

A stylized world map composed of a grid of dots in various shades of gray, with several dots highlighted in red. The map is centered behind the title and subtitle.

# Syria on the Edge of a new Cooperation Era?

## Prospects for the EU-Syrian Association Agreement

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- Since 2004 the Syrian Arab Republic (SAR) has been negotiating a bilateral Association Agreement with the European Union (EU). Regional tensions in the Middle East, the incapacity of the EU to decide unanimously as well as distrust by some Member States of the Syrian regime's intentions have hampered the signature of such a treaty to date. Furthermore, when the EU under the Swedish Presidency called on the SAR to sign the agreement in October 2009, Syria declined the invitation.
- Although the EU remains Syria's main trading partner, the country has tried to develop new partnerships and cooperation with Russia, Turkey and China during its isolation period. Inspired by the Chinese model, Syria seeks a »social market economy« combining economic liberalization with a strong social role of the state.
- Both sides would gain from the conclusion of a European Syrian Association Agreement (ESAA). Given the economic challenges faced by Damascus, strengthening the partnership with the EU seems essential. Political cooperation between Syria and the West will only improve, once a closer economic partnership has become effective.
- In the long run, the ESAA could create a framework for political dialogue in areas of mutual interest, but Brussels needs to be able to speak unanimously if it wishes to deepen its partnership with Syria. In return, Syria will have to distance itself from the »destabilizing« regional powers, if it wishes to deepen its partnership with the EU. For the Syrian authorities, the challenge will be to strike the right balance between the economic benefits of the agreement and the degree of political openness it is ready to grant to the EU.



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## Introduction

Syria is the last member of the Euro-Mediterranean Partnership that has not signed a bilateral Association Agreement with the European Union (EU). Initialled twice in 2004 and 2009, the Syrian Arab Republic (SAR) finally refused to agree on the final version when invited to sign by the Swedish Presidency. Regional tensions, the incapacity of the EU to decide unanimously in a crisis, and distrust by some Member States (MS) of the Syrian regime's intentions were among the reasons that led Syria to reconsider its decision. Thus, the EU-Syria partnership has been eventful due to both internal and external factors.

What are the advantages for Damascus in signing the agreement? What are the benefits for the EU? How can a sustainable partnership between the two partners be developed?

### 1. Overview of the EU-Syria relationship

#### 1.1 The EU-Syria cooperation

The EU seeks to deepen its partnership with the SAR. Beyond a purely economic cooperation, the EU wishes to promote political dialogue and offer its support for the corresponding Syrian reforms. A Cooperation Agreement, signed in 1977, currently defines the relationship between Syria and the EU. The agreement aims at promoting economic cooperation and trade between the two partners with regard to their respective levels of development. The EU and Syria have thus agreed to make efforts to strengthen their economic ties on a basis of mutual benefit. Among others, these efforts include simplifying the conditions of access for Syrian products to the European market. Beyond a pure business relationship, the Cooperation Agreement provides European technical assistance and financial support in order to help Syria in its development path. Taking into account the loans from the European Investment Bank (EIB), the EU and its MS allocated 210 million € in 2010.<sup>1</sup>

1. EU: 43 million €, MS: 30 million €, EIB loans: 150 million €.

In 1995, Syria signed the Barcelona Declaration<sup>2</sup>, which establishes a global Euro-Mediterranean Partnership. The SAR also became a member of the Union for the Mediterranean<sup>3</sup> in 2008. Thus, the 27 MS and the Mediterranean partners committed themselves to extending their fields of cooperation to politics and security, as well as broadening their cooperation in the areas of social, cultural, and human affairs. In the framework of the European Neighbourhood Policy (ENP), an Association Agreement establishing the conduct of bilateral relations between the EU and Syria has been designed. However, as the agreement has not been completed yet, EU-Syria relations remain regulated by the cooperation agreement of 1977.

#### 1.2 The EU-Syria Association Agreement (ESAA)

The Association Agreement is a legal instrument within the ENP that enables a deeper cooperation between the EU and non-EU countries on areas of common interest. Although adapted to each partner country, the Association Agreement is built around three general axes: (1) political and security, (2) economic and financial, and (3) social and cultural. Recalling the importance of the Euro-Mediterranean Partnership, the agreement establishes the basis for cooperation and dialogue to ensure prosperity, stability, and security in the Euro-Mediterranean area. The framework underscores the importance of respect for human rights, democratic principles, and economic and political freedom.

In this spirit, the Association Agreement<sup>4</sup> aims at:

- providing an appropriate framework for political dialogue, allowing the development of close political relations in all fields they consider to be of interest to such dialogue;
- establishing the conditions for the progressive liberalization of trade in goods, services, and capital;

2. Barcelona declaration adopted at the Euro-Mediterranean Conference (27-28.11.1995) – [http://trade.ec.europa.eu/doclib/docs/2005/july/tradoc\\_124236.pdf](http://trade.ec.europa.eu/doclib/docs/2005/july/tradoc_124236.pdf) (accessed on 8.4.2010)

3. Joint declaration of the summit for the Mediterranean (13.7.2008) – [http://www.ue2008.fr/webdav/site/PFUE/shared/import/07/0713\\_declaration\\_de\\_paris/Joint\\_declaration\\_of\\_the\\_Paris\\_summit\\_for\\_the\\_Mediterranean-EN.pdf](http://www.ue2008.fr/webdav/site/PFUE/shared/import/07/0713_declaration_de_paris/Joint_declaration_of_the_Paris_summit_for_the_Mediterranean-EN.pdf) (accessed on 8.4.2010)

4. Council Decision approving the signing of the Association Agreement between the EU and the RAS (17.8.2009) – <http://register.consilium.europa.eu/pdf/en/09/st09/st09921.en09.pdf> (accessed on 8.4.2010)



- developing exchanges and fostering balanced economic and social relations, in particular through dialogue and cooperation intended to enhance the prosperity and economic and social development in Syria;
- encouraging cooperation both within a comprehensive Euro-Mediterranean framework and at sub-regional level through integration between Syria and its regional partners;
- promoting cooperation in the economic, social, cultural, and financial fields, as well as other areas that might be of mutual interest.

Taking into account the difficulties Syria may face in liberalizing its economy, the ESAA includes safeguard measures (Article 15, 31, 32) that would allow Syria to progressively restore customs barriers (Article 13) for a given time period. The document also contains a mechanism to suspend the agreement (Article 136) in case of severe human rights breaches. In order to enter into force, the agreement must fulfill three prerequisites: it must be signed by the SAR, obtain the consent of the European Parliament, and be ratified by the 27 MS.

### 1.3 ESAA: A road fraught with pitfalls

The final version of the ESAA is the outcome of long and difficult negotiations. When the negotiations began in 1998, advances were slow despite a mutual interest in the conclusion of the agreement. The pace of the negotiations intensified when, in the early 2000s – shortly after Bashar al-Assad came to power – Syria showed genuine interest in the agreement. Thus, after a long period of negotiations, the EU and Syria agreed on a first draft in 2003, which led to the initialing of the agreement in 2004.

Thereafter, the situation became complicated. Due to an increasing isolation of Damascus, both partners were no longer able to reach an agreement on a series of sensitive issues and prospects for signing the agreement veered away. Several factors explain the situation. First, the Iraq crisis contributed to a worsening climate. Following the attacks of 11.9.2001, Washington put Syria on the list of states supporting terrorism, suspecting Damascus of facilitating the passage of Jihadists in Iraq. This decision was followed by US sanctions. Although

they have been since then relaxed, these sanctions are still valid. When the Iraq War broke out in 2003, Syria strongly opposed the US intervention, fearing it would be the next target. On the European side, the picture was hardly more encouraging: Europe was not unanimous in its stand on the US intervention in Iraq. This left the Syrian partners skeptical about the European ability to counterbalance American hegemony.

Moreover, the controversy over the clause on Weapons of Mass Destruction (WMD) resurfaced. The clause was introduced after the adoption of European non-proliferation in 2003. Syria considered itself patronized, pointing out that the clause had not been included in similar agreements, particularly in the Association Agreement between the EU and Israel. However, Syria's wish to come to a rapid conclusion of the ESAA forced it to accept more stringent conditions and to initial the agreement in 2004.

The European position toward Syria became more difficult after the assassination of Lebanese Prime Minister Rafik Hariri in 2005. The international community suspected the involvement of members of the Syrian secret service in the Hariri's assassination, which occurred in an atmosphere already strained by the adoption by the UN Security Council Resolution 1559<sup>5</sup> related to the withdrawal of Syrian troops from Lebanon. Then, the EU added a further condition to the list of requirements to obtain the agreement of the European Council: »adequate« cooperation with the International Tribunal on the murder of Hariri (Zorob 2008). Thus, Brussels and Damascus distanced themselves, putting the signing of the ESAA on hold.

The year 2008 represented a turning point in the EU-Syria relationship: the two partners agreed to resume the negotiations. This resulted from a combination of factors. The French presidency of the EU (second semester 2008) marked the beginning of a reconciliation between the EU and Syria. President Assad's visit to Paris in July 2008, which one could describe as a »great reversal«, is a result of the »outstretched hand« policy of Nicolas Sarkozy. Indeed, this policy differed from his predecessor's, Jacques Chirac, a close friend of the assassinated Lebanese Prime Minister. Furthermore, the launch of the Union for

5. UN Resolution 1559 (2004) – [http://www.un.org/Docs/sc/unscl\\_resolutions04.html](http://www.un.org/Docs/sc/unscl_resolutions04.html) (accessed on 8.4.2010)



the Mediterranean in July 2008 played a decisive role in the resumption of dialogue with Syria. The initiative gave a new impulse to the Euro-Mediterranean Partnership. At that time, the political climate was more favorable than in the past. The signing of the Doha Agreement<sup>6</sup> in May 2008, the improvement of Syria-Lebanon relations, the stabilization of the situation in Iraq, as well as the involvement of Syria in indirect negotiations with Israel under Turkish mediation contributed to an environment more conducive to the resumption of the negotiations. Thus, Syria reiterated its intention to renew its partnership by initialing the ESAA text a second time in Damascus on 14.12.2008.

However, the events took another turn in 2009, mainly because of a dissension on human rights. In the aftermath of the rapprochement, a technical update of the ESAA was needed. This involved taking into account the enlargement of the EU and reforms of the Syrian customs regime. It is interesting to note that, regardless of the ESAA, the SAR conducted an alignment of its tariffs on the international system that consisted of lowering its tariffs.

Despite the resumption of negotiations, some MS expressed doubts about Syria's real motivations to reach an agreement. The Netherlands were particularly skeptical about Syria's willingness to improve the situation on human rights. On this particular subject, the Dutch foreign minister Maxime Verhagen tried to harden their position on human rights with a view to gaining political capital. Even if, at that time, the EU recognized the strategic role played by Syria in the stability of the region and wanted to move forward, the Czech EU-Presidency needed six months to complete the technical changes, thereby slowing the final stage of the process. The situation worsened when an internal joint declaration of the 27 MS on human rights – established at the request of the Netherlands – was disclosed. At this stage, the Swedish Presidency of the EU had made every effort to reach an agreement. Although this document had no legal value, the declaration annoyed the Syrian partners.

Meanwhile, the Czech Republic and the Netherlands refused to vote in favor of the UN Resolution on the

Goldstone report on the Israeli military operation in Gaza in late 2008-early 2009. In the eyes of Damascus, the paradoxical position of the Netherlands on human rights was the straw that broke the camel's back.

As a result, when the Swedish Presidency called on the SAR to sign the agreement on 27.10.2009, Syria declined the invitation, giving three official reasons: 1) Syria believed that the invitation had been made inappropriately; 2) the period between the announcement of the signing ceremony and the date itself was too short; and 3) Syria had not been consulted beforehand when a decision was reached about the date of signing. The additional declaration of the EU on human rights was misinterpreted by Syria. Moreover, the fact that the EU did not decide unanimously on the Goldstone report led Damascus to question the EU's ability to speak with one voice.

Far beyond the sake of forms, Syria wanted to review the substance of the agreement. Skeptical about the real impact of the ESAA on the Syrian economy, Damascus wanted to carry out a deeper analysis of the economic and financial consequences on the Syrian economy. In the eyes of the Syrian authorities, the level of financial support and technical assistance provided by the agreement seemed insufficient to offset the loss of revenue resulting from liberalization. The amount of aid granted for similar Association Agreements in the region led Syria to require a higher level of assistance. As a result, Syria is conducting a study based mainly on the results of the EU-Association Agreements with Algeria, Egypt, and Jordan (Quotidien Europe 2009).

Thus, the developments of the ESAA were due to a series of factors. Since Syria's refusal to sign the agreement, no formal meeting involving the negotiations' parties was held to discuss the points of disagreements. However, during the visit of the EU High Representative in Damascus on 16.3.2010, President Assad expressed interest in joining the technical consultations on the ESAA.

6. Agreement reached in Doha, Qatar (21.5.2008) by rival Lebanese factions. It marks the end of an 18 months political crisis in Lebanon.



## 2. Syria on the edge of a new cooperation era

### 2.1 Evolution of the regional situation

»From Hafez to Bashar al-Assad, the problem remains the same: Syria's standing in the regional arena and its relations with Israel« (Donati 2009). Although the issues and context are different, Syria's relationship with its neighbors are changing, giving Damascus a new position in the region.

After a difficult period following the murder of Lebanese Prime Minister Rafik Hariri in 2005, the Lebanese-Syrian relationship, while remaining suspicious, has gradually softened. Some events have contributed to the development of a constructive bilateral relationship: the announcement of the resumption of diplomatic relations between the two countries in 2008; Syria's recognition of Lebanese election results in June 2009; and finally, the visit of Saad Hariri in Syria in December 2009 confirm the desire of both leaders to have a better relationship. Beirut and Damascus expressed a mutual interest in a deeper cooperation, placing their conflicting relationship with Israel at the center of their discussion.

Regarding Iraq, mutual visits by Syrian and Iraqi leaders were held in 2008 and during the first quarter of 2009. However, a major diplomatic crisis broke out between Iraq and Syria in August 2009, which caused the two countries to recall their respective ambassadors. This crisis stemmed from Baghdad's accusation that Damascus welcomed insurgents suspected of having sponsored the deadly attacks in Baghdad in August 2009.

Syria maintains a strategic relationship with Iran. Teheran and Damascus have recently signed an agreement allowing for visa-free passage between the two countries. During Mahmoud Ahmadinejad's last visit to Syria,<sup>7</sup> President Assad asserted that Syria and Iran had »the same goals, same interests and same enemies«. However, the relationship between Teheran and Damascus is challenged for two reasons: first, although Damascus is clearly opposed Israeli intervention in Iran, Syria does not wish to be mixed up with a conflict between the two countries; second, Teheran dislikes Syria's involvement in indirect negotiations with Israel.

Despite progress in indirect negotiations with Israel under Turkish mediation, negotiations have been frozen because of the conflict in Gaza from December 2008 to January 2009. According to an interview given by the Turkish Minister of Foreign Affairs,<sup>8</sup> Syria would be willing to resume negotiations with Israel at the point where they ceased before the Israeli offensive in Gaza. The resumption of talks between Syria and Israel is an essential condition for the stability of the region.

During the past few years, Syria and Turkey have strengthened their political, military, and economic cooperation. Politically, Syria and Turkey have signed an agreement allowing for visa-free passage between the two countries. On the military level, Turkey has decided to conduct joint military exercises with Syria. Economically, a free trade agreement was signed in 2007, and within three years, trade has doubled and foreign direct investments in Syria have risen sharply, especially in the field of infrastructure. The deepening of the bilateral relationship is the result of the Turkish government »zero problems with the neighbor« policy, which is based on dialogue, intercultural understanding, and mutual respect. From a strategic standpoint, Ankara plays a strategic role in Syria's international rehabilitation.

Finally, President Assad's recent visits to Riyadh and King Abdullah's first visit to Damascus since his accession to throne underline the improvement of the Syria-Saudi Arabia relationship. The improving relationship between Lebanon and Syria is not the reason for the warming of relations between Riyadh and Damascus. Neither can King Abdullah's visit be seen as support to the French and American rapprochement with Damascus. The Wahabi monarch has political and religious reasons for wanting to see Syria distance itself from the Shi'a Lebanese Hezbollah and Iran. For Bashar Al-Assad, this evolution of the relationship represents an opportunity for Syria to diversify its economic partners.

Syria's relationship with its neighbors has changed. The precarious internal situation has led Syria to strengthen and diversify certain strategic regional partnerships.

7. 26.2.2010

8. Interview Hebdo Al-Ahram online 24.-30.3.2010

## 2.2 A gradual opening to the west

Recognizing the strategic role played by Syria in the region, the French President has attached particular importance to the Franco-Syrian relationship since the beginning of his mandate. The French Prime Minister's visit to Damascus from 19.-20.2.2010 aimed at enhancing the bilateral cooperation in the long term. During the visit, different agreements on cultural, tourist, and agricultural development were signed.

Following the French initiative, the US also shows interest in seeing Syria back on the international stage. The resumption of dialogue between Washington and Damascus – facilitated by the arrival of Barack Obama in the White House – occurred after five years of dispute. The appointment of the US ambassador Robert Ford in the Arab Republic in February 2010 is a strong sign of the readiness of the two countries to engage in dialogue. Nevertheless, Washington maintains the sanctions imposed on Syria since 2004. Thus, Damascus's rapprochement with Paris and Washington »reintroduce« the Arab Republic to the international community.

## 2.3 Overview of the Syrian economy today

Upon his arrival to power in 2000, President Bashar al-Assad inherited a Syrian economy in critical condition. The few reforms undertaken so far have only aimed to tackle cyclical problems and not the structural ones, for which reforms were urgently needed. Syria's economic situation is paradoxical: although classified by the World Bank in the category of lower middle-income economies, its economy is in a precarious situation. Nevertheless, Syria has the available assets to ensure its development. The country's main natural resource, oil, generates significant revenue, with oil exports representing 50 percent of the public budget and accounting for two-thirds of its exports in value (Donati 2009). The agricultural sector also plays an important role in the Syrian economy. This sector represents more than 20 percent of GDP and employs about 25 percent<sup>9</sup> of the population. The production is largely sufficient to cover the domestic needs. The Syrian industrial sector is relatively dynamic. The textile industry represents Syria's second source of income and employs a large share of the labor

force. Finally, Syria records correct results in the financial sector. The country has high foreign exchange reserves, positive trade balance and balance of payment, and it registers a relatively low level of indebtedness.

At first glance, it appears that Syria has the potential for rapid growth; however, internal and external problems explain mixed results. First, the level of economic growth<sup>10</sup> does not offset the growing population. Syria has, in fact, recorded a population boom, going from nine million inhabitants in 1980 to almost 20 million inhabitants in 2008. Consequently, the demographic structure is changing and portends growing pressure on the economy as half of the population is today under 20. A second explanation can be found in the structure of income. Indeed, the major source of income – revenues from oil exports – is strongly linked to the fluctuations in oil prices. Hence, Syria will have to diversify its economy to compensate for its decreasing source of revenue as a result of declining oil reserves.

On the one hand, the large share of the public sector in the Syrian economy is less and less profitable and is not able to hire anymore. On the other hand, the private sector does not grow fast enough to absorb unemployment. Indeed, the high level of bureaucracy, inherited from the alliance with the USSR during the Cold War, deters foreign investors. Thus, the labor market is saturated and not ready to welcome many graduates. Moreover, social tensions arise because of unequal distribution of income. The youngest share of the working-age population has to face a more and more precarious situation and the gap between the poorest and the richest keeps widening.

Development aid allocated to Syria – in terms of technical assistance and financial assistance – is strongly linked to the development of the political situation. Thus, the difficult regional stability and the evolution of the relationships with the donors make long-term planning difficult. Syria must also cope with an environmental challenge. Water scarcity is a major problem in the region. The recent drought had disastrous consequences on crops, depriving the population of a significant share of income. All in all, Syrian authorities must find a compromise between the need to join the global economy to face existing economic pressure, without being in cont-

9. World Bank Data 2007

10. four percent in 2008



radiction with the structure of the Syrian economy and the Syrian values.

### In search of new trading partners

During the years of Syria's difficult relationship with its Western partners, the country focused on new prospects. Despite a slowdown in the exchanges, the EU remains Syria's main trading partner. Syria exports mainly crude oil to the European market. The agricultural sector is relatively developed in Syria and it would seem that Syria could export a larger share of its production to the European market. However, Syria cannot face increasing competition from similar products produced by its neighbors – especially fruits and vegetables; and access to the European market is restrictive. Moreover, US sanctions enforced since 2004 indirectly affect the EU-Syria trade. Consequentially, the US air embargo interferes with European sales to Syria.<sup>11</sup>

A rapprochement between Vladimir Putin's Russia and Syria took place in 2005. The relief of a large part of the Syrian debt to Russia has opened the door to a new cooperation between Damascus and Moscow. The areas of cooperation are strategic and cover the fields of energy – including gas, oil, and nuclear – transport, and irrigation.

Syria has developed new partnerships with China and other Southeast Asian countries. Syrian orientation toward Asia is regarded as »an attempt to break the complicated relationship with the West«. <sup>12</sup> The Sino-Syrian economic relationship has recently become significant – particularly the share of imports from China for machinery, vehicles, and equipment.

Syria has also deepened its partnership with Turkey. Since the signing of the agreement providing for a free trade zone with Turkey, Ankara is often presented as the new trading partner of Damascus. The figures show a sharp increase in trade between the two partners and an increase in Turkish direct investments in Syria.

Some Syrian experts are more skeptical about the prospect of an intensified trade with other neighboring countries. First, experience shows that inter-Arab agreements are hardly respected by the contracting parties. Apparently, a problem of trust exists between trading partners. The second reason is related to the similarity of products exchanged, which could only offer very limited benefit for the trading partners.

Thus, during its isolation period, Syria has tried to develop new partnerships. Nevertheless, several factors call the sustainability of these new relationships into question. As far as Asia is concerned, the geographical distance might be a hurdle to a deeper partnership. Additionally, strong competition from Asian products, especially in the textile sector, endangers the Syrian textile industry. As for the Syria-Turkey partnership, it appears that Turkish interests prevail over those of Syria. Economic opening seems in fact more favorable to Turkish industrialists.

### The need for reform

Recognizing the challenges faced by Syria when he took office in 2000, Western educated President Assad wanted to undertake structural reforms. These reforms focused primarily on the banking sector, the industrial public sector, and the administrative system. However, a ruling class reluctant to the consequences of liberalization quickly stopped the reform process.

Three reasons prompt reforms in these sectors. First, the lack of efficiency of the banking sector remains a major obstacle to Syria's development and poverty eradication. Second, the public industrial sector has a low technological development, personnel is not trained regularly, and the entire sector is no longer competitive. The aging infrastructures of many public industries, as well as production itself, are not adapted anymore to the market needs. The public sector industry receives huge subsidies that contribute to the budget deficit. Moreover, the coordination between the public and private industrial sector is difficult and the investment choices are sometimes contradictory (Donati 2009: 220). Finally, the administrative system, very bureaucratic and opaque, urgently requires comprehensive reform.

11. The US has rejected a French request to lift the embargo on the European sales of planes to Syria, preventing the delivery of equipment to this country by Airbus (December 2009)

12. Bashar al-Assad, AFP (14.8.2006)



Established for the period 2006-2010, the Syrian 10th Five-Year Plan<sup>13</sup> sets the direction of reform in Syria. According to the document, Syrian authorities want to develop a »Social Market Economy«. Inspired by the Chinese model, »a social market economy« should allow Syria to combine economic liberalization by enabling the State to keep a social role (Donati 2009: 225). Aware of the obstacles faced by Egypt and Russia during their liberalizations, Syria favors a gradual opening at its own pace. However, the private sector development partially subordinate to a more and more speculative economy shows that the real impact of the reforms remains limited.

### 3. Expectations for the EU-Syrian Association Agreement

#### 3.1 Opportunities and potential points of disagreement

From a purely economic point of view, the ESAA is to create a free trade zone between Syria and the EU. The creation of a free trade area would automatically lead to lower tariffs and consequently to a decrease in public revenues. According to economic theory, this decline in income must be offset by an increase in welfare due to lower production costs, more competitive offer, and a better allocation of resources. However, the assumptions on which the economic theory of free trade is based do not easily apply to Syria.

A free trade area between Syria and the EU is certainly an opportunity to increase European exports to the Arab Republic market. From the Syrian side, that would mean an increase in imports and hence increased competition for domestic producers that could not compete with European products. However, this decision seems hasty. Indeed, to draw a realistic picture of the impact of the Association Agreement on the Syrian trade balance, one must also take into account the changes in the evolution of exports. A comparison with other existing Association Agreements in the Mediterranean region – Algeria, Egypt, Lebanon, Tunisia – shows that exports to the Common Market have increased faster than imports from the EU. This may be partly explained by measures of financial and technical support to strengthen the ex-

portability of local producers. The financial and technical support allocated by the EU help the partner country improve its export capacity not only in direction to the EU but also to other countries.

The loss of revenues generated by the removal of tariffs is also a matter of concern for Syria. In this regard, it is necessary to note that the dismantling of customs duties will be carried out over 12 years in most areas, leaving the possibility for Syria to adapt to the opening of its markets. The major source of income of the Syrian state is the export of crude oil. In comparison, revenues from customs duties are relatively low and could easily be compensated by the application of VAT (Zorob 2008). Beyond a lowering of customs barriers, two other factors contribute to an increasing budget deficit: declining Syrian oil reserves, and the high level of subsidies granted to a less and less competitive industrial public sector. Syria will then, apart from the agreement, have to find new resources and improve the competitiveness of its industrial sector to cope with this loss of income.

The concessions made by the EU on agricultural trade appear to be insufficient in the eyes of the Syrians. While the Association Agreement provides easier access to common agricultural market, Syrian experts assert that the terms of the agreement negotiated in 2003 no longer reflect the reality of today's market. Brussels is more optimistic about the benefits for the SAR. The EU is indeed considering assistance to facilitate the export of Syrian agricultural products to the European market. Furthermore, upon entry into force of the agreement, the mechanisms for updating of quotas can be enabled (Article 20). Brussels could thus review its position on the subject as the partnership develops, as it did it with Jordan, Morocco, and Egypt. Nevertheless, beyond the quantitative restrictions, the Syrian agricultural sector will still face sanitary and quality requirements to access the European market.

Syria believes that the level of accompanying measures under the agreement is not fair compared to other Association Agreements. This is particularly the case for the Association Agreement EU-Jordan. The EU's financial cooperation is indeed more limited for Syria than for other countries. According to the EU, the amount granted depends, among other factors, on the stage of cooperation, which is a first stage in the case of Syria. Indeed, the aid is to be increased in line with the evolu-

13. 10<sup>th</sup> Five Year Plan (2006-2010) <http://planning.gov.sy/files/file/Fyp-Chapter1En.pdf>

tion of the partnership provided that Syria demonstrates a better absorption capacity.

The signing of the agreement suggests an increase of European direct investment in Syria. These could contribute to some extent, to the economic development of Syria. Foreign Direct Investments (FDI) can indeed contribute to technology transfer, better training of human capital, and a higher level of profit. FDI are subject to local taxation and thus lead to an increase in revenues for the host country. The other side of the coin, however, is that FDI, like other capital flows, tend to be attracted to countries where markets do not operate properly – like Syria. In this case, there is a risk that foreign investors operate independently, without necessarily benefiting the local economy.

The entry into force of the ESAA would pave the way for Syria's access to WTO.<sup>14</sup> The alignment with European standards and European technical regulations allow Syria to receive greater credibility for becoming a WTO member. Beyond the pure economic aspects, political issues are also at stake. The accompanying reforms suggested by the EU are often considered an attempt to interfere in Syrian domestic affairs. The Syrian partners wish to make reforms at their own pace and according to their priorities. Aware of this desire, the European Neighborhood Policy aims to develop a joint action plan in order to reflect the priorities of each party.

The theme of human rights remains a point of disagreement between the parties. Far beyond the misunderstanding about the «unilateral» statement on human rights, the mechanism to suspend the agreement in case of serious breach to human rights (Article 136) is Syria's central concern. This temporary effect of the clause would, theoretically, be used in case of serious infringement of human rights and would be subject to a vote of the Council requiring a qualified majority before entering into force. In practice, this clause has never been used for other agreements in the region.

Through the agreement, the EU could establish a dialogue on a series of political issues with Syria. While far from perfect, the Association Agreement EU-Tunisia has shown that the instrument of the ENP allowed to

have a constructive approach to the subject that leads now to discussion on subjects that were taboo in the past. Finally, Syria does not find that it has been treated equally with regard to the clause on Weapons of Mass Destruction (Article 5). This clause is not included in similar Association Agreements. The provision was introduced following the adoption by the European Union of the non-proliferation strategy in 2003.

### 3.2 Possible evolutions


At this stage, one could consider three possible scenarios for Syria. First option: Syria calls for a reopening of the negotiations. This solution is not desired by the EU, which has – since Syria's refusal – left the door open for political and technical consultations in view of possible updates. Only updates seem possible without going back on the substance of the agreement. In the extremely unlikely case that the EU would conduct a reopening of negotiations, Syria would not necessarily achieve better conditions because new and more elaborated legal instruments could be introduced from the European side.<sup>15</sup> Second option: Syria refuses to sign the agreement, closing the door to a stronger partnership with the EU. This is highly unlikely as the SAR would thereby turn off a significant financial manna. Even though Syria has secured other partners throughout its period of isolation, the EU remains its largest trading partner. Third option: Syria signs the agreement. This seems most likely and many experts on the subject are optimistic about this occurring. It is more a question of when the ESAA will be signed rather than if it will be accepted. Many factors, such as the evolution of the peace process with Israel or internal policy changes can influence Syria's decision in one direction or another. However, the present Spanish Presidency of the Council of the EU could facilitate the evolution of the situation, given the good relationship between Damascus and Madrid.

### 3.3 Concluding remarks

All in all, Syria could expect many economic benefits from a deeper partnership with the EU. Given the economic challenges faced by Damascus, strengthening the

14. The efforts of Syria to access the WTO have remained unsuccessful despite several applications since 2001.

15. Provision on small arms and light weapons (SALW) or more stringent provision on Human Rights



partnership with the EU seems essential. Opponents to the agreement often focus on the difficulties faced by Algeria following the signing of a similar Association Agreement with the EU. Nevertheless, Syria is more advanced in terms of reforms than was Algeria when it started opening its borders. Thus, the European experts interviewed for this study assert that the SAR is better prepared for an entry into force of such an agreement.

The fact that the dismantling of barriers is to be gradual and that Syria could use a safeguard clause if needed allows it to open its economy while having a safety net. However, it is important that Syria maintains its pace of reforms. Given the structure of economic and political leadership in Syria, it is unrealistic that an entry into force of such an agreement will change the situation overnight.

A closer economic partnership must be effective before entering into further political cooperation. Building a strong partnership with Damascus begins with solid economic cooperation. Emphasis should be placed on the mutual gains stemming from the agreement. The EU could, in the medium term, review the amounts allocated to Syria for a better support to its reforms. To date, Syria and the EU are still at a recent stage of cooperation compared to other Mediterranean partners. Nevertheless, an increase in the technical and financial support will only be possible if Syria improves its absorption capacity.

The EU should also, in the long run, review the access conditions of foreign agricultural products to its common market. Indeed, the EU position on agriculture is more and more difficult to justify at the WTO. The developing countries have real potential in this sector, which cannot be exploited due to a restrictive access to the European Common Market. In a second phase, the cooperation could be expanded to further areas. In the long run, the ESAA could create a framework for political dialogue in areas of mutual interest. This would take place after a necessary period of confidence building. Syria wants to consider the EU as a reliable partner. Precondition for this will be that the EU asserts itself on the international stage. Following the EU division on the Iraq crisis or later on the Goldstone report, Brussels needs to be able to speak unanimously if it wishes to deepen its partnership with Syria. In return, Syria will have to distance itself from the »destabilizing« regional powers, if it wishes to deepen its partnership

with the EU. For the Syrian authorities, the challenge will be to strike the right balance between the economic benefits of the agreement and the degree of political openness it is ready to grant to the EU.



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## List of Acronyms

<b>EIB</b>	European Investment Bank
<b>ENP</b>	European Neighborhood Policy
<b>ESAA</b>	EU-Syria Association Agreement
<b>EU</b>	European Union
<b>FDI</b>	Foreign Direct Investment
<b>GDP</b>	Gross Domestic Product
<b>MS</b>	Member States
<b>SAR</b>	Syrian Arab Republic
<b>SALW</b>	Small Arms and Light Weapons
<b>VAT</b>	Value Added Tax
<b>WMD</b>	Weapon of Mass Destruction
<b>WTO</b>	World Trade Organization



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