syrian-European Partnership was a strategic decision adopted by the highest political leadership, having as its aim a Partnership Agreement intended for progress and development beyond mere trade exchanges and leading to co-operation in the fields of economic development, direct investment and knowledge transfer intended to be for the benefit of both parties to the agreement.

Losses would certainly be sustained in the short-term, but the benefits in the long-term will greatly outweigh such losses if corrective policies are adopted which would be designed to increase openness towards the outside world through comprehensive economic improvement, alongside a restructuring plan for the industrial sector as a whole. This would address development in the structures of productive enterprises in both the public and the private sectors and the issue of reform in financial institutions.

This point of view seems to offer a very reasonable approach to the problem of development and one which, moreover, would be suitable for Syria. It responds to the desire of the European Commission to accelerate the signing of a Partnership Agreement. It requires, however, great comprehension from the European Commission over many subjects which are discussed below. In fact, any acceleration in the schedule laid down for economic and social development will distort the process and it will become impossible to prevent negative effects rising from the transition process itself. These effects could, however, be mitigated through additional assistance from the EU. The EU should recognise that Syria has a youthful, vital and educated workforce, great potential natural resources, strategic commercial location and a stable social and political environment, even if it is in transition. Furthermore, the EU has to recognise that it should adopt policies designed to alleviate the negative effects that could result from economic transition in the following sectors:

¹⁷ In the final stage of the negotiations on the Association Agreement, the EC conceded to Jordan an automatic reexamination clause on the tomato concentrate quota. The agreement was initialed in April 1997. Nevertheless, two weeks later, a group of member-states headed by Spain asked for the negotiations to be re-opened. See Monar, Jörg, *Institutional Constraints of the European Union's Mediterranean Policy*, in *Mediterranean Politics*, Vol. 3, No. 2 (Autumn 1998), pp. 56-57.

Direct investment. The volume of direct investment in Syria could be increased through the following promotional policies:

- Make loans available at a medium rate of interests for companies wishing to invest in Syria. This rate should fall between the low rate of governmental loans and the commercial rate;
- Reduce the level of "*country risk*" attributed to Syria, for it is too high at present.
- Establish a program that secures European investments in Syria and encourages European foreign trade insurance to reduce its premiums and raise the ceiling on credit lines for Syria.

Foreign debt. The EU could persuade its member-states to recycle debt service instalments, paid by Syria to France and Germany, in the form of direct investments in Syria.

Knowledge transfer and training. The establishment of a programme allowing Syrian companies to benefit from technological research carried out by scientific research institutes in Europe could be a useful instrument for training purposes. In addition, the EU could create a fund to allow such institutes to carry out new research concerning the development of local products. To this end, the EU would share 50 per cent of the costs of adapting European technology in a manner suitable for the local Syrian environment. Such a programme would benefit companies in the private and public sectors as well as the technological universities. Subsequently, it might be appropriate to establish a joint technical university and advanced vocational training institutes.

In view of the EU's request that Syria join international agreements on international and commercial arbitration and on dispute settlement, it would be of value to establish a programme for training Syrian judges in the field of international trade arbitration.

As a result of concluding an Association Agreement with the EU, Syria will have to reform its domestic tax system in order to mobilise "compensatory revenue" and reduce distortion effects. In view of this development, Syria would benefit from the establishment of a training programme in technical issues of tax collection administration, in order to avoid revenue losses caused by the ending of custom duties.

Joint ventures. The EU should support the establishment of joint industrial companies which would contribute to the transfer of knowledge in the field of modern management and in technological processes, in order to find new markets for Syrian products.

Agricultural production. The EU must set up a programme to modify the structure of traditional exchange in agricultural commodities, towards a diversification that could increase the revenue from Syrian agricultural exports¹⁸. The programme should also improve the quality of produce and develop marketing skills.

Rules of origin. Some seminars on this subject have already been organised by the EU. Nevertheless, considering the importance of the topic in the Partnership, a programme for helping to develop rules-of-origin for Syrian products must be established. This would have to take into account the great difference in industrial development that exists between Syria and Europe. This means that conditions determining a product to be of Syrian origin should be eased during the transitional period. The transitional period itself must be commensurate to the gap that exists between industrial levels in Syria and in the EU. Similar considerations have to be made for the concept of cumulation-of-origin in respect of Arab countries.

Intellectual property. In early February, Syria adopted a law on intellectual property protection for Syrian authors. Notwithstanding this development, EU must still allow a relatively long transitional period before intellectual property protection law can correspond to international standards.

¹⁸ The change of the trade structure in agricultural commodities began after the signature of the Co-operation Agreement with the EC in 1977.

Capital and investment transfer. The EU should be more lenient in its requirements for profit regulations and rules for capital transfers, so as to allow the application of current Syrian law.

Competition and environment criteria. The EU should be more flexible over competition and environment criteria.

Tourism. In this field, the EU should support programmes and grant financial assistance designed to attract tourists to Syria through the establishment of a fund to finance production of catalogues, brochures and films about tourism sites in Syria and to publish advertisements in European media.

Assistance in the fields described above, according to priorities that must be established, should be primarily in the form of technical assistance. Subsidies and loans shall be granted in order to facilitate these strategies, by retaining experts in the ratio of one-third Europeans to two-thirds Syrians. The adoption of these proposals would certainly accelerate negotiations and the early conclusion of a Partnership Agreement.

Conclusion

In addition to these considerations, it is perhaps necessary for the European Union to review its position about the economic policies defined in the Association Agreements as instruments to promote development in Mediterranean countries. If the Partnership is to be limited to technical and economic concerns, its application would lead to trade and balance-of-payments deficits. This, in turn, will help to increase of unemployment, poverty and instability in the countries concerned. Such a situation would provoke heavy emigration to the EU, although one of the main aims of the European Union in concluding Partnership Agreements, has been to limit such emigration flows from Southern Mediterranean countries to Europe.

Furthermore, Syria will not accept international interference in the management of its economy. It was for this reason that Syria did not accept the re-scheduling of its debts to the World Bank and to individual countries through the specified international prescriptions. This enabled it to avoid being obliged to apply externally-imposed economic policies. The same argument also applies to European assistance. Syria will welcome co-operation and co-ordination with the EU, but not direct interference in the management of the economy, nor externally-designed social policies, nor, indeed, discussion with foreigners over the role of the state in the economy.

In addition, the EU must appreciate that increases in economic assistance are not the only reasons why an agreement may be signed. There are some political factors that the EU must bear in mind, not least the political developments in the region. On several occasions, Syria has tried to use the framework of the Barcelona Process to obtain European support for her just causes and interests concerning the return of territories occupied by Israel. This must be an essential first step in order to arrive at a complete and comprehensive peace in the area, which will serve the interests of all who live there.

APPENDIX: BASIC DATA ON THE SYRIAN ECONOMY

Table A1: Syrian Arab Republic Data Profile

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|--|-------|-------|---------|-------|----------------------|--------------------|
| Population (mn)* | 14.15 | 14.62 | 15.10 | 15.60 | 16.11 | 16.6 |
| Nominal GDP (at market price, \$ bn)** | 13.6 | 15.9 | 16.5 | 17.1 | 16.2 | 16.8 ¹ |
| GDP Per Head \$** | 891.4 | 995.7 | 1,103.9 | 1098 | 1,030.0 ² | 970 ² |
| Real GDP Growth (%)** | 5.8 | 7.3 | 2.5 | 7.8 | -1.5 | 1.5 ¹ |
| Consumer Price Inflation (%)** | 8.0 | 8.2 | 2.4 | -0.5 | -2.7 | 0.5 ¹ |
| Exports fob (US\$ bn)*** | 3.86 | 4,18 | 4,06 | 3.13 | 3,81 | 4,40 ³ |
| Imports fob (\$ bn)*** | 4.00 | 4,52 | 3,60 | 3,31 | 3,45 | 4.00 ³ |
| Trade Balance (\$ bn)*** | -0.14 | -0.34 | 0.45 | -0.17 | 0.35 | 0.40 ³ |
| Current Account Balance (\$ bn)*** | -0.49 | -0.74 | -0.29 | -0.60 | 0.27 | -0.70 ³ |

Sources: *The Economic Intelligence Unit (EIU), 2000. **UNDP/Central Bureau of Statistics (CBS), *Statistical Abstract*, Damascus, 1999. ***IMF/Central Bank of Syria/BMI

Note: ¹EIU estimates; ² World Bank, 2001; ³BMI estimates.

Table A2: Crude oil production, '000 b/d; average

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---------------|------|------|------|------|------|------|------|
| Output | 610 | 588 | 570 | 550 | 535 | 510 | 480 |

Source: International Energy Agency (IEA), 2000.

Table A3: Export and Import EU to and from Syria, in million Euro

| | Total EU Exports to Syria | Total EU Imports from Syria | Trade Balance EU-Syria |
|--------------------------------|---------------------------|-----------------------------|------------------------|
| 1990 | 838981 | 1232997 | -394016 |
| 1991 | 872.488,7 | 1.351.307,2 | -478818,47 |
| 1992 | 1.052,939,4 | 1.510.959,9 | -458020,55 |
| 1993 | 1.361.678,7 | 1.665.540,2 | -303861,51 |
| 1994 | 1.611.154,3 | 1.572.096,8 | 39057,52 |
| 1995 | 1.377.900,5 | 1.734.537,6 | -356637,08 |
| 1996 | 1.402,585,6 | 2.025.319,4 | -622733,86 |
| 1997 | 1.350.989,6 | 1.993.376,8 | -642387,12 |
| 1998 | 1.532.872,0 | 1.467.259,0 | 65613 |
| 1999 (first six months) | 710.771,0 | 786.251,0 | -75480 |

Source: Eurostat COMEXT/CBS

Table A4: Merchandise exports of Syria to and from Arab countries (AMF members), in million \$

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|--------------|---------------|---------------|---------------|-----------------|---------------|---------------|
| Jordan | 96.66 | 92.98 | 120.22 | 171.02 | 42.20 | 38.12 |
| Emirates | 35.65 | 51.28 | 29.13 | 42.94 | 36.75 | 33.20 |
| Bahrain | 4.98 | 6.19 | 6.86 | 9.76 | 6.02 | 5.44 |
| Tunisia | 19.84 | 40.62 | 32.89 | 19.01 | 15.71 | 14.19 |
| Algeria | 24.33 | 39.70 | 30.59 | 43.91 | 80.70 | 72.90 |
| Saudi Arabia | 196.37 | 195.41 | 137.67 | 202.96 | 234.54 | 211.86 |
| Sudan | 3.95 | 4.80 | 5.33 | 7.58 | 9.56 | 8.63 |
| Somalia | 0.00 | 0.00 | 0.00 | 0.00 | 0.04 | 0.04 |
| Iraq | 0.00 | 0.23 | 0.00 | 0.00 | 0.00 | 0.00 |
| Oman | 0.00 | 0.00 | 0.77 | 1.11 | 0.00 | 0.08 |
| Qatar | 12.41 | 10.74 | 11.20 | 16.52 | 11.16 | 10.08 |
| Kuwait | 51.23 | 60.60 | 58.09 | 0.00 | 52.69 | 47.60 |
| Lebanon | 390.90 | 309.82 | 263.48 | 360.99 | 247.53 | 223.60 |
| Libya | 50.58 | 60.83 | 63.47 | 93.57 | 15.56 | 14.06 |
| Egypt | 22.37 | 21.38 | 13.11 | 20.36 | 29.30 | 26.46 |
| Morocco | 11.78 | 32.05 | 19.84 | 29.89 | 9.48 | 8.56 |
| Mauritania | 0.04 | 0.03 | 0.04 | 0.05 | 3.30 | 2.98 |
| Yemen | 9.91 | 5.35 | 8.32 | 3.32 | 10.50 | 9.49 |
| Total | 931.00 | 932.00 | 801.00 | 1,023.00 | 805.03 | 727.20 |

Source: The Arab Monetary Fund (AMF), *Foreign Trade of Arab Countries*, 2000

Table A5: Merchandise imports of Syria from Arab countries (AMF members), in million \$

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Jordan | 60.23 | 73.71 | 70.20 | 71.41 | 17.41 | 18.07 |
| Emirates | 13.39 | 21.23 | 25.84 | 26.52 | 31.69 | 32.89 |
| Bahrain | 2.61 | 0.82 | 1.06 | 1.08 | 5.88 | 6.02 |
| Tunisia | 25.55 | 12.99 | 3.75 | 5.66 | 1.75 | 1.81 |
| Algeria | 0.01 | 0.01 | 0.01 | 0.01 | 1.51 | 1.57 |
| Saudi Arabia | 74.92 | 77.85 | 94.75 | 97.26 | 91.02 | 94.48 |
| Sudan | 8.78 | 7.81 | 10.12 | 10.29 | 6.22 | 6.45 |
| Somalia | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Iraq | 0.00 | 0.10 | 0.00 | 0.00 | 0.00 | 0.00 |
| Oman | 0.00 | 0.00 | 9.81 | 10.35 | 0.00 | 0.00 |
| Qatar | 0.81 | 1.71 | 2.08 | 2.13 | 3.91 | 4.06 |
| Kuwait | 3.75 | 1.81 | 0.00 | 0.00 | 10.42 | 10.81 |
| Lebanon | 55.03 | 56.50 | 86.91 | 44.57 | 36.58 | 37.97 |
| Libya | 12.22 | 19.07 | 23.21 | 23.82 | 18.10 | 19.11 |
| Egypt | 69.38 | 69.54 | 66.85 | 38.83 | 57.09 | 59.25 |
| Morocco | 14.00 | 22.42 | 19.02 | 8.05 | 23.10 | 24.23 |
| Mauritania | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Yemen | 1.34 | 1.44 | 0.40 | 0.01 | 1.40 | 1.46 |
| Total | 342.00 | 367.00 | 414.00 | 340.00 | 306.00 | 318.20 |

Source: AMF, *Foreign Trade of Arab Countries*, 2000

EuroMeSCo Papers

1

Volker Perthes, *Germany and the EuroMediterranean Partnership: Gradually Becoming a Mediterranean State*, February 1998.

2

May Chartouni-Dubarry, *Les processus de transition politique au Proche-Orient*, septembre 1998.

3

Alfred Tovias, *Israel and the Barcelona Process*, October 1998.

4

George Joffé, *Foreign Investment and the Rule of Law*, March 1999.

5

Azzem Mahjoub et Hafedh Zaafrane, *La zone de libre-échange euro-méditerranéenne*, mars 1999.

6

Gema Martin Muñoz, *Réforme politique et changements sociaux : l'exemple des pays du Maghreb*, avril 1999.

7

Roberto Aliboni, *Building Blocks for the Euro-Med Charter on Peace and Stability*, January 2000.

8

M. Fatih Tayfur, *Turkish Perceptions of the Mediterranean*, March 2000.

9

George Joffé, *International Implications of Domestic Security*, April 2000.

10

Catherine Wihtol de Wenden, *La politique de visas dans l'espace euro-méditerranéen*, avril 2000.

11

Elvira Sánchez Mateos, *The Antipersonnel Landmines Issue in the Mediterranean*, April 2000.

12

May Chartouni-Dubarry, *La complémentarité entre l'UE et les Etats-Unis dans le processus de paix israélo-arabe – les implications pour le PEM*, avril 2000.

13

Álvaro de Vasconcelos, *Intégration et coopération sous-régionale en Méditerranée*, avril 2000.

14

Ayman Abdel Nour, *Syrian Views of an Association Agreement with the European Union*, December 2001.