SYRIAN FOREIGN TRADE AND ECONOMIC REFORM

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St Andrews Papers of Contemporary Syria
2010

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This issue of the St. Andrews Papers by Samer Abboud and Salam Said focuses on Syrian trade and the increased integration of Syria's economy into the global market, a development that parallels domestic economic reform. As a result of decades of statist ISI, Syria's export capacity is weak and concentrated in hydrocarbons and to a lesser degree textiles and food products. With oil production declining, Syria must diversify its non-oil exports. Increased openness to foreign trade through trade agreements both challenges domestic producers and potentially expands the market for them.

This issue would profitably be read parallel to that on the EU-Syrian relationship by Dostal and Zorob.[1] That analysis showed the largely negative effects the European partnership agreement is likely to have on Syria and the few trading benefits it promises. The evidence presented by Abboud and Said largely reinforces this view. It will certainly much reduce Syria's economic autonomy, long protected from the pressures of international financial institutions. In a worst-case scenario, it could lead to de-industrialization and even regime de-stabilization.

Greater benefits are potentially to be had from more equitable bilateral agreements with Syria's neighbours, including Turkey, and through the Greater Arab Free Trade Area (GAFTA). As a result of bi-lateral agreements, Syria has already started to liberalize its foreign trade policy, exposing domestic producers to outside competition. Abboud and Said show that these regional initiatives have already produced benefits but also that their potential has not been fully exploited. Unlike the EU Partnership, these regional agreements provide domestic industries with opportunities as well as challenges, while preserving regime and social stability. Syria's pursuit of the European Partnership Agreement seems inconsistent with the way, as Abboud argues that the Arab states have designed GAFTA, precisely to preserve governing coalitions. It may have been driven by foreign policy considerations detached from adequate consideration of its political economy consequences.

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[1] Jörg Michael Dostal and Anja Zorob, *Syria and the Euro-Mediterranean Relationship,* St Andrews Papers on Contemporary Syria, (distributed by Lynne Rienner Publishers), 2009.

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Syrian Trade Policy
Samer Abboud

Introduction

Trade policy in Syria focuses on resolving the immediate crises facing the domestic economy: dependence on the trade and revenues of oil production and the economy's relative dislocation from the regional division of labour. In addition, increasing prices, rising inflation, stagnant decreasing wages, decreases in living standards, unemployment and a poorly monetized financial system all contribute to aggravating these structural characteristics. These challenges confirm Karshenas' (2001: 60) argument that one of the key issues for Arab countries in the post-oil boom period is to develop alternative sources of foreign exchange revenues by improving industrial competitiveness and diversifying their export bases. In this context, Syrian trade policy is defined by four goals: 1) alleviating the country's dependence on oil exports and revenues; 2) providing domestic employment opportunities and achieving growth levels that can support population growth levels; 3) providing a dependable foreign exchange revenue stream; and 4) expanding the productive sectors of the economy.

The strategies to achieve these goals have included the negotiation of a series of bilateral and multilateral free trade agreements, beginning in the mid to late 1990s. This has also entailed a series of domestic policy shifts to prepare the Syrian public and private sectors for deepening regional integration. Trade policy thus aims at expanding market opportunities for Syrian production while simultaneously reorienting production towards regional as well as domestic markets. Within Syria's broader shifts towards a marketized economy (see Abboud 2009) therefore lies a transition towards an internationalized economy.

The aim of this essay is to broadly outline the contours and architecture of these bilateral and multilateral agreements and, in doing so, to highlight the policy shifts generated by Syria's ascension to these trading regimes. The primary emphasis will be on evaluating two multilateral agreements – the Greater Arab Free Trade Area (GAFTA) and the Euro-Mediterranean Partnership (EMP) – and the related policy shifts generated by both agreements. It will be argued that the GAFTA reflects Syria's immediate trade capacities and thus has the most potential to generate positive trade outcomes. However, the GAFTA is not without its major faults. It is a regime based on the Open Regionalism model of trade that emphasizes cooperation over integration. The failure to establish Rules of Origin standards, the lack of dispute mechanisms, and the absence of any meaningful institutionalization, and thus regional oversight, of the GAFTA indicates that the model will generate little, if any, functional integration between Arab countries. While the EMP will not serve to immediately generate positive trade outcomes for Syrian exporters, and indeed may have increasingly negative short-term effects as Syrian producers compete on local markets with European goods, it may act as a policy anchor that demands of Syrian planners the implementation of policies that are consistent with the global trading regime.

To advance this argument, this essay will begin with an overview of Syria's existing trade patterns, trade policy directions and trade liberalization goals. Following this section, the EMP and GAFTA agreements will be evaluated, with particular attention to how both agreements can be understood within the context of Syria's existing production capacities and trade patterns. Here, the essay is mainly concerned with considering how the EMP and GAFTA will shape Syrian trade policy, and what impacts these policy shifts will have on Syria's domestic political economy. Also of importance in this discussion is the proliferation of bilateral agreements Syria has signed with neighbours, including Turkey and Saudi Arabia. It will be argued that these bilateral agreements are more reflective of patterns of Syrian trade policy and export capacities. Trade policy can best be described as guided by limited liberalization with some continued protectionism of domestic industries and markets. As will be suggested throughout, this type of segmented economy (liberalization and protectionism) reflects Syria's domestic political economy configurations.

Policy, Patterns and Liberalization of Syrian Trade

Syrian trade policy was established by Decree #60 (1952) that was promulgated after the breakup of the short-lived customs union with Lebanon. This decree empowered the Minister of Trade by giving him the authority to regulate import and export of particular products, as well as to establish a licensing system governing imports and exports. Because this decree was broadly protectionist, and served as a key pillar of the Import Substitution Industrialization (ISI) model, the Ba'th Party never abolished the decree. Under the Ba'th, central planning and the ISI model translated into public sector responsibility for the governance and regulation of imports and exports. All (legal) trade was monitored, regulated, licensed or even undertaken directly by the public sector through institutions such as the General Organization for Trade and Distribution, and later more specialized bodies such as the General Foreign Trade Organization for Textile Materials. The public sector thus dominated foreign trade imports and exports and held a monopoly of trade regulation, licensing and wholesale distribution. Even the private sector was forced to import and export products and goods through these institutions. In addition, customs tariffs were erected to protect domestic industries. Thus, beginning in the post-independence period, but especially when the Ba'th came to power, the public sector remained central to all aspects of trade until gradual liberalization decades later.

Beginning in the 1980s, the government pursued a policy of economic austerity. These policies came as a response to the fiscal crisis, which was caused by falling oil prices and aid, decreases in productivity and output, stagnant wages coupled with rapid inflation. The austerity measures were an indication of the government's inability to maintain the etatist policies pursued during the 1970s. This crisis exposed the government's dependence on oil revenues and the distortive effects of rentierism in the economy. The thrust of the response to the economic crisis was to attempt to generate new sources of foreign currency beyond oil production. Perthes states that: "the main task now, in the governments view, was to overcome the foreign-exchange crisis paralyzing the whole economy. The public sector, along with the rest of the economy, was therefore to be reoriented towards exportations." (1995: 47). Syrian trade policy came to be defined by three axes: prioritizing the expansion of the oil sector; increasing exports of finished products; and the gradual expansion of the private sector.

The economic crisis of the 1980s initiated a gradual shift away from public sector dominance of the economy, an abandonment of the ISI model, and the acceptance and encouragement of increased private sector activity. Although the private sector remained rent-seeking (see Haddad 2004), two decades later the shift away from public sector dominance was reflected in the growing private sector share of exports. In 1980, the private sector's share of total exports was 8.1% while in 2003 its share reached 22.5% (Qallaa 2005). If oil exports, which are entirely dominated by the public sector, are excluded then the private sector's share would be even higher. Qallaa (2005), then Vice President of the Damascus Chamber of Commerce, estimated that by the early 2000s the private sector contributed 63% of GDP, 50% of total industrial production and 95% of total agricultural production. These figures reflect the liberalizing measures initiated in the 1980s and the attempt to generate export growth beyond oil revenues.

Despite this dramatic increase in private sector trade, Syria's productive capacities remain heavily oriented to the domestic market and existing production is primarily in low value added or agricultural products. Perhaps most importantly, the Syrian business class remains rent-seeking and is not as yet sufficiently oriented towards productive growth. There are two other factors that contribute to this export structure: the collapse of the 'soft' markets of the Soviet bloc, which led to a significant decline in exports after the 1990s, and the low level of technological input in the production process.

With the collapse of the Soviet bloc markets, the European Economic Community (EEC) and then the European Union (EU) became the main destinations for Syrian exports. For example, in 1989 Syrian exports to EEC countries represented 30% of total trade, while by 2000 exports to the EU represented over 60% of total trade (Albaladejo and Lall, 2004: 4). These figures must be qualified however. First, the majority of Syrian exports to the EU consist of oil as the EU is the main market for Syrian oil. Second, non-oil exports are primarily cotton or agricultural products. Finally, although Syria enjoys a positive trade balance with the EU, the EU exports more value-added and diversified products to Syria, including machineries, electronic equipment, iron, steel, and plastics. These trade patterns are similarly reflected in Syrian bilateral trade with Turkey. Likewise, the majority of exports are oil while imports are much more diversified.

According to an International Trade Center (2004) trade performance review of Syria, the country enjoys competitive advantage in minerals, textiles and fresh food while other sectors, including clothing, processed food, manufacturing, and chemicals, lack specialization vis-à-vis global producers. Of these three product areas, oil is mainly exported to the EU, while textiles and fresh food are exported to the Arab World. Syria's trade with the Arab World thus contrasts significantly with its trade patterns with the EU.

Syria's exports are concentrated in oil, food and low value manufactured products (e.g. textiles). One impact of the dependence on oil is the detrimental effect on linkages between sectors. Nugent (1997: 94) has argued that a diversified export base and wide-ranging export interests across differing sectors contribute positively to further export activity while reliance on relatively few sectors limits the possibilities for export diversification. Furthermore, Syrian production is characterized by low technology and low value added. This is reflected in a growing gap between the average value of imports and exports (see World Bank 2005; Syrian European Business Center 2003b; Albaladejo and Lall 2004).

Table 1.1: Technological Structure of Exports and Growth Rates in Syria and other Arab Countries (in %)

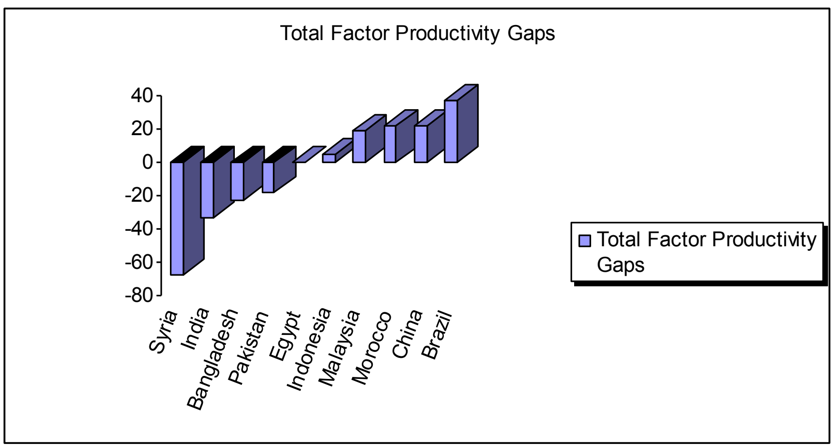
Annual Growth Rates (1990-2000)				
	HT	MT	LT	RB
Syria	-21.0%	-25.6%	-6.0%	-4.3%
Egypt	12.6%a	6.1%a	-0.8%a	14.5%a
Jordan	6.3%	-2.6%	11.5%	3.3%
Kuwait	7.3%a	14.4%a	2.0%a	49.6%a
Oman	13.7%	17.1%	16.5%	11.9%
Saudi Arabia	37.8%	5.1%	7.3%	6.3%
Tunisia	8.4%	5.9%	7.4%	3.6%

Source: Albaladejo and Lall (2004: 6)
a = data is only available until 1999
HT = High tech
MT = Medium tech
LT = Low tech
RB = Resource based
Figures do not add up to 100% due to the omission of the share of primary goods in total exports

The share of medium and high technology exports from Syrian industry are the lowest in the Middle East and North Africa. Albaladejo and Lall (2004: 4) note that export figures are less than $3 per capita. Although Syria exported some medium and high technology products during the 1990s, by 2000 this production had virtually stopped. The technological downgrading of production after the 1990s can largely be attributed to the collapse of the Soviet bloc markets where most of the medium and high technology products were exported. Table 1 shows that the total share of medium and high technology products in manufactured exports plunged from 28% in 1990 to only 1% in 2000.

With the collapse of this market, Syrian producers moved towards supplying low value added products to EU and Arab markets. Additional analysis provided by the United Nations Industrial Development Organization (UNIDO) ranks Syria 87 out of 88 countries in technological sophistication of manufactured exports, and 75 out of 88 on an index measuring industrial competitiveness (UNIDO 2003).

Figure 1.1: Factor Productivity Gaps: All Industrial Sectors (Base: Egypt = 0)



Source: World Bank (2005)

Industrial productivity remains at comparatively low levels. Figure 1 shows total factor productivity gaps in Syria compared with other non-Western countries. ISO certification is another indicator of technological capacity. It is estimated that just over 7% of Syrian businesses have ISO or other internationally recognized certification for their products (World Bank, 2005: 47).

Low value added production, dependence on oil, and limited technological inputs in the production process are the main production challenges decision-makers face in formulating trade policy. Three policy challenges can be identified. First, there is the task of creating markets for existing Syrian products. Accessing markets through reciprocal trade agreements is occurring within the context of the continued protection of domestic industry. Thus, trade liberalization is gradual, cautious and limited because of the need to maintain a domestic protectionist regime. A second challenge is to marketize Syrian businesses. This means gradually reducing protectionism and exposing Syrian products to regional competition. Since the Syrian bourgeoisie remains primarily rent-seeking, this is a particularly complex challenge. Finally, there is the issue of meeting financial and budgetary needs in a period that will be defined by declining revenues from oil exports and fees. While Syria maintains a number of non-tariff barriers (NTBs) and other forms of taxes and fees on imports, the years ahead will be defined by reductions in traditional sources of budgetary revenue, including that from foreign trade. The main policy response to these challenges has been the negotiation of two multilateral free trade agreements, the Euro-Mediterranean Partnership (EMP) and the Greater Arab Free Trade Area (GAFTA).

The Euro-Mediterranean Partnership (EMP)

The Euro-Mediterranean Partnership (EMP) was born out of the Euro-Mediterranean Conference held in Barcelona in November 1995. During the conference a Partnership was proclaimed between the then 15 member states of the EU and 12 Southern Mediterranean countries. For the EU, the EMP was seen as a means to encourage the ongoing peace process as well as to provide cooperative measures to combat perceived threats such as Islamism and illegal immigration emanating from the Southern Mediterranean, specifically North Africa. The EMP goes beyond a traditional economic agreement, instead including three chapters outlining fields of cooperation: related to security and stability; economic and financial; and cultural, social and human. The initial vision of the EMP was to create the largest free trade area in the world in addition to providing linkages to address common issues of security and political concerns. Gillespie (1997: 1) states “the highly ambitious project seeks nothing less than to create a new Euro-Mediterranean region”.

In practice, however, the EMP has reflected less an equal partnership than a model of cooperation that favours the economic and political interests of the European Union. Joffe (1997: 12) is correct in noting that the EMP is simply a reflection of Europe’s hegemony over the Mediterranean region and that the Southern Mediterranean countries have participated “for lack of an alternative”. This hegemony is evidenced by the proclaimed goals and initiatives of the EMP, which are reflected in the above-mentioned three 'baskets' covered by the Partnership.

Syria was the final country to ratify the EMP, doing so in December 2008. Although negotiations had concluded before 2007, both parties had failed to sign and ratify the Agreement. The Syrian decision to negotiate the EMP, and eventually to sign it, must be seen in part as the outcome of political calculations determined by the Syrian leadership. The initial decision to enter into serious discussions about ratification of the Agreement was in response to growing American and international pressure against Syria for its central role in regional affairs, particularly in shaping Lebanese domestic politics. Many in the leadership believed that the EMP would act as a shelter from American aggression and threats. This, however, proved not to be the case and the EMP negotiations instead became a forum for further threats lobbed at the Syrian leadership by EU countries. While this occurred more recently, Aita (2004) noted a number of other global-level political developments that altered the terms and context of the EMP for Syrian decision-makers, including: the failure of the Madrid Peace Conference, 9/11, the US-led invasion/occupation of Iraq, Europe's 'New Neighbour' Policy, prioritizing relations with Eastern Europe, and international developments in the General Agreement on Tariffs and Trade (GATT) and World Trade Organization (WTO). However, it is too simplistic to argue that the failure to ratify the EMP until late 2008 was the outcome of purely external political factors. Doing so ignores the significant internal debate within the regime and within the intelligentsia and business community about the EMP. Therefore, a more accurate understanding of Syria's failure to ratify the EMP until 2008 must be tethered to both a political and economic analysis of its costs and benefits.

One argument against the EMP centered on the demands made of Syrian policy makers. Syria is expected to join the WTO and harmonize its national trade policy with the global trade regime. However, the US continues to block Syria's application. Thus, Syrian policy makers are being asked to harmonize their policies with a global trade regime from which they receive no benefit (Aita 2004). These requirements also include a commitment to adhere to certain fiscal and monetary standards, to reduce trade barriers and to strengthen investment guarantees, or, in other words, to implement neoliberal policies throughout the economy. An equally demanding requirement is the harmonization of policy with EU legislation. Syria's ability to avoid policy prescription from the International Financial Institutions (IFIs) is lost under these neoliberal measures. Deregulation demanded by the EMP is consistent with global neoliberal policies implemented throughout the world. Thus, the EMP demands of Syrian policy a radical regulatory overhaul that rolls back decades of economic policies. What IFIs were not able to accomplish through structural adjustment, the EMP will accomplish through its liberalizing provisions. Syrian policy makers have traditionally resisted foreign interference in the administration of the economy. Some in the Syrian leadership see the EMP as a more recent phase of Western encroachment in Syrian affairs and an attempt to weaken Syria economically through obliging the state to adopt international economic governance norms (Habeeb 2002).

Because of the stringent demands made by the EMP, it is no surprise that many in Syria have approached membership with extreme caution. This is evident in the numerous internal debates about the EMP, all of which inevitably accept that in the short-term there will be significant negative consequences on the national economy. While accepting this, other arguments for and against adopting the EMP in Syria concentrated on the anchoring principle: how membership in the EMP can contribute to the market transition in Syria. Abdel Nour (2001: 12) delineates the two camps, arguing that one warns against adoption of measures that could have a negative impact on the national economy while the other contends that membership in the EMP is necessary to accelerate Syria's integration into the global economy. Supporters of the former position argue that economic reforms should proceed gradually and in accordance with existing economic capacities, rather than the requirements of the EMP. This position warns against the negative socio-economic effects associated with the type of rapid liberalization and reform demanded by the EMP. The other perspective makes the case that the EMP can be an anchor for domestic economic reform and should be adopted immediately so that the Syrian economy can experience both the negative and positive outcomes of membership. Al-Shaer (2004), for example, has argued that the EMP provides the opportunity to review existing legislation and to initiate reforms that draw on the experiences of other Mediterranean countries that have ratified the EMP. Hourani (2004) accepts the argument that in the short term the Syrian economy will experience negative shocks, but in the long term it has much to gain. He identifies and discusses a series of areas in which Syria can benefit from the EMP. These are: increased trade; positive effects on social and economic development; increases in financial and technical aid; increases in foreign investment; reform of national industry; and reform of tariff revenues and other fees.

Similar arguments have been advanced in a regional context by Hoekman (1998), who considers membership in the WTO and the EMP to be beneficial in advancing reform in the Middle East and North Africa. Some prominent Syrian academics have also endorsed membership in the EMP (Aita 2004; Seifan 2005). They argue that while the short-term economic impact of the EMP will be negative, the long-term impact will support economic growth and policy and institutional reform in Syria. However, as Tovias and Ugur (2004: 413) have argued, the EMP has failed as a significant anchor of policy reform in the region generally because it has not included more tangible and immediate trade concessions to Europe’s southern partners. Concessions in sectors such as agriculture and processed foods, which Syrian producers could have benefitted from, are absent from the EMP. This is owing to Europe’s insistence on subjecting the EMP to the Common Agricultural Policy (CAP). This position forbids free trade in any commodities covered under the CAP. Essentially, all agricultural products exported from the Southern Mediterranean will remain subject to tariff barriers. The EMP allows for the reduction of some customs duties on certain products, but even these reductions are subject to quotas. Thus, while the EMP model demands full liberalization of industrial products, trade in agriculture is subjected to limited, or weak, liberalization (Hourani 2004). The expansion of the EU to include Eastern European countries strengthened the EU’s commitment to maintaining these barriers, despite an initial position that supported the future negotiation of agricultural provisions.

Another criticism of the EMP argues that it seeks to establish a hub-and-spoke relationship between the EU (hub) and the Southern Mediterranean countries (spoke) (Rivlin 2001: 185). The hub-and-spoke model was partly an outcome of the negotiations process: since the Southern Mediterranean countries negotiated unilaterally rather than collectively, their bargaining power was significantly decreased (Mattli 2002: 343). Hub-and-spoke trade patterns can have three major impacts on the Southern Mediterranean countries: discouraging the development of trade relations within the Southern Mediterranean, decreasing capacities for policy coordination; and reducing the potential for investment.

Further concerns about the economic provisions of the EMP can be summarized by what Selim (1997: 82) called the ‘four ghosts’: a reference to four items in the association agreement that generated controversy for their potentially negative impact on the national economy: standards and specifications; rules of origin; intellectual property rights; and competition policy. The potential impacts emerge from the EU's determination to impose its own requirements on the Southern Mediterranean countries. The EU has insisted on the adoption of EU norms and the eventual harmonization and mutual recognition of certificates. Syrian exporters are thus required under the EMP to conform to EU standards and specifications. However, Syrian producers had developed their own standards and specifications that are embedded in their production cycle. Meeting EMP requirements requires an overhaul of machinery, designs and production practices, something that is costly and difficult for many producers, especially Small Market Enterprises (SMEs). Despite the EU granting phasing for a period of up to twelve years, it seems to be virtually impossible for Syrian exporters to satisfy EU standards and specifications.

Similarly, the rules of origin requirements are considered a non-tariff barrier. The EU has insisted on imposing a ceiling on the value of the non-originating material as a percentage of the total cost of the final product. This requirement contradicts the Uruguay Round agreements that merely requires a minimum local added value. This requirement could result in the gradual disintegration of local industrial production as European products flood local markets while local industries are unable to meet rules of origin requirements to export. The EMP rules of origin requirements – which violate the global trade regime norms – help explain why many in the Syrian business community remained opposed to the implementation of the EMP.

In addition to the rules of origin requirements, the EU required that its own competition rules be included in the EMP. Their argument was based on the need to harmonize competition policy to facilitate trade relations. According to the EMP, in the fifth year of implementation all differentiations between Syrian and EU economic actors (public or private sector) would be eliminated. All Syrian public sector institutions with monopoly rights would automatically lose them in the fifth year of the agreement (Hourani 2004). The adoption of EU competition policy is problematic for Syrian exporters. In the case of disputes over competition, Syrian exporters would have to resort to European and international law firms within the EU, something that would generate high costs that many small exporters could not incur (Selim 1997: 82). Furthermore, given their lack of experience, it is unlikely that local businesses could sufficiently operate within the parameters of the new competition policy. This inexperience would likely lead to repeated dispute with EU companies. Ghassan Qallaa (2005) has argued that the best way to introduce actual competition in the Syrian economy is through Syria's existing bilateral trade partnerships, and that the most immediate benefit from these agreements will be the introduction of competition within the economy.

In fact, Syria has developed its own framework for competition policy that is partly inconsistent with EU demands on it. According to al-Khidr (2004), Syrian competition policy has aimed to introduce competition mechanisms throughout the domestic economy while maintaining some protection for domestic industries from external competition. Kannan al-Ahmar, a member of the committee of the Ministry of Economy and Trade responsible for drafting the competition law, confirmed that its creation was a direct consequence of Article 64 of the EMP,[1] which obliges Syria to pass competition and anti-trust laws. However, Syrian policy makers, while fulfilling the spirit of Article 64 in passing the required laws, did so without adopting EU competition laws wholesale. Maher Dabbah (2007: 278-296) has demonstrated that Syrian competition law exhibits a curious mix of liberalization and protectionism. On the other hand, Syrian competition law draws from and tailors to Syria's own needs liberalizing measures from various sources--the United Nations Conference on Trade and Development (UNCTAD), EU competition rules, the competition policies of other Middle Eastern countries, and finally, from the competition policy established by the WTO.

Syrian competition policy, then, emerged out of the EMP but did not meet demands that it mirror EU competition policy. The passing of the law nevertheless demonstrates the ways in which the EMP can serve as a policy anchor for reform within the economy. The law that was passed satisfied many of the EU demands, particularly with regards to monopolies. There is a clear momentum towards generating competition within the economy and the competition law adds to it in its recognition of the role of the private sector and its importation of certain liberalizing measures from international conventions. Generally, Syria's competition policy serves two functions: to introduce competition in the economy and to reduce protectionism while nevertheless retaining a measure of it.

This section demonstrates that the short-term and perhaps even the long-term economic benefits of the EMP may be minimal for Syria. With Syrian oil production dwindling and exports to the EU concentrated in a relatively small number of sectors, there seems to be small long-term gains from trade. The main possible benefits are the institutional and policy reforms generated by the EMP, indeed, its 'anchoring' features. While some have argued that, for this reason, the EMP is the best model to promote Arab and Syrian integration into the global economy, others have argued more convincingly in favour of inter-Arab integration as a more beneficial stepping-stone for Arab countries to integrate into the global economy (Hakimian 2001: 102; Laabas 2002). Regardless of the debate about the utility of the EMP, there is a consensus that it has served as a major catalyst for trade reform and the formulation of trade policy.

Bilateralism, Free Zones and Foreign Investment: The Road to the GAFTA

A discussion of bilateralism is warranted because of the importance of bilateral trade in facilitating Syria's ascension into both the EMP and the GAFTA, a fact confirmed by prominent observers of Syria's economy (Qallaa 2005; Suleiman 2005; al-Amadi 2003). For them, bilateralism serves as a framework for generating regional competition, facilitating the passage of economic reforms, decreasing public sector monopolies, encouraging private sector activity and attracting regional investment. Furthermore, given the controversy and uncertainties surrounding the EMP, some consider bilateral agreements as the stepping-stone towards a preferable route to trade liberalization, namely, greater Arab economic cooperation. Moreover, they link Syrian growth and development directly to the success of bilateral agreements (Khoury 2002).

Bilateralism is important in the context of the GAFTA because it has allowed Syria to reduce tariffs with neighbouring countries, such as Jordan, in accordance with the GAFTA provisions. Perhaps as important, the other Arab countries with which Syria negotiated bilateral agreements are its main trading partners: Iraq, Saudi Arabia and Lebanon. The negotiation of these bilateral agreements meant that Syria agreed to implement the terms of the multilateral agreement on a bilateral basis to speed up the reduction of customs duties. In fact, in all four bilateral agreements there was little deviation from the GAFTA provisions (Khoury 2002). Bilateralism represented a vital role in the formulation of Syrian trade policy and the country's ascension into multilateral agreements.

In addition, bilateralism would in principle have a number of immediate impacts on Syrian businesses. First, exposing Syrian producers to limited regional competition was meant to alleviate some of the distortions generated by years of protectionism and central planning. Second, bilateralism would encourage competition in the domestic market. These agreements, while introducing competition in the economy, did so while maintaining some levels of protection for domestic producers. In other words, the agreements did not represent a full liberalization of trade relations. Also, bilateralism led to immediate increases in trade. This increase suggests the potential for further economic partnerships and cooperation, in addition to information and market sharing between producers. Finally, bilateralism allowed Syrian producers to exploit their existing economies of scale, with their low production costs and outputs (Khoury 2002). Bilateral trade provided a market for existing Syrian production while encouraging an increase in value-added production and the introduction of new technologies in the production process.

Syria's fifth bilateral agreement is with Turkey, and falls outside of the GAFTA framework. Consequently, there is a different strategic logic to this agreement, as it has not developed as a stepping-stone towards a multilateral partnership. Trade with Turkey is, however, consistent with the direction of Syrian trade policy. It also provides market access for Syrian producers, the introduction of competitive mechanisms, transfer of technology and production practices and information sharing. However, unlike bilateral trade with Arab countries, Syrian exports to Turkey are predominantly oil (around 80%). This suggests that the bilateral agreement will significantly benefit Turkish producers. Nevertheless, it is possible under the bilateral agreement and through provisions of the Turkish-EU customs union, for Syrian producers to export merchandise into Turkey for re-export into the EU. According to Qallaa (2005), this provision means that Syrian producers can enjoy the same advantages and treatment granted to Turkish producers. Conversely, Turkish producers can take advantage of Syria's GAFTA membership through the re-export of merchandise from Syria to the wider Arab World. For example, in 2002, the Turkish based Akteks Acrylic Thread Industry and Trade Company established a thread manufacturing plant in Aleppo with the aim of supplying Syrian and Arab markets. The bilateral agreement between Syria and Turkey thus allows producers from both countries to re-export products to larger markets. The agreement does not include investment and services provisions but Turkish investors have channeled significant investment into Syrian industry, as the Akteks example above demonstrates.

Multilateralism: The Greater Arab Free Trade Area

Inter-Arab trade is often considered rather low. Numerous explanations have been offered for this. There are those who rely on political arguments grounded in the impact of authoritarianism or the rise of political Islam, while others offer more substantive arguments about the lack of economic coordination, inefficient infrastructure and the failure of trade policy (Hoekman and Khayr al-Din 2000). Shaidi (2005) has argued that inter-Arab trade is low because of the lack of product complementarity. However, arguments that inter-Arab trade is low, and that the structure of Arab economies do not lend themselves to integration, do not stand up to scrutiny and much of the more substantive literature on Arab economic integration demonstrates quite the opposite (al-Kawaz 1999). While total export figures would support the assumption of low inter-Arab trade, the fact that Arab countries supply most of the world's oil means that they should have a higher percentage of trade with countries outside the Arab World, as oil is the most widely traded product in the world. However factoring out oil exports as a percentage of total trade, inter-Arab trade is in fact quite high and comparable to other regions of the world, including Latin America. Even in the late 1990s, before significant GAFTA measures had been initiated, the intra-regional trade figures, excluding oil, was as high as 19% of total exports (Dervic et al. 1998). Moreover, inter-Arab trade within subgroups or regions is also quite high. Ali Bolbol and Ayten Fatheldin (2005) of the Economic Policy Institute at the Arab Monetary Fund estimated that 75% of the Gulf Cooperation Council's (GCC) intra-Arab trade is with other GCC members, for Arab Maghreb Union (AMU) countries the figure is 65% and for Mashreq countries 35%.

Despite these promising inter-Arab trade patterns countries in the Arab World have had differential trading regimes, with some being members of the WTO, and others falling outside the global trade regime. Although a series of bilateral agreements exist between Arab countries and their neighbours, in addition to agreements with the EU such as the EMP, it is GAFTA, the largest multilateral agreement that Arab countries have agreed to collectively, that has the potential to overcome these divergences and deepen inter-Arab trade. The GAFTA is an agreement aimed at eliminating import duties and other barriers to trade in goods between Arab countries and at harmonizing trade regimes among the Arab states. The following is a summary of the main features of the GAFTA model (see Syrian European Business Center 2003b: 46):

- Removal of all tariffs on all goods exchanged between signatories
- Treatment of goods included in the programme as national goods
- 40% added value requirement to fulfill rules of origin
- Exclusion of a maximum of ten (10) agricultural products from tariff exemption during the harvest period (eventually to be phased out)
- Tariff-like charges and taxes to be treated as normal tariffs

- Elimination of non-tariff barriers (NTBs); a reciprocity principle for unjustified NTBs was agreed on
- Special treatment of the less developed Arab countries and Palestine

The framework of the GAFTA is by and large consistent with the requirements of Article XXIV of the GATT (1994) dealing with customs unions and free trade areas. However, al-Khalidi (1999: 214-216) has outlined three principles of the GAFTA that are not in agreement with the GATT requirements. The first relates to the principle of national treatment. Under the GAFTA, goods originating outside of GAFTA countries are not given national treatment while the GATT (1994) requires that all products be afforded national treatment, regardless of their source, once they arrive in the domestic market. The second principle in violation of the GATT is that which allows member countries to exchange tariff exemption beyond the specified ten-year timetable through bilateral agreements concluded outside the GAFTA framework. Article XXIV permits regional blocs but not bilateral agreements, which must be granted a waiver under the GATT/WTO rules. Finally, the principle forbidding non-tariff restrictions is inconsistent with Article XXIV insofar as it fails to specify the mechanisms by which the non-tariff barriers (NTBs) should be removed.

The GAFTA is a substantial improvement on previous attempts at integration. However, it does have serious weaknesses and limits on top of its incongruence with the global trade regime. The structural weakness of the GAFTA originates in the fact that it has been constructed with *cooperation* and not *integration* as the underlying principle of the agreement (el-Imam 2002: 253). In eschewing institutional integration, the GAFTA model resembles the loose Open Regionalism (OR) of the Asia-Pacific Economic Cooperation (APEC) because it is based on voluntary understanding, the absence of any supranational authority, and an alleged consensual style of negotiation. This is in contrast to the closed models of regionalism, such as the EU, which concentrate on institution building and developing regional modes of governance. In the APEC context, Poon claims OR is "associated more with establishing a neutral international space for the facilitation of ideas, business and networks than with the creation of governance structures that enhance institutional presence". APEC countries and GAFTA signatories have rejected the neofunctionalist interpretation of regionalism that encourages functional linkages in policy areas accompanied with institutional building, in favour of a regional model grounded in (fluid) adherence to international trade practices. Indeed, OR, as it developed in APEC was a reaction against European style integration that stressed the deepening of regional interdependence and the development of institutions to deepen integration; instead, APEC members sought to maintain control over their domestic economic policy. GAFTA is similar and indeed is actually less developed than APEC which has provisions for investments or services GAFTA lacks.

Another feature of the OR model is voluntarism and weak decision-making and enforcement mechanisms that have relied on a 'follow the leader' approach to policy harmonization within the region. To be sure, on paper, GAFTA's organizational structure looks impressive. All GAFTA work is conducted through the League of Arab States (LAS) and is operated through the Economic and Social Council of the LAS, a ministerial council of the member states with the power and mandate to make binding decisions. The Implementation and Follow-Up Committee (IFC) is the executive arm of the GAFTA. Its membership is drawn from the ministerial undersecretaries, and it is responsible for monitoring the implementation of the GAFTA as well as reviewing and supervising reports provided by the GAFTA's technical committees. The IFC is also the acting dispute resolution body. The Trade Negotiation Committee (TNC) consists of economic experts from member states who review mechanisms for removing non-tariff barriers and for treating Arab duty-free zone products. The Rules of Origin Committee (ROC) is a technical committee comprised of economic experts nominated by the member states and works towards establishing region-wide rules of origin. Other committees include the Customs Committee (CC), which works towards harmonizing the customs systems of member states, and the Standards and Specification Committee (SSC), which tries to harmonize Arab trade standards and attempts to ensure their compliance with international trade standards.

In their actual operations, however, these structures have weak institutional capabilities consistent with OR (Sekouti 1999). A major indicator of this is that GAFTA places very few obligations on members to abide by its rules. There is an absence of transparency and no strong dispute settlement forums. Measures aimed at enforcing the agreement are weak, so signatories can evade certain provisions and ignore others without any punishment. Furthermore, the lack of institutions means that there are few mechanisms to facilitate and encourage trade. There are no institutions created by GAFTA to collect and distribute information regarding, for example, prices or product specifications.

GAFTA is also modest in what it attempts. An obvious weakness is GAFTA's numerous tariff exemptions. In addition, multiple

NTBs, not covered under the agreement, continue to impede trade by imposing additional costs. Nor does GAFTA establish a unified tariff wall against imports from outside the Arab region. It excludes other areas of inter-Arab economic cooperation, particularly services and investment. The consequent lack of region-wide investment regulations serves as a deterrent to inter-Arab investment. Indeed, with the region being awash in petrodollars, and investment pouring in to capital scarce states from the oil-rich countries, regional investment and services regulations seem to be more needed than ever. Another significant shortcoming of the GAFTA model is the set of requirements that determine rules of origin. For all intents and purposes, individual Arab countries continue to employ different mechanisms to determine these rules. Although the agreed upon figure was 40% of value added, the requirements have not yet been harmonized between Arab countries. The determination of rules of origin is thus complex, subject to national laws, and generally applied with substantial inconsistency; this risks fragmenting GAFTA.[2]

There is seemingly no intention to expand the scope of the GAFTA. As with APEC, the GAFTA is entirely driven by economic rationales, while social or political provisions are entirely ignored. Expanding its power over issues such as investment and services is thus not a likely future scenario, despite discussions of such an expansion. The GAFTA design has rejected any centralization of decision-making authority, ensuring that domestic institutions will remain the determinants of economic policy. The weak and decentralized structure of the GAFTA suggests that it will have minimal influence in shaping national economic policy. However, for countries such as Syria that are outside of the WTO regime, adherence to the GAFTA principles does entail a significant move towards marketizing and internationalizing the economy; for countries such as Bahrain that are already members of the WTO the GAFTA has no policy anchoring benefits. In summary, the model is premised on increasing cooperation emerging as the *outcome* of market or industrial integration and the increasing mobility of regional capital, rather than being promoted by strong institutional arrangements.

The minimalist approach to regionalism is not coincidental and is, rather, congruent with the domestic political economies of its member states. It allows GAFTA countries to pursue cooperation while maintaining some protection of the local economy. This model resembles what Jayasuriya (2003) calls ‘embedded mercantilism’. He argues that domestic configurations of economic and political power are reflected in the models of multilateral cooperation/integration that emerge within a region. Thus, GAFTA is consistent with Jayasuriya's assessment that "Open regionalism is not about regional market making but about maintaining export markets; and it is also about helping to cement the dominant coalition between domestic cartels in the non-tradeable sector and the tradeable sector. For these reasons, open regionalism may be seen as denoting a particular political project of regional integration undertaken by powerful domestic actors" (Jayasuriya, 2003: 341). One of the appeals, then, of the OR model for domestic networks is precisely its informal nature that relies on consensual governance rather than rules-based governance. In the Arab World, as in East Asia, where the power and positions of ruling elites is directly tethered to existing political and economic structures, the creation of governance models outside of the state's influence represents a direct threat to existing patterns of political and economic power (*Ibid*) and would, hence, not be permitted.

Understanding the formation and consolidation of segmented economies is particularly important in explaining the model of multilateralism pursued in the Arab World. A segmented political economy refers to a separation between two spheres of economic activity. On the one hand, there exists export production that is liberalized, while, on the other, there are rent-seekers whose close ties with the political leadership ensure domestic economic opportunities that will, through economic policy, remain protected and not become subject to regional competition. A segmented economy is thus one that feigns liberalization through international obligations, multilateral trade agreements, and limited trade liberalization, but in reality remains highly protected and consolidated. The economic demands of ruling coalitions, and the necessity of regimes to maintain them, are thus reflected in the GAFTA model which does not call for integration – a threat to domestic coalitions, rent-seeking opportunities, and access to power – but rather cooperation – a model that allows for domestic coalitions to maintain their protected rent channels. The project of OR in the Arab World has promoted a form of embedded mercantilism – outward export orientation coupled with continued forms of domestic protectionism and coalition building – that reflects the segmented political economies of member states, particularly Syria (see Haddad 2004). Thus, Guerrieri (1997: 158) is correct in suggesting that the OR model requires a simultaneous move towards market convergence while maintaining domestic state control over economic rules, regulations and policy.

On the basis of the above discussion the following features underpin the GAFTA: 1) open regionalism as a strategy of trade liberalization; 2) Informal, rather than rules-based, governance; 3)

Segmented political economies that are divided between liberalized and protected sectors. This suggests that the domestic political economy configurations – defined by continued authoritarian rule, oil dependence, the structural legacies of protectionism and central planning, and centers of political-economic power that are directly tethered to the state/regime – has created this distinctive form of multilateralism that encourages liberalization while discouraging integration. This lack of institutional integration in OR, is, according to el-Erian (2000: 81) currently appropriate since deeper regional integration would only be possible following greater domestic economic reform which would threaten ruling coalitions.

What potential does GAFTA have to promote the liberalization of Arab and specifically Syrian foreign trade in spite of the limited nature of the OR model it has adopted? Can the GAFTA generate developmental gains in the Arab countries, and serve as a catalyst for economic growth in Syria and in the region as a whole? The signs are mixed. GAFTA can do little to overcome certain built-in limitations to regional trade, namely the continued reliance of regional states on oil exports and the relatively small size of Arab markets compared to Asia and Europe, both of which ensure that much Arab trade will continue to be with partners outside the region.

On the other hand, as table 2 indicates, inter-Arab trade has indeed been increasing, although it is still too early to assess the full impact of GAFTA. During the period identified below, there was a greater increase in intra-regional non-oil exports than in total global non-oil exports. Moreover, Dervic et al. (1998) observed in the late 1990s that inter-regional non-oil trade is characterized by higher value added goods than the region's non-oil exports to other countries.

Table 1.2: Ratio of Total Inter-Arab Trade to Total External Trade, 1997-2006.

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
8.71	**9.07**	**8.34**	**7.82**	**8.76**	**10.16**	**10.27**	**11.69**	**10.81**	**11.04**

Source: Arab Monetary Fund.

If we think of the GAFTA region in terms of three regions – Maghreb, Mashreq and Gulf – then it is clear that the most intense trade between Arab countries is occurring in two regions, the Mashreq and the

Gulf. According to Hoekman and Messerlin (2002) several Arab countries that have a high proportion of total exports to Arab countries, such as Jordan, Bahrain, Syria and Yemen, have the most to gain from pursuing Arab economic cooperation. By virtue of their existing trade partners and patterns, the volume of existing regional trade, and the bilateral agreements with neighbouring countries, Syrian producers are well positioned to integrate within the regional Arab market in ways that other Arab countries, such as the Maghreb countries, are not.

The Syrian export economy is characterized by two contrasting trade patterns. On the one hand, oil represents the bulk of the country's total exports, both in terms of volume and value. On the other hand, inter-Arab exports consist mostly of agricultural and manufactured products. This is an important division to highlight, as it suggests that Syrian producers' inter-regional trade could serve as a mechanism by which the country diversifies its export structure. The GAFTA will also be important to Syria's economy because of the potential it offers Small Market Enterprises (SMEs) for gaining market access (Khoury 2002). Currently, SMEs constitute over 85% of all Syrian businesses. For example, in the textile sector, the number of establishments with more than ten employees is around 2500, accounting for around 3% of total textile production. There are over 5000 companies with between 6 and 9 workers, accounting for 6% of textile production, while the remaining 91% have between 1 and 5 workers, meaning that they are family run establishments. The GAFTA provides these latter businesses with opportunities for production and export expansion that was discouraged under previous tariff regimes. For Syrian policy makers, the GAFTA seems to confirm two of the fundamental arguments surrounding the relationship between regional trading agreements (RTAs) and multilateralism: first, that RTAs are building blocks to more global trade, and second, that the geographic proximity of countries plays a crucial role in implementing free trade agreements (Tussie and Woods 2000).

However, GAFTA has not yet led to full liberalization of Syrian trade. Several non-tariff barriers remain an obstacle to trade liberalization. All imports are subject to import licenses issues by the Ministry of Economy and Foreign Trade. Although private importers can easily obtain these licenses, they incur a charge of 1.5% of the total import value, which is to be paid to the Ministry. Furthermore, many imports remain prohibited by the Ministry's protection list. A second major NTB are state monopolies. The import process is often delayed because of requirements that many goods have to be channeled through state trade enterprises. In some cases, acquiring new machinery in the food industry has taken between one and two years. Recently, these restrictions have been lifted for the private sector, yet they remain for public sector enterprises. A third NTB is a ceiling on the total value of export shipments imposed on exporters. If the value of the exports exceeds 300% of the exporter's net worth, the exporter must deposit 50% of the export value in excess of the 300% ceiling at the Commercial Bank of Syria. In effect, this discourages successful Syria exporters.

Nevertheless, GAFTA will likely continue to serve as the main market for Syrian producers in the future. First, as oil production decreases, the percentage of total exports to Syria's hitherto main market, the EU, also decreases. In 2007, according to the Syrian Central Bureau of Statistics, Syria's trade, measured both in volume and value, was higher with the Arab World then Europe. Second, also in 2007, for the first time in decades, the Syrian private sector was the major importer and exporter in Syria. The public sector enterprises have thus lost their central role in Syria's export economy, the culmination of a process of reform and transition in Syria's internationalization that began in the 1980s. Thus, the decline of oil revenues, the decrease in the share of exports to the EU, the rise of the Syrian private sector as the main engine of internationalization, all suggest that the GAFTA will provide the strategic and valuable market for Syrian producers in the immediate future. While the GAFTA does not include institutional support or financial assistance as the EMP does, it is generating trade, investment and integration in ways that the EMP cannot. Although the GAFTA has many flaws, the loose, open model for cooperation is more reflective of Syria's existing economic patterns of trade and production and, most importantly, the configuration of its domestic political economy.

A perhaps unexpected benefit for Syria is that GAFTA membership makes it much more attractive for foreign investors since the agreement greatly expands the market for investors beyond the Syrian domestic market. Syria's GAFTA membership has attracted private sector investment from Asian, Russian and Chinese investors who have sought to exploit Syria's GAFTA membership. These investments have largely been channeled towards industrial projects in Syria's free trade zones (FTZ). For Syria, Adnan Suleiman (2005) has argued, FTZ are important as conduits of broader regional and international trade. Thus, investment in FTZs enhances the export potential of the receiving country. Moreover, the existing investments in free zones reflect the importance of Syria as a regional conduit to the Arab World through GAFTA.

In 2004, the General Organization of Free Trade Zones estimated that total investments stood at 1.8 billion SYP, up from only 826 million SYP in 2000. In 2007, it was estimated that Syrian free zones had 932 operating businesses, including 7 banks, 812 trade firms, 82 industrial operations and 30 services ventures, employing around 22,000 workers.[3] One of the most ambitious FTZ projects is the Chinese Business City[4] in the FTZ of Adra, north of Damascus. This project involves an investment of $6.7 million USD over an area of 7,000 sqm and will accommodate around 200 Chinese companies that will ship goods to Syria with the aim of re-exporting them to Arab countries under the terms of GAFTA. The majority of investment in Syrian FTZ follows this pattern, positioning Syria as a regional hub in emerging trade networks linking Arab and non-Arab countries.

The majority of investment in the FTZ has been in car manufacturing. Specifically, Korean, Iranian, Russian and Chinese investments have established multiple manufacturing plants to supply domestic and regional markets. Korean car manufacturer KIA Motors has been licensed to establish a car manufacturing plant in Syria at a cost of $20 million USD. According to KIA's plans, around 15,000 cars a year will be produced in the plant that will target both local and regional markets.[5] The official KIA agent in Syria is the Ghreiwati Group, a Syrian based company that specializes in manufacturing insulated wire and cables, as well as automotive parts, home appliances and textiles. The Group is also the official agent of other brands in Syria, including The Ford Group's Ford and Lincoln. The Ghreiwati Group is headed by the President of the Damascus Chamber of Industry as well as a shareholder in Cham Holdings and a founding shareholder in one of the Syrian private banks, LF Bank Syria.

Similarly, in 2005 the Iranian company Saipa Corporation signed an agreement with the local Syrian company Hamish to establish a manufacturing plant with an annual capacity of around 15,000 cars with the aim of targeting both the local and regional markets. Saipa will own 80% of the joint venture while Hamish will own the remaining 20%. The plant is planned to be built in Hama and will produce a car called 'The Pride' which is popular for Syrian taxis. The Saipa-Hamish project is not the only joint venture between Syrian and Iranian interests. Iran Khodro, Iran's largest car manufacturing company, has signed an agreement with the state-owned General Organisation for Engineering Industries and a private firm, Al-Sultan trading, to build a plant in Syria to produce 10,000 cars annually that will produce the Iranian Samand model.

Izh-Avto International, a joint venture between Russia's Izhmash and Korea's Hyundai, plans another manufacturing plant in Syria. According to Rusten Shiyanov, Director-General of the Izhmash holding, Syria is one of three countries in the Middle East (Egypt and Iran being the other two) where the company plans to assemble as many as 25,000 cars annually for local and regional consumption.[6] In 2007, the Russian truck manufacturer Kamaz Inc. established an assembly plant in Hessia, an industrial city near Homs. Kamaz plans to begin production at around 1,000 trucks, of which distribution will be split between domestic and regional markets. Kamaz is planned to own half of the ownership of the planned company, and a group of private Syrian investors the other half. The Kamaz company already exports around 500 trucks a year to Syria. The establishment of the Hessia plant will allow the company to expand in an existing market while increasing its exposure to regional Arab markets.

While the GAFTA does not cover services and investment regulations, it has nevertheless led to a significant increase in investment in Syria as companies from Korea, Iran, Russia, Turkey and China exploit Syria's geographic position and its trade agreements with regional neighbours. Although GAFTA has indirectly generated investment in Syria from non-Arab countries, the main impacts have been realized in the inter-Arab economic arena. Bilateral agreements, free trade zones, and foreign investment have thus facilitated Syria's transition towards the multilateral GAFTA model and served as conduits for a broader multilateral trade agenda.

The GAFTA is best understood, particularly from the Syrian perspective, as the outcome of particular constellations of political and economic power within member countries and within the region as a whole. It is precisely the type of statism exhibited in the political economies of Arab countries which has enabled the specific forms of regional cooperation within the OR model: limited institutional integration, weak governance mechanisms, and, ultimately, the state remaining the main arbiter of economic policy. From this perspective, the GAFTA is a model of internationalization that interconnects coherently with political-economic power embedded in the Arab World's domestic political economies.

Conclusion

Although the GAFTA represents an OR model, it is the most advanced form of inter-Arab cooperation in the postcolonial era. Despite its loose model, the GAFTA has initiated a number of policy shifts within Syria that have significantly liberalized the country's export sector. Khoury (2002) has identified the transition away from central planning towards regional competition as the most important aspect of GAFTA for Syrian producers. Increased Arab cooperation also holds the possibility for generating growth and development within the region as a whole. The Arab region, and Syria's geographic and economic position within the region, has attracted non-Arab investors, as is shown by Russian and Asian investors' willingness to invest in Syrian industry.

These features of the GAFTA contrast sharply with those of the EMP which are likely to be less beneficial for Syria. Firstly, Syria's trade with Europe is heavily dominated by oil which is not affected by the EMP. Any liberalization of trade between the EU and Syria would thus have negligible impacts on Syrian producers, but it would open Syria to increased competition from European exporters. On the other hand, the EMP, unlike the GAFTA, offers financial support to Syrian infrastructural, institutional and policy development through a number of financial schemes. In this sense, the Syrian-EU Agreement is more institutionally developed than the GAFTA.

Since both multilateral agreements are different, they tend to offer complementary incentives for Syrian producers, bureaucrats and officials. It is clear that internationalization is a principal component of Syria's current economic policy. Economic cooperation with Arab countries is an initial step towards deeper integration into the regional division of labour. Now that the Syrian leadership has ratified the EMP, they have moved the country closer towards harmonizing policy with the global trade regime.

This essay has demonstrated the multiple and sometimes contradictory shifts in Syrian trade policy in relation to both the GAFTA and EMP. As has been argued throughout, the GAFTA is an agreement that most reflects Syria's current trade capacities and, more importantly, its domestic political economy configuration. While the EMP does not provide the same cover for Syria's segmented economy, it can act as an anchor to encourage policy makers to adopt policies consistent with the global trade regime. While the two agreements have differing trade creating benefits, Syrian trade policy remains focused on building and sustaining bilateral agreements and utilizing these agreements as stepping-stones towards achieving more substantive cooperation with regional neighbours.

Trade policy in Syria cannot be divorced from the country's broader marketization strategy (Abboud 2009). The ability of producers to mobilize resources, penetrate new markets and integrate new practices into the production cycle is necessary in order to support the transition away from oil dependence. In the context of a global political economy increasingly governed by finance and neoliberal orthodoxy, the Syrian leadership may have some difficulty in convincing its trading partners of the redeeming features of its 'social market economy'. The Syrian leadership will need to be creative in order to manage regional cooperation while satisfying its domestic coalition base.

This essay has argued that the challenges faced by Syrian trade policy emanate from its existing production structure, existing trade patterns, and the provisions of the multilateral agreements themselves. Production in Syria remains concentrated in low and medium value added products. Trade patterns remain skewed because of the dominance of oil exports in Syria's export sector. As oil production decreases, Syria's export sector will assume new patterns. In the short-term, Syrian producers may have difficulty competing in regional markets. However, both the EMP and the GAFTA hold potential long-term benefits for Syrian producers and the country's trade regime including the support for policy and institutional changes, foreign investment, institutionalization of norms, increased value added production, and the alleviation of oil dependency.

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[1] Interview with *The Syria Report*, December 1, 2005.

[2] This framework can have detrimental effects on trade as Sally (2006) has argued in the case of East Asia. After pursuing non-discriminatory unilateral liberalization – a principle embedded in the GAFTA model – many counties in East Asia began signing discriminatory free trade agreements (FTAs). The emergent FTAs in East Asia precluded broader regional integration and instead established a series of subregional trade patterns. According to Sally (2006), these FTAs were not catalysts for regional integration or further integration with the global economy. Rather, they moved the East Asia region towards economic *dis*integration, leading to a stalling of unilateral liberalization and structural reforms. The OR model lends itself to discriminatory FTAs, subregional concentration of trade, and hence, economic disintegration. This is of particular concern in the GAFTA area given existing trade patterns that are heavily concentrated within the three subregions of the Arab World.

[3] 'Private firms to manage new free zones' *The Syria Report*, February 26, 2007.

[4] Some have referred to this as 'China Town'.

[5] 'KIA motors, LG to build assembly plants in Syria' *The Syria Report* February 9, 2005.

[6] 'Russian car manufacturer to set up assembly plant in Syria' *The Syria Report* August 26, 2002.

2

The Effect of Trade Liberalization on Syrian Industry: The Case of Textile and Olive Oil Industry

Salam Said

Introduction

In the framework of the trade policy reform starting in the late 1990s, Syria has begun to open its market due to a number of reciprocal bilateral and regional free trade agreements.

In addition to the regional free trade agreement with the Arab States, the Greater Arab Free Trade Area (GAFTA), Syria has signed free trade agreements on a bilateral level, e.g. with Lebanon in 1998, Jordan in 2002 and Turkey in 2004. Moreover, Syria has undertaken several unilateral measures of trade liberalization, such as unilateral tariff reduction, simplification of administrative importation procedures and abolishment of import bans for certain commodities.

Due to this liberal-oriented trade policy, many domestic industries, which have been highly protected for a long time, will face fierce competition from foreign suppliers in their domestic market. The textile and clothing (T&C) industry and the olive oil industry are among the key economic sectors in Syria due to their backward linkages with agro industrial sectors (cotton, olives) and their prominent position as an employer of a large share of the industrial working force. These industries -which were and are still strongly protected- will be in particular affected by opening up the market and by the increased competition. However, they could at the same time gain from a new opening up of external markets due to the free trade agreements with the Arab countries and with Turkey.

The main objective of this paper is to analyse the effects of the GAFTA compared with those of unilateral trade liberalization measures on the Syrian textile and olive oil industries. According to the theory of regional economic integration, Free Trade Areas lead to intensified interregional trade among signatory-member states owing to the *trade creation* (within the common market) and *trade diversion* (away from markets outside the agreement area) after trade tariffs within the area are eliminated. In addition, Free Trade Areas increase the long-term efficiency and competitiveness of the affected sectors in member countries as a result of *economies of scale* and the *effects of competition*. These effects are expected to take place among Syria and Arab States as well as between Syria and Turkey, since Syria has already signed free trade agreements with these countries.

However, the expected effects of the free trade agreements depend in essence on the implementation of the trade liberalization amongst the member countries. GAFTA, which came to force in 2005, is still fully implemented neither in Syria nor in other member countries. The more similar the export structures of the GAFTA member countries, the higher the trade barriers have been among them and the more protected the domestic market.

Textiles and olive oil rank among the most protected commodities in the GAFTA member countries, especially where these industries play a key role in the economy. As a consequence, the promising effects of the GAFTA on Syrian industries, i.e. market enlargement and enhanced competition in the domestic market, as well as the potentially damaging effect of external competition on them, are and will remain limited as long as the free trade agreement among the member countries is not fully realized.

This paper will, firstly, give an overview of the T&C and olive oil industries in Syria and, secondly, assess trade liberalization progress on unilateral, bilateral and regional levels that has been undertaken in Syria since 1997 in regards to the imports of T&C and olive oil. The following section will present the impact of trade liberalization on the examined industries, particularly that undertaken due to GAFTA. Finally, some concluding remarks will indicate the reasons for the insufficient implementation of GAFTA in its member countries, in particular Syria.

An Overview of the Textile and Olive Oil Industries in Syria

Textile and Clothing

The T&C industry plays a key role in the Syrian economy and represents an important pillar of manufacturing industry. It employs almost 22% of the industrial labour force and makes up approximately 20% of the gross industrial output; it also represents 22% of the industrial Net Domestic Product (NDP). Over the past seven years, T&C exports constituted on average 32%[1] of non-oil exports and around 9% of total exports. The comparative advantage of the Syrian T&C industry rests on two factors: (a) Syria's large scale production of cotton, which is a core raw material in the industry; (b) its relatively low labour cost. The contribution of the T&C industry is expected to grow further, especially with the gradual decline of oil exports as a result of deteriorating Syrian oil production.

The T&C industry is one of the oldest industries in Syria. The first textile mills with modern machinery were installed in the 1920s. At that time, Syria was under the French mandate which systematically extended cotton plantations and built up many new ones in order to supply the textiles industry in France. As a result, the planted cotton surface rose within one year from 800 square meters in 1923 to over 35,660 square meters in 1924. After Syrian independence in 1946 this kind of cotton policy was continued in order to supply the growing national T&C industry and to further increase the exports of cotton (Khoury (no date): 77).

In the 1950s, numerous private textile companies were established and, for a number of years, they were successfully exporting a good part of their production. In the 1960s, however, most of these companies were nationalized (Syrian European Business Centre (SEBC) 2003a: 16-17). Consequently, the private textile sector was largely absorbed into a few large public companies, driving private capital and investments abroad. Since then, the private T&C companies have been dominated by small and medium scale family businesses (SEBC 2003d: 6-9). Furthermore, a public monopoly had been developed in core segments of the industry, namely the cotton ginning and marketing sector.

As part of the economic reform policy in the 1990s, the Syrian government issued Investment Law No. 10, which promotes local and foreign investments and re-emphasizes the role of the private sector in the economy. New amendments to the law were made in 2000, offering additional facilities for private investments (SEBC 2003c: 20-25).

Following this, approximately 377 investment projects in T&C were announced by the Ministry of Industry at the end of 2005. Nonetheless, the public sector remains the leading agent in the economy, as it maintains its monopolistic position in the cotton textile industry.

The Cotton sector

Cotton is a major agro-industrial product in Syria. In 2001 the cotton sector represented about 7.2% of the Syrian GDP (Sustainable Business Associates 2003: 10). Furthermore, the cotton industry provides income for about 2.7 million farmers and their dependents, which make up about 15% of the population (IMF 2006: 53-56). According to International Cotton Advisory Committee, Syria produces an average of 1-2% of the world cotton production and is, therefore, ranked among the world's leading cotton producers and exporters. Due to a promotional government cotton policy[2], the production of cotton and the cultivated area have been increasing since 1965. In the last five years, annual raw cotton production ranged between 700,000 and a million tons (IMF 2006: 53). Raw cotton exports, which constitute about 10% of the total non-oil exports, are considered the second most important source for foreign currency (3.9% of total export earnings) after gas and oil. (Sustainable Business Associates 2003: 9).

The cotton market is protected against foreign suppliers by a ban on imports. Syrian cotton production, marketing and ginning are monopolized by the government's Cotton Ginning and Marketing Organization (CGMO[3]). The CGMO purchases raw cotton from the farmers at subsidized premium prices[4] which are higher than international-raw-cotton prices and sells it to the domestic and foreign markets (SEBC 2000: 13, USDA Foreign Agricultural Service 2007: 4). Normally, about 50-60% of the raw cotton is exported without further processing. In 2001, the CGMO decided to sell cotton to domestic spinners at international prices (prices determined on monthly basis) in order to encourage private textile manufacturers. The private sector, however, still uses only a small portion of local raw cotton.

Company profiles and main products

The Syrian T&C sector is operated by public and private companies. The General Organization of Textile Industries represents the public T&C sector and consists of 27 companies: nine cotton spinning mills; eight cotton weaving mills; two clothing factories for cotton underwear; two carpet factories (100% wool); four textile factories for wool, silk fabrics, mixed and synthetic textiles and socks respectively, and two clothing factories for ready-to-wear clothing. In 2006, the number of employees in these companies varied between 400 and 3,800[5].

Table 1: The main products of the Syrian T&C sector during 2000-2003

Type of Product	Unit	Total Production				Private Sector (%)			
		2000	2001	2002	2003	2000	2001	2002	2003
Cotton Yarns	Ton	78019	82975	90600	98374	0	0	0	0
Mixed Woolen Yarns	Ton	2364	2744	2675	2353	0	0	0	0
Textiles Yarns	Ton	446	397	273	311	0	0	0	0
Silk Yarns	Ton	3	2	0	0	0	0	0	0
Cotton Textiles	Ton	21559	25067	27777	29089	46	50	46	46
Woollen Textiles	Ton	6481	7244	8274	8535	95	91	92	96
Synthetic Textiles	Ton	20364	21463	24036	24750	99	100	93	95
Silk Tex-tiles	Ton	10	25	30	30	100	100	100	100
Under Wear Clothes	D.000	6556	6277	7586	8190	89	88	88	94
Ready -Made Clothes	P.000	35116	48317	51868	54738	97	98	98	98
Tricot	P.000	14725	14441	15282	16072	100	100	100	100
Carpets	M2000	1705	1982	2211	2458	77	80	80	84
Stockings	D.000	4410	6312	7126	8003	96	98	98	98
Blankets	P.000	429	425	438	460	90	82	83	84
Bed Sheets	P.000	1599	1808	1785	1817	100	100	100	100
Towels	P.000	8897	7818	7950	8133	100	100	100	100

Source: Owen calculations based on Central Bureau of Statistics, Statistical Abstract 2002-2005, Syrian Arab Republic.

However, the private sector dominates the garment industry and predominantly makes textile goods of synthetic and mixed yarns. Following the national promotional policy for the reinforcement of the private sector, the number of private companies has increased from 15,619 in 1990 to more than 22,949 in 2004. Most of them are of small size with 1-9 employees. Yet, almost 91 companies employed more than 50 employees in 2004 (Central Bureau of Statistics (CBS), industrial statistics 2004).

The most important products of the textile sector in Syria are cotton yarns, cotton textiles and ready made clothes (see table 1). As can be seen from the table 1, the public sector dominates in yarn production, while the private sector is the only one active in tricot, bed sheets and towels. Both sectors produce cotton, woollen and synthetic textiles, underwear cloths, garment, carpet and stockings.

Employment and labour costs

According to official statistics, more than 101,000 employees worked in the T&C industry in 2002 (CBS, industrial statistics 2002). However, informal data as recorded by the SEBC (2003d) shows that the textile sector absorbs about 0.5 million workers, 70% of which work in the private sector. Syria has a relatively cheap labour force within the T&C sector, particularly in the labour intensive sub-sector, garments. The Syrian labour costs are estimated at 0.33 US$/hour within the industrial textile field (less than in Pakistan, China and India) and at 0.3 US$/hour in the clothing industry (similar to Bangladesh). The hourly wage for a Syrian worker in the cutting room in the garment industry averages 1.4 US$/hour (Someya et. al. 2002: 14, SEBC 2003d: 58).

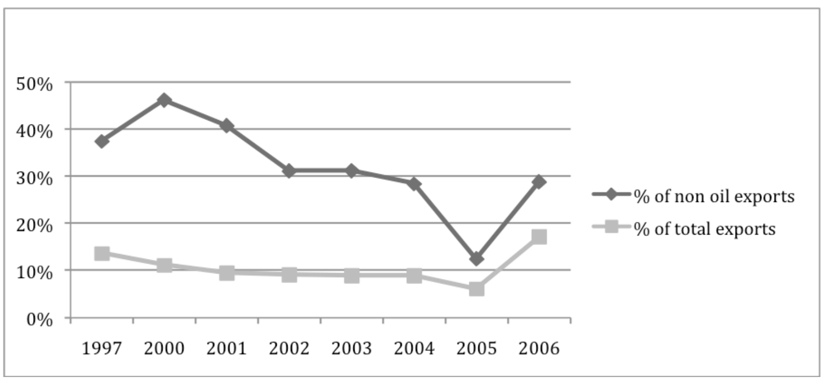
Nonetheless, wages in both the public and the private sector have increased substantially over the past five years. Data on wages in the public T&C companies show that the average monthly wages of 207 dollars in 2002 increased to 252 dollars in 2005, i.e. by 21%. The results from our survey which was undertaken in March 2007 and included a questionnaire for 12 Syrian private T&C companies also illustrate that wages in the private sector increased considerably compared to 2002.[6] In the surveyed companies, the average monthly wages were estimated at 100-200 dollars for unskilled workers; 250-500 dollars for skilled workers and 400-600 dollars for trained cutters.

Labour productivity, in both private and public T&C companies, is relatively low. In the public enterprises this low productivity largely results from outdated machinery, excess number of employed workers and bureaucracy (Salmān 2005: 4). Workers in the private sector seem to lack good qualifications and training as well as reliability (SEBC 2003a: 21-23). Low labour productivity and increasing labour costs will likely affect negatively the comparative advantages of Syrian T&C Industry.

Trade performance

Syria's T&C exports, including raw cotton, made up an average of 31% of the non-oil exports and 10% of the entire exports in the period from 2000 to 2006. Before 2006, the share of T&C exports witnessed a decline due to the increase in exports of 'other goods', such as food, beverages as well as livestock. In 2006, the share increased dramatically, indicating a positive development in the trade performance of the T&C industry during the same year[7] (see figure 1).

Figure 1: Share of T&C exports of total Syrian exports/non-oil exports 1997-2006

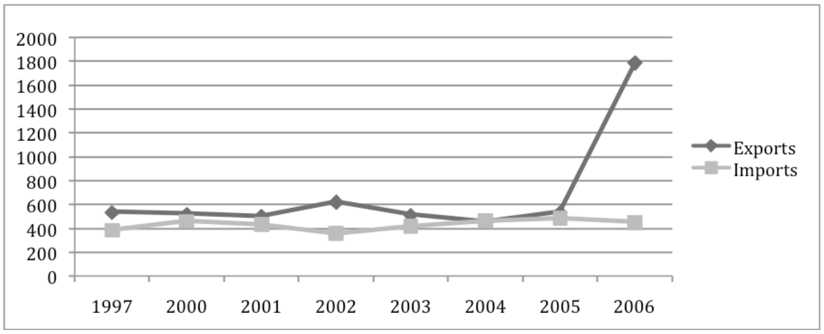


Source: Own calculations, based on Central Bureau of Statistics, Summary of Foreign Trade 1997-2006, Syrian Arab Republic.

Figure 2.a shows that the value of the T&C exports remained relatively constant between 1997 and 2005 with the exception of some fluctuations in 2002. However, the volume of both, exports and imports, fluctuated around a rising trend in the 1997-2005 period.

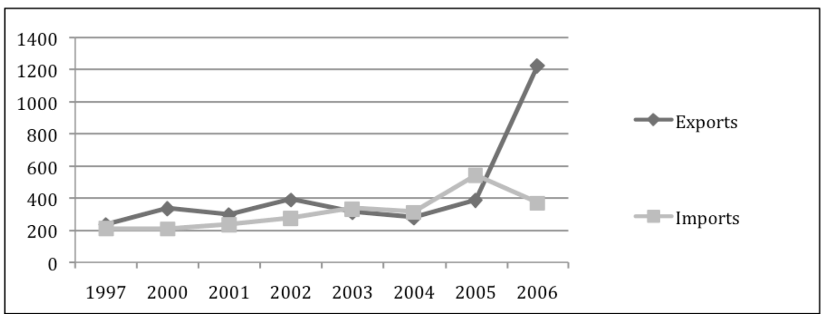
In 2006, the export volume of T&C increased dramatically, reaching an average of 1200 tons p. a. (see figure 2.b).

Figure 2.a: Syria's T&C exports 1997-2006 (million US$)



Source: Own calculations, based on Central Bureau of Statistics, Summary of Foreign Trade 1997-2006, Syrian Arab Republic. Note: US$ 1= SP 11.2 for exports and SP 11.25 for imports in 1997; from 2000 to 2003, US$ 1 =SP 46 for exports and 46.5 for imports; since 2004 US$ 1 = SP 48.65 for both exports and imports.

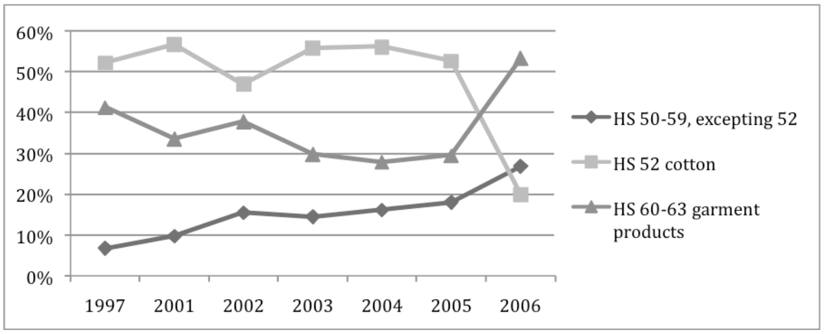
Figure 2.b: Syria's T&C exports 1997-2006 (in 1,000 tons)



Source: Own calculations, based on Central Bureau of Statistics, Summary of Foreign Trade 1997-2006, Syrian Arab Republic.

As shown by the export structure in figure 3, the list is headed by raw cotton and cotton yarns (Harmonized System (HS)[8] 52), which made up more than 50% of the entire T&C exports, followed by clothing (HS 60-63), which reached 38% in 2002. While textiles (HS 51, 53-59) and garment products had experienced an upward tendency since 2002, the share of cotton in the entire T&C exports dropped from 53% in 2005 to 20% in 2006. However, this drop does not imply that the exports of raw cotton have decreased; instead it is caused by the large increase of garment exports for which prices are higher than for raw cotton.

Figure 3: Structure of Syrian T&C exports 1997-2006 (in percent)



Source: Own calculations, based on Central Bureau of Statistics, Summary of Foreign Trade 1997-2006, Syrian Arab Republic; UN com trade database, [http://comtrade.un.org/db/]. Percent calculated by the export values.

This export structure reflects the comparative advantages of Syria within the T&C industry, in particular due to its production of cotton and the relatively low labour cost. On the other hand, this structure also indicates a gap within the value-added-chain of the Syrian T&C industry, whereby only the cotton textile industry has a completely local value chain (from raw material to final product). According to the Revealed Comparative Advantage (RCA) Index of Balassa, Syria has a comparative advantage in the production and trade of T&C goods, in particular for raw cotton, cotton yarns and knitted & crocheted commodities (see table 2).

Table 2: Revealed Comparative Advantage (RCA*) index of Syrian T&C industry

SITC Rev. 3	Description	RCA* 2000	HS	Description	RCA* 2005
26	Textile fibres (other than wool tops and other combed wool) and their wastes (not manufactured into yarn or fabric)	12.94	52	Cotton	10.07
65	Textile yarn, fabrics, made-up articles and related products	1.28	54	Man-made fila-ments	2.54
84	Articles of apparel and clothing accessories	0.88	55	Man-made staple fibres	0.47
			61	Knitted or cro-cheted fabrics	1.2
			62	Articles of apparel and clothing accesso-ries, not knitted or crocheted	0.56
			63	Other made up textile articles; sets; worn clothing and worn textile articles	0.7
T&C		1.71			1.78

** RCAij= (xijw/Txijw)/(xiw/TXw), whereby xijw = exports of country i from product j, xjw = world exports of product j, Txiw = total export of country i, TXw = total world exports. If the index RAC>1, means that the country i has a comparative advantage in the production and trade of this product.*

Source: own calculations based on UN Tradecom database 2000, 2005, [http://comtrade.un.org/]

Syria's T&C exports by country/region

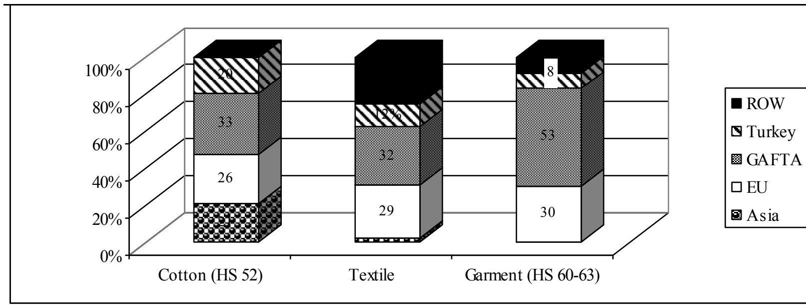
The most important Syrian T&C export markets are GAFTA, EU, Turkey and Asia. While the EU was the main Syrian export market (43% of total T&C exports) in 1997, the foreign trade statistics show that, from 2004 onwards, GAFTA countries have been the most important importers of Syrian T&C goods (see table 3 and figure 4.a and 4.b).

Table 3: Share of the main trading partners of total Syrian T&C exports 1997, 2004 and 2006.

Year	Asia	EU	GAFTA	Turkey
1997	7%	43%	22%	9%
2004	18%	28%	37%	10%
2006	4%	23%	57%	6%

Source: Own calculations, based on Central Bureau of Statistics, Summary of Foreign Trade 1997-2006, Syrian Arab Republic.

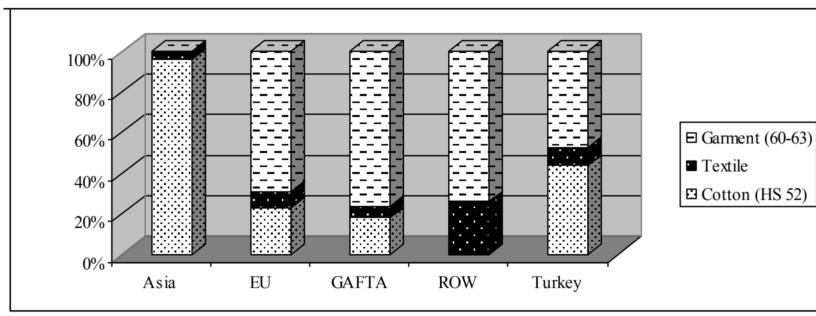
Figure 4.a: Structure of Syrian T&C Exports by Trade Partner 2006 (in percent)



Note: ROW for Rest of the World.

Source: Own calculations, based on Central Bureau of Statistics, Summary of Foreign Trade 1997-2006, Syrian Arab Republic.

Figure 4.b: Structure of Syrian T&C Exports by Trade Partner 2006 (in percent)



Note: ROW for Rest of the World. Source: Own calculations, based on Central Bureau of Statistics, Summary of Foreign Trade 1997-2006, Syrian Arab Republic.

Syrian T&C exports to the EU are mainly garment products and raw cotton. In 2006, the EU imported 26% of the total Syrian cotton exports and 30% of its garment exports. Syrian garment exports to the EU are mainly cotton clothes (T-shirts, cotton articles of clothing for women and children) as well as underwear. All these exports are normally set by direct orders for Syrian manufacturers from large European companies and well-known brands. By exporting in this way, Syrian T&C companies have no chance to market abroad either the name of Syria or the brand of the Syrian companies. Moreover, these production orders are not on a regular basis and comprise only a limited number of products.

As the figures above show, the share of the GAFTA region in the total Syrian T&C exports increased from 22% in 1997 (one year before the formation of GAFTA) to 57% in 2006 (one year after the formation of GAFTA). Syrian T&C exports to the GAFTA consist of garment products, raw cotton, cotton yarn as well as artificial and synthetic man-made filaments & fibres. Within GAFTA, Syria predominantly exports raw cotton and cotton yarn to Egypt, Tunisia and Morocco, where the T&C industry plays a key role in the economy. Syria mainly exports textile and garment products to those GAFTA members which have relatively lower competitive advantages in the textile industry, such as the Gulf countries and Libya. Most of Syrian garment exports to GAFTA are men and women suits, underwear, and clothes for children of both synthetic and cotton. Unlike on the European market, the Syrian T&C companies have a good chance to sell their products with their own designs and under their own label on the GAFTA market. This not only helps the companies to market their own brands, but also to support the image of Syrian textile industry abroad.

After the GAFTA and the EU, Turkey has become the third largest export market for Syria. In 2006, Turkey received 20%, 12% and 8% of Syria's garment, cotton and textile exports respectively. Also, it is expected that, due to the signing of the Syrian-Turkish free trade agreement in 2004 which came into force in January 2007, both Syrian T&C exports to Turkey and Turkish investments in the Syrian T&C sector will increase substantially.

Asian countries are among the world's largest producers of T&C with a huge T&C industry of their own. For this reason their main import from Syria is raw cotton (HS 52) needed for their local T&C industry. However, their share has fallen from 50% in 2004 to 21% in 2006. At present, the main Asian importers of Syrian cotton are Pakistan and China.

Syria's T&C imports by country/region

Imports to Syria of most T&C products are constrained by trade restrictions. Imports of all raw materials and of those finished products that are also produced locally are restricted through import bans or high custom duties. As a result of these restrictions, Syrian T&C imports consist mainly of textile products (HS 50-59) that are not produced in Syria and are used as inputs for the domestic industry. These products made up 93% and 83% of total T&C imports in 2004 and 2006 respectively. Since the import ban on clothing products (HS 62-63) was abolished in 2006, it is expected that imports of garment products will increase dramatically in the coming years, especially from Asia.

As shown in table 4 and figure 5, Syrian T&C imports originate from Asia, the EU, Turkey and GAFTA.

Table 4: Syrian T&C imports by country/region in 1997, 2004 and 2006

	1997	2004	2006
Asia	57%	64%	64%
EU	12%	13%	17%
Turkey	24%	7%	9%
GAFTA	1%	7%	6%

Source: Own calculations, based on Central Bureau of Statistics, Summary of Foreign Trade 1997-2006, Syrian Arab Republic.

Figure 5: Syrian T&C Imports by Country/Region in 1997, 2004, 2006 (in million US$)

Note: US$ 1= SP 11.2 for exports and SP 11.25 for imports in 1997; from 2000 to 2003, US$ 1 =SP 46 for exports and 46.5 for imports; since 2004 US$ 1 = SP 48.65 for both exports and imports.

Source: Own calculations, based on Central Bureau of Statistics, Summary of Foreign Trade 1997-2006, Syrian Arab Republic.

Olive Oil

The agro-industrial olive oil sector plays an important role in the Syrian economy. Estimates based on the Food and Agriculture Organization (FAO) show that more than 377,000 families are involved in olive tree cultivation and olive oil production and marketing. This number constitutes around 15% of the entire Syrian labour force. The share of GDP of this sector has varied between 1.5 and 3.5% over the past years (Malevolti 2003). The olive oil industry has proved an important potential export sector for Syria since the end of the 1990s. Olive oil exports rose from 2,005 tons in 1997 to 20,000 tons in 2004 and 56,354 in 2006 (which is 2% of the entire exports and 3% of the non-oil exports for 2006).

Starting in the mid-1980s, the government sought to increase the number of olive trees and extend the cultivated area. Under this agricultural policy, the number of olive trees increased from about 34 thousand in 1986 to 63 million in 1999. In 2004, the number of olive trees reached 76 million, which includes 56 million trees that already bear fruit (see table 5). Syria expects to cultivate 2.5 million trees annually (Middle East Information and Communication Agency (MEICA) 2006a: 5). As a result, olive oil production has risen substantially over the past ten years. The International Olive Oil Council (IOOC), together with the SEBC, estimates that the Syrian olive oil production will reach approximately 275,000 tons by 2010 (SEBC 2004: 52).[9]

Table 5: Production, consumption and exports of Syrian olive oil

Season	Olive trees* (total numbers)	Cultivable Area* (in '000 hectare)	Production (in '000 tons)	Consumption (in '000 tons)	Exports (in '000 tons)
1987/1988	35394	323,2	66	59	-
1996/1997	59739	445,1	116	75,5	2
2000/2001*	64 Mio.	478	165,3	104***	10
2004/2005	76 Mio.	531	175	135	35

Source: Author's compilation based on data from:
International Olive Oil Council (IOOC) in MEICA (2006a), pp. 6-9; Central Bureau of Statistics, Statistical Abstract 2005 and Ministry of Agriculture, Agricultural Statistics 1997; Malevolti (2003) in FAO, [http://www.fao.org/docrep/006/y4890e/y4890e00.htm#Contents].

Today, Syria is one of the world's largest producers and exporters of olive oil. Its share of the world production of olive oil has recently reached nearly 5%. Syria produces all kinds of olive oil, particularly Extra Virgin olive oil, which makes up almost 60% of the total production, while Fine Virgin olive oil constitutes another 32%. (MEICA 2006a: 5-6)

Table 6: Production and exports of olive oil, 2004/2005 (in '000 Tons)

	Syria	Turkey	Italy	Tunisia	Spain	Greece
Production	175	145	750	110	990	430
Exports	35	78	200	82	114	10

Source: IOOC, in MEICA (2006a), p. 9.

Company profiles

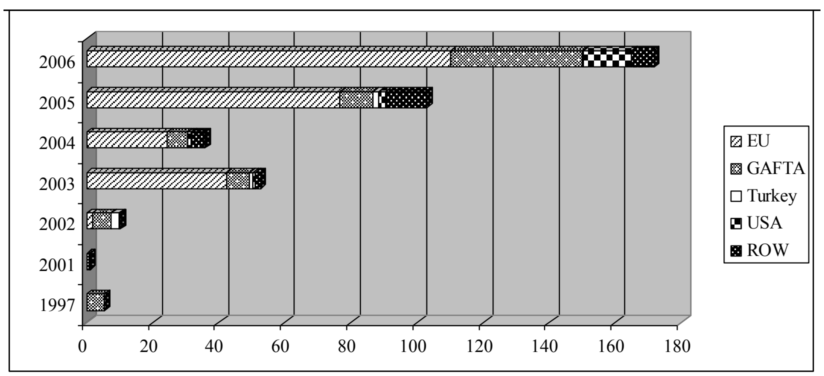
In contrast to the T&C sector, the entire olive oil industry is managed by the Syrian private sector. In 2001, 813 olive oil mills were registered with the Syrian Ministry of Industry. Most of them are traditional, small-size, locally oriented and family-managed firms. Furthermore, a large number of Syrian olive oil firms lack large, modern containers as well as effective marketing and logistics strategies.

Since the domestic production of olive oil grew more rapidly than its consumption, local producers have had to find new distribution channels, particularly for exports. Yet, access to foreign markets is proving to be difficult and presents serious challenges on its own. Apart from domestic suppliers' lack of export experience, the export of Syrian olive oil is facing numerous other difficulties, e.g. problems in defining olive oil types and guaranteeing qualitative standards in accordance with international markets, inefficient management, limited logistics and transport capacities (Malevolti 2003, SEBC 2004: 52-3, MEICA 2006a: 6-8).

Beyond that, the prices of Syrian olive oil have increased dramatically, despite the growth of production in recent years. For instance, in the year 2005 the price for 1 kg olive oil reached SP 160 (US$ 3.8) in the domestic market, which equals a rise of 150% compared to the year before. The reasons for this substantial price increase are threefold: (a) a rise in production costs, in particular labour costs; (b) the growing volume of exports, which is putting increasing pressure on supply for the domestic market; and (c) the ban on imports of olive oil. (Malevolti 2003)

Trade performance
Until 2002, GAFTA represented the main export market for Syrian olive oil, with exports going to the Gulf countries (Saudi Arabia, Kuwait and the United Arab Emirates) as well as to neighbouring Lebanon. However, the export figures of 2003 indicate a radical change, not only in respect to the export volume, but also to the export partners' shares of total exports. The importance of the EU as an export market for Syrian olive oil has been increasing since 2002, reaching 80% and 64% in 2003 and 2006 respectively. Although Italy and Spain are the world's largest producers and exporters of olive oil, they also imported more than 24,000 tons of olive oil from Syria in 2006 (see figure 6).

Figure 6: Syrian exports of olive oil by country/region 1997-2006 (in million US$)



Note: US$ 1= SP 11.2 for exports and SP 11.25 for imports in 1997; from 2000 to 2003, US$ 1 =SP 46 for exports and 46.5 for imports; since 2004 US$ 1 = SP 48.65 for both exports and imports.

Source: Own calculations based on Central Bureau of Statistics, Summary of Foreign Trade 1997-2006, Syrian Arab Republic: UNCTAD, Com Trade, 2005, [http://comtrade.un.org/].

This considerable growth of olive oil exports to the EU is due to both the improved processing and managing performance of local olive oil firms, and the establishment of a number of Syrian-European joint ventures and foreign investments in this sector.[10] These companies have large production and storage capacities, superior marketing skills, modern filtration and filling machinery and high production quality, all of which enables them to meet the European quality standards. Currently these companies are responsible for more than 50% of the total Syrian olive oil exports. (SEBC 2003e: 24, MEICA 2006a: 8-9).

Table 7: The most important olive oil export partners for Syria in share of total olive oil exports (1997-2006)

	EU*	GAFTA	Turkey	USA	Rest of World
1997	0%	97%	0%	0%	0%
2001	0%	80%	5%	6%	4%
2002	17%	55%	24%	1%	3%
2003	80%	14%	2%	1%	3%
2004	68%	17%	0%	3%	11%
2005	73%	10%	2%	2%	12%
2006	64%	23%	0%	4%	8%

** The most important European importers are Italy and Spain; their share has constituted more than 97% of the entire European Union imported goods from Syria since 2003.*

Source: Own calculations based on Central Bureau of Statistics, Summary of Foreign Trade 1997-2006, Syrian Arab Republic: UNCTAD, Com Trade, 2005, [http://comtrade.un.org/].

However, the improvements in product quality, marketing and management of the olive oil companies that are operating in Syria are not the only reason for the increasing exports into the highly protected EU olive oil market. In fact, the EU applies a new trade regulation since 2000, called the "inward processing arrangement", according to which European producers are allowed to import unlimited amounts of olive oil from non-member countries to the EU under the condition that they export the same quantity of olive oil. Such arrangements are normally used by the European companies to satisfy the growing domestic and international demand for their products (Karray 2004: 8-9). Under these regulations, European companies can only import unprocessed olive oil. The olive oil is then refined, packaged and marketed in the EU and/or re-exported as a "European" product. As a consequence, no Syrian olive oil is sold through wholesale channels in the EU, and no Syrian branded products will be found in European supermarkets. This arrangement certainly represents a good opportunity for Syrian olive oil producers to export successfully. However, it prevents them from receiving high profit rates by selling high-value-added-products.[11] Consequently, GAFTA represents, despite its limited market size, a more promising export market for Syrian olive oil, when compared to the EU, because Syrian companies can sell their branded olive oil products there and create an image for Syrian olive oil. The most attractive target markets within GAFTA are the Gulf countries, particularly Saudi Arabia, Kuwait and the United Arab Emirates, where not only Arabic and Syrian consumers live, but also people from other countries (Malevolti 2003, MEICAa 2006: 9).

Trade Liberalization in Syria

Unilateral Measures of Trade Liberalization

The Syrian trade regime has been described by the International Monetary Fund (IMF) as *"one of the most restrictive trade regimes in the world".* Until the early 2000s, trade restrictions included high tariff rates, import prohibitions for a large number of goods, public sector trade monopolies as well as import licensing requirements. In addition, foreign exchange policy reinforced trade restrictions and increased transaction costs dramatically, since it adopted a system of multiple exchange rates. The restrictive measures were further intensified by unclear customs procedures, which led to time-consuming clearances, a lack of transparency and corruption (IMF 2006: 43-52, Zarrouk 2003: 53-57).

The prime objective of this restrictive foreign trade policy was to protect domestic production and to stimulate import-substitutive industries. This can be seen clearly in the relatively low trade barriers on raw materials, preliminary products and capital goods, as opposed to those applied to consumer and luxury goods. Before 2002, import duties were very high in Syria, and they consisted of several different taxes at the border including custom duties, statistical fees and foreign trade tax. The custom duties reached an average of up to 255% and spread over 20 categories (IMF 2006: 44).

Since 2004, Syria has been striving to reduce customs duties as well as to eliminate several non-tariff barriers. The number of imports prohibited for protection purposes has been reduced gradually and in 2006 import prohibitions were eliminated also for sensitive sectors like textile and cement. Apart from that, public import monopolies on some consumer goods like cars were lifted, and import licensing for raw materials was abolished. Export license requirements were replaced by a statistical form, while export bans (except for seasonal agricultural products and specific taxes and fees) were eliminated (IMF 2006: 45-

49). In February 2008, the Syrian government significantly reduced the list of prohibited goods.

Despite these efforts to remove non-tariff barriers in the past four years, trade regulations and non-tariff barriers in Syria remain complex and unclear, and their impact on the cost of imports can exceed substantially that of tariffs.

Both the T&C industry and the sub-sector of olive oil were, and still are, highly protected by tariff and non-tariff barriers. After all, their backward linkages with the agro-industrial sectors (cotton, olives) and their prominent share in the industrial working force put them among the most "sensitive" economic sectors in Syria. The customs tariff on the T&C products varied between 1% and 132% until 2003. The lowest rate of duty (1%) was applied only on raw materials such as wool, synthetic yarn and filament and mixed webs, which are not produced in Syria. The highest tariffs (71%, 102%, 132%) were applied to imports of clothing (HS 60-63) and carpets (HS 57). Fabrics and textiles (HS 53-59) had different customs tariffs and varied between 7-47%. To this day, imports of raw cotton as well as cotton yarns and textiles are forbidden altogether due to the government monopoly in the cotton sector. In 2005, the highest duty rate for T&C imports was reduced to 50%, and one year later, the ban on imports of apparel and clothing accessories, knitted or non-knitted (HS 61-62) was lifted (see table 8). In addition, the T&C sector in Syria is protected by non-tariff restrictions, such as import bans and import licenses. The Word Bank estimated the tariff equivalent of qualitative barriers for textile products in Syria at 120.1% in 2004, ranking among the highest protected goods after Tobacco and plastic (Femise 2006: 103-105).

In the olive oil sector, both imports and exports were forbidden until 1997. The ban on exports was attributed to two prime reasons: (a) to satisfy domestic demand; and (b) to control olive oil prices in the domestic market. Additionally, the ban on imports of olive oil was supposed to protect the domestic olive oil industry against foreign suppliers. In 1997, Syria abolished the ban on olive oil exports and replaced it with different export restrictions (export quota and/or permission). Starting in 2007, olive oil imports were permitted from GAFTA member countries only. However, imports of olive oil from other countries are still banned. Customs regulations would apply a rate of duty of 29% to olive oil products (HS 1509) if the import bans were to be lifted.[12]

Table 8: Customs tariff and prohibited T&C imports in Syria

	HS code	tariff rate 2003	tariff rate 2005*	Import Prohibitions	
				2006	2008
50	Silk	7-71%	1-5%	5001-5005, 5007	5001-5005
51	Wool, Fine Or Coarse Animal Hair; Horsehair Yarn and Woven Fabric	23.5% -47%	1-%5	5111-5113	no prohibition
52	Cotton	23.5% -71%	3,5-14,5%	5201-5206	5201-5206
53	Other Vegetable Textile Fibres; Paper Yarn and Woven Fabrics of Paper Yarn	1-29%	1-10%	5302	5302
54	Man-made Filaments	1,7-47%	1-14,5%	5401, 5404-5408	5401, 5404-5405
55	Man-made Staple Fibres	1%-45%	1-14,5%	5508-5516	no prohibition
56	Wadding, Felt and Nonwovens; Special Yarns; Twine, Cordage, Ropes and Cables and Articles Thereof	7%-102%	5-50%	5601, 56050040, 5606-5609	56050040, 5606-5607
57	Carpets and Other Textile Floor Coverings	47-102% (23.5 %, 7%)*	50% (1%, 10%)*	5701-5703, 5705	5701-5703, 5705 From 2007 allowed for GAFTA members only
58	Special Woven Fabrics; Tufted Textile Fabrics; Lace; Tapestries; Trimmings; Embroidery	23.5-71%	1-29%	5803, 5805-5810	5810
59	Impregnated, Coated, Covered Or Laminated Textile Fabrics, Textiles Articles Of A Kind Suitable for Industrial Use	1,7-47%	1-50%	5903, 5905, 5908, 5911	5911
60	Knitted Or Crocheted Fabrics	7-71%	10-14,5%	-	no prohibition
61	Articles of Apparel and Clothing Accessories, Knitted Or Crocheted	29-102%	7-50%	second-hand cloths	second-hand cloths

62	Articles of Apparel and Clothing Accessories, Not Knitted Or Crocheted	47-102% (7%)	29%-50% (1.7%)	se-cond-hand cloths s	second-hand cloths
63	Other Made Up Textile Articles; Sets; Worn Clothing and Worn Textile Articles; Rags	47-132% (23.5)	1,7-50%	6301 to 6310	6310

** This tariff rate is still valid.*

*** There are only some goods in the category (HS 57) whose tariff rate is at 1% or 10%. Most of the carpet and floor covering goods have a higher tariff (50%).*

Source: Author's compilation based on Ministry of Finance, Syrian Customs, Customs tariff Agenda in 2003; Ministry of Finance, Decree No. 357, dated 20.08.2007, [http://www.syrianfinance.org/ara/article/788.htm], accessed 25 March 2008; Ministry of Economy & Trade, Negative List, of 30.05.2006, and 25.02.2008, [http://www.syrecon.gov.sy/servers/media/20080302-033900.pdf], accessed 25 March 2008;

Ministry of Economy & Trade, Decree No. 338, dated 18.02.2007, [http://www.syrecon.org/index.php?module=subjects&func=viewpage&pageid=524], accessed 29 September 2008.

Trade Agreements with Neighbouring Countries

Besides the regional free trade agreement with the Arab States, GAFTA, Syria has signed free trade agreements on a bilateral basis with Lebanon in 1998, Jordan in 2002 and Turkey in 2004 among others (see table 9). In addition, the Syrian European Association Agreement has been initialled in 2004.

Restrictions on T&C imports were to be further reduced by these agreements. The tariffs on T&C goods from GAFTA member countries were supposed to be completely eliminated in 2005. According to the Turkish Syrian Free Trade Agreement, all import tariffs on Turkish T&C products are to be lifted gradually over a transition period of twelve years starting in 2007. Similarly, the tariffs on European T&C products are also expected to reach zero over twelve years as soon as the Syrian European Association Agreement comes into effect.

As stated before, imports of olive oil are generally banned. It seems that this import ban is still also applied for GAFTA members, despite the official implementation of GAFTA in 2005.[13] Moreover, olive oil is not included in the liberalized sectors in the free trade agreements either with Turkey or with the EU (see Ministry of Economy & Trade 2004, and European Commission 2004).

Table 9: Selected Free Trade Agreements of Syria (1997-2007)

Country/Region	Signed	in force	zero tariff rate/ launch of free trade area
GAFTA	1997	1998	2005
Lebanon	1998	1999	2004
United Arab Emirates	2000	2001	2003
Qatar	2000	2001	2003
Saudi-Arabia	2001	2002	2003
Jordan	2002	2002	2005
Turkey	2004	2007	12-year transition period from 2007

Source: Author's compilation based on: SEBC (2003b), p. 13-20, Ministry of Economy & Trade, Syria, [http://www.syrecon.gov.sy/servers/gallery/20060907-103140.pdf].

Despite the progress that has been made regarding trade liberalization in Syria, many trade barriers continue to restrict full trade liberalization not only with the rest of world, but also with those trading partners with whom Syria has signed free trade agreements, such as Turkey and GAFTA members. Firstly, the negative list of imports is still relatively long and includes a large number of T&C products as well as all types of olive oil. Secondly, the tariff rate on T&C imported goods remains high (up to 50%[14]) and it spreads over nine categories. Thirdly, the government still monopolizes trading in the basic sub-sector of the T&C industry, i.e. cotton.

The Greater Arab Free Trade Area

The Greater Arab Free Trade Area (GAFTA) was established by the Arab League's Economic and Social Council in 1997 and came into force in 1998. By the end of 2007, 17[15] of the 22 members of the Arab League had joined GAFTA. GAFTA aims to strengthen the inter-Arab trade and to launch a free trade area among its member countries. Accordingly, all tariffs and other charges on Arab goods were to be eliminated gradually over a period of ten years.[16] In 2001, the Economic and Social Council, which is the institutional framework of GAFTA, decided to accelerate the establishment of GAFTA and to reach zero-percent tariffs by the beginning of the year 2005 (Zorob 2006: 110-114).[17] The GAFTA Executive Programme allows the members to draw up a list of exemptions (a negative list) from tariff reductions for industrial goods during the first years of the agreement, but only for a specified period of a maximum of three years. The total number of goods which were requested to be exempted in 1998 reached 832 commodities, representing 14% of the total commodities. Six Arab countries (Egypt, Jordan, Lebanon, Morocco, Syria and Tunisia) submitted negative lists, which included textile products.[18] These exemptions had to be removed by September 2002; however, the negative lists have not been abolished, at least not in Egypt, Tunisia, Syria and Morocco (Affifi 2005: 3-11). In addition, these countries have added administrative procedures, especially for textile products, to protect their domestic industries. Agricultural goods under this agreement should also have been liberalized by 2005. Each member was allowed to submit a list of ten products to be excluded during the peak harvest seasons with a maximum total exemption for all named products of 45 months, which in 2001 was reduced to 35 months (Chemingui & Marouani 2006: 10-11).

Nevertheless, GAFTA has not been able to eliminate the various forms of non-tariff barriers obstructing intra-Arab trade covering, among others, import bans. Also, GAFTA has not yet drawn up an agreement on the detailed rules of origin, which will probably interfere with any deflection of trade.[19] Without such an agreement, many member countries continue to apply high trade restrictions in order to a avoid trade deflections. In fact, this assumption is used typically to justify their unwillingness to fully open their markets to the other members (For more details about the implementation of GAFTA see ESCWA 2001, ESCWA 2006).

Currently, GAFTA represents a market with approximately 263 million inhabitants and with a GDP of 961 billion dollars. The GDP per capita averaged out at US$ 3,500-4,000 in 2005. GAFTA constitutes almost 97% of the inter-Arab foreign trade and data from the Arab Monetary fund shows that the share of interregional trade in the entire foreign trade of GAFTA member countries increased from 8.5% in 1998 to only 10.8% in 2006. Since more than 70% of the interregional trade consists of crude oil and petroleum products, the share of the interregional trade rises to 20% if one takes the petroleum out of the foreign trade data (Abū Alnnaer 2007: 9-11). Interregional trade remains modest and lower than expected by the architects of GAFTA. Moreover, most interregional trade within GAFTA flows between neighbouring countries. Also, the relevance of GAFTA countries as potential trade partners is not the same for all GAFTA member countries. For instance, GAFTA is regarded as a promising export market for Syria. However, compared with the EU and USA, GAFTA represents a rather limited market for other countries, such as Egypt, Tunisia and Morocco (see table 10).

Table 10: Ratio of intraregional trade to foreign trade in the Arab countries, 1998-2005 (in percent)

	1998	1999	2000	2001	2002	2003	2004	2005
Algeria	2.24	2.09	1.69	2.97	3.27	3.85	2.51	2.78
Bahrain	15.37	14.97	15.57	16.04	16.92	17.66	18.47	21.04
Comoros	7.90	5.09	7.58	5.49	5.66	5.36	7.01	2.28
Djibouti	31.36	27.74	32.90	33.29	34.01	35.01	37.79	37.68
Egypt	7.36	7.52	7.23	10.30	9.32	9.55	12.70	13.38
Iraq	8.90	5.90	7.91	11.55	13.02	9.69	14.64	15.28
Jordan	27.16	27.76	28.19	31.14	31.85	31.79	33.63	32.79
Kuwait	7.16	6.97	6.66	7.30	7.40	6.95	7.54	7.64
Lebanon	12.11	12.38	15.65	15.97	17.53	17.35	24.94	28.23
Libyan Arab Jamahiriya	8.15	7.15	5.82	5.84	6.61	6.28	7.55	5.67
Mauritania	4.09	2.80	3.36	4.09	4.26	4.47	4.72	4.65
Morocco	5.03	4.15	8.91	8.71	8.49	6.86	6.77	8.78
Oman	25.25	22.56	19.43	20.56	20.89	19.24	17.93	18.10
Qatar	9.99	8.63	8.53	6.84	11.48	8.49	9.45	8.42
Saudi Arabia	9.94	9.55	6.77	6.74	7.02	7.43	9.81	9.46
Somalia	53.23	52.59	46.85	45.41	46.45	53.14	49.30	54.97
Sudan	17.08	17.85	13.51	11.90	11.11	25.70	15.95	15.50
Syrian Arab Republic	16.38	14.31	11.21	15.31	13.58	12.60	22.95	46.19
Tunisia	5.79	5.40	7.87	7.47	7.49	7.32	6.64	7.81
United Arab Emirates	8.45	8.06	7.01	8.37	8.34	7.49	6.75	6.63
Yemen	21.93	20.73	16.98	19.79	25.70	22.66	25.14	24.55

Sources: ESCWA, based on IMF, Direction of Trade Statistics, Yearbook 2005; and IMF, Direction of Trade Statistics, Quarterly, September 2006, in ESCWA 2006, p. 27, Table 11

The Impact of Trade Liberalization on Textile and Olive Oil Industries in Syria

As a result of tariff reduction on both unilateral and regional levels the total imports of T&C and olive oil to Syria have increased since 1997 (see figures 1-6). The unilateral tariff reduction undertaken in 2004 and 2006, however, only increased the trade in liberalized goods, but not those with import bans.

Tariff reduction usually has a negative effect on budgetary revenues due to declining customs duties. In the case of Syria, however, both the import tax revenue, including customs duties, statistical fees and foreign trade tax, and its share in the GDP have increased between 1997 and 2004. According to the IMF, import tax revenues as a share of GDP increased from an average of only 1.6% in 2000 to 2.53% in 2004

(IMF 2005: 28-9, IMF 2006: 44). This results from the replacement of import bans on many goods by customs duties. It is hence to be expected that import tax revenues will increase as long as Syria continues this practice.

Among the most important effects of trade liberalization on the Syrian textile and olive oil industries is the exposure of companies that have long enjoyed trade protection against tougher (foreign) competition. In principle, inefficient domestic companies will close down and those surviving will be forced to improve their productivity and efficiency. In addition, enhanced competition will also contribute to reducing monopoly profits and prices on the Syrian market (Zorob 2006: 169).

In contrast to unilateral trade liberalization, bilateral and regional free trade agreements will not only enhance competition and affect the budgetary revenues due to the elimination of trade barriers. In addition, the market enlargement would open up new opportunities for efficient producers from member countries to boost their exports and to benefit from economies of scale. As stated before, Syria has signed several free trade agreements since 1997. The Association Agreement with the EU has so far only been initialled and the Turkish-Syrian free trade Area has recently come (2007) into effect. Both agreements are concluded on a bilateral level. By contrast, GAFTA is the first and the only valid Free Trade Area on a regional level with a long-term objective to promote regional economic integration between the member countries. For this reason, the following parts of this paper will focus on the impact of the GAFTA on the Syrian T&C and olive oil industries.

According to the theory of regional economic integration, the establishment of GAFTA is likely to have static and dynamic welfare effects on the member countries (Viner 1950, Balassa 1973, Baldwin & Venables 1995, El-Agraa 1999 and Robson 1998). These effects result from the changed competitive conditions due to the elimination of tariffs on imports from member countries and an increased size of the market. The static effects, namely trade creation and trade diversion[20], are expected to further intra-regional trade between GAFTA members. The dynamic effects of GAFTA, which are e.g. economies of scale, competition effects and learning effects, will (a) increase the efficiency of the competing industries in the GAFTA region in accordance with the principle of comparative advantages; (b) lead to a more efficient reallocation of resources (labour and capital) within the GAFTA region; and (c) encourage specialization and greater diversity in the companies (Balassa 1973 El-Agraa 1999: Chapter 3 and 5). To summarise, both static and dynamic effects of GAFTA on the Syrian T&C and olive oil industries are expected to result in: firstly, increasing trade between Syria and GAFTA-members, secondly, enhancing competition on the Syrian market and, thirdly, improving the economies of scale and learning effects for Syrian companies as a result of the market enlargement.

The T&C- and olive oil trade between Syria and the GAFTA member countries has indeed grown after coming into force of the GAFTA, as can be seen in Table 11:

Table 11: T&C-and olive oil trade between Syria and the GAFTA member countries in 1997, 2004 and 2006

		1997	2004	2006
Tariff reduction in the framework of GAFTA		-	80%	100%
T&C exports to GAFTA	Value (million US$*)	117.7	169.2	1018.2
	in percent of total T&C exports	22%	37%	57%
T&C imports from GAFTA	Value (million US$*)	3.8	32.3	26.9
	in percent of total T&C imports	1%	7%	6%
Olive oil exports to GAFTA	Value (million US$*)	5.50	5.99	39.83
	in percent of total olive oil exports	97%	17%	23%
Olive oil imports from GAFTA	import bans on olive oil imports			

** Note: US$ 1= SP 11.2 for exports and SP 11.25 for imports in 1997; from 2000 to 2003, US$ 1 =SP 46 for exports and 46.5 for imports; since 2004 US$ 1 = SP 48.65 for both exports and imports.*

Source: Own calculations, Central Bureau of Statistics, Summary of Foreign Trade 1997-2006, Syrian Arab Republic.

This growth in trade with the GAFTA members is, however, not only due to the establishment of GAFTA. More important causes are the government's economic reforms and the improvement of the marketing skills of domestic companies in Syria. This assumption[21] is based on four reasons: (a) The elimination of trade barriers in the framework of GAFTA is not completely implemented for T&C products and olive oil either in Syria or in many of the other GAFTA member countries, including Kuwait, Saudi-Arabia, Egypt, Tunisia, Morocco and Jordan (ESCWA 2006: 51-55); (b) The destination of Syrian T&C and olive oil exports inside GAFTA have not changed after GAFTA was established. The Gulf countries, which applied low average tariffs even before the formation of GAFTA remain the most important export markets for Syria; (c) After eliminating tariffs on imports from GAFTA member countries in 2005, a large number of tariff barriers were replaced by non-tariff barriers in order to protect key domestic industries. T&C is among the most important industrials branches, not only in Syria, but also in Egypt, Tunisia, Morocco and Jordan. Various kinds of non-tariff barriers impede any significant increase in the T&C trade between those countries despite the GAFTA agreement (ESCWA 2006: 52); (d) the growing trade between Syria and members of GAFTA was driven by increased exports, not imports, with T&C imports from GAFTA members remaining very low compared with those from Asian countries, which have been Syria's main import partners for textiles in recent years (see Section 2.1 and 2.2). This is, probably, because of both the protectionist trade policy in Syria and the relatively high production costs in the other member countries compared with those in Syria and in Asian countries. Moreover, Syrian T&C companies claim that most T&C products imported from GAFTA into Syria over the past years are actually Asian products that have come in via the Gulf countries, where import duties are very low (Hamdan, Haj-Ibrahim and Ismael 2005: 28-34). This deflection of trade, the authors argue, is a result of the absence of effective rules of origin in GAFTA. In addition, almost all GAFTA member countries have pursued economic reforms, including trade liberalization. Starting in the mid-1990s, many of them have begun unilateral trade liberalization programmes, signed reciprocal free trade agreements (bilateral and/or regional), or joined the World trade Organization (Hoekman, Kheir-El-Din 2000: 1-3). This market opening of GAFTA members has eroded trade advantages for GAFTA members compared to non-members. Consequently, T&C producers from GAFTA face growing competition not only from suppliers from other GAFTA members, but also from non-members. Hence GAFTA, per se, cannot be credited with having substantially increased inter-Arab trade.

As for future prospects of GAFTA, one problem is that the T&C trade between Syria and GAFTA members is complementary rather than competitive trade. All countries that produce similar T&C commodities import only raw materials needed for local industry from each other in order to avoid any competition. Besides, some GAFTA members like Jordan have recently begun to establish their own T&C industry which is highly protected. Consequently, the trade of T&C commodities for final consumption will probably not increase between Syria and the T&C producing countries Egypt, Morocco, Tunisia and Jordan, despite the establishment of GAFTA. It seems, therefore, that the only way to promote trade between these member countries is to intensify the intra-regional economic linkages between them, e.g. by direct investments, business co-operation, joint business ventures etc. Such co-operation will at least increase the intra-company trade, which could become an important component of the trade flows between these countries.

At the same time, these countries are forced by domestic economic reforms and their WTO commitments to open their T&C market for Asian countries, which are the world's most competitive countries in production and export of textiles. According to the viewpoint of representatives from the Chambers of Industry and Commerce in Damascus, Aleppo and Cairo,[22] the most threatening competition for the T&C domestic and export markets in Syria and Egypt comes from the textile imports of Asian origin, in particular from China. It is therefore astonishing that they still fear competition among themselves.

As regards Syria, despite the formation of GAFTA in 2005, competition from GAFTA members is still restricted on the Syrian T&C market. This basically results from import bans, other non-tariff barriers and domestic monopolies in the hands of businesses or those close to the Syrian political elite. Until 2007, the toughest competition on the Syrian T&C market has come from the low cost Asian T&C products and in part from Turkish and European fashion- and high quality textile products. The clothing merchants in Damascus estimated the share of foreign clothing commodities at 60% in 2007 (Baridi 2007: 22-25). After the import bans on apparel and clothing had been lifted in 2006, the competitive ready made clothing of Asian origin forced many garment manufactures in Syria either to close or to outsource their production to more efficient firms (Hamdan, Haj-Ibrahim and Ismael 2005: 28-34). If one takes the rising production cost and relatively low labor productivity in the Syrian T&C industry into account, Syrian T&C products will be less competitive and more affected by the market opening. The Syrian garment industry, which is labor intensive, will lose its comparative advantages, since there is no significant improvement in productivity and efficiency in this industry (SEBC 2003d: 10-11, 56-59). The competition by Turkish products is so far limited to the quality-oriented market segment. Yet, the competition from Turkey will probably increase dramatically over the next years if the Syrian-Turkish Free Trade Agreement will really be implemented as scheduled. Accordingly, unilateral trade liberalization had more pronounced effects on competition on the Syrian market than GAFTA.

Similar to the T&C trade, Syrian olive oil as a "final product"[23] is exported predominantly to the Gulf countries. Countries producing olive oil within the GAFTA region, such as Tunisia Morocco, Jordan and Lebanon, are still protecting their domestic olive oil industry. Hence, it is unlikely that the GAFTA export markets for Syrian olive oil will be expanded due to the GAFTA agreement without setting up an intra-regional business co-operation in olive oil production between Syria and the other olive oil producing countries. The Syrian domestic olive oil market is still completely closed to foreign competition although Syria has a comparative advantage in producing and exporting olive oil (see figure 6). Thus, there are so far no competition effects due to GAFTA or to the unilateral trade liberalization on the Syrian olive oil industry.

A further potentially important impact of GAFTA on the Syrian industries represents the economies of scale and learning effects of the market enlargement created by GAFTA. However the ability of Syrian companies to benefit from these opportunities seems to have been quite limited so far. First of all, GAFTA members, including some of the Gulf countries like Saudi-Arabia, Oman and Kuwait, have not fully opened their T&C- and olive markets for Syrian producers. In addition, Arab goods traded among the GAFTA members are subject to discriminatory treatment in Arab markets (see ESCWA 2006: 50-53). Syrian textile products gained access to these markets rather due to unilateral trade liberalization than to the implementation of GAFTA. The Syrian share in the T&C and olive oil market of the Gulf countries depends on the competitiveness of Syrian firms, since the competition of the non-GAFTA competition from Asian countries, the EU and Turkey, on the markets of these countries is very high. The Syrian share in the Gulf markets is driven mainly by the demand of Syrian and Arab guest-workers. The quality- and brand-oriented market in the Gulf countries is dominated by European suppliers, and the price-oriented market by the Asians. Under these circumstances, Syrian T&C suppliers have limited opportunities to increase their market share in the GAFTA member countries. Furthermore, a large number of the existing private Syrian textile companies are small to medium size and have a limited production capacity. Accordingly, they are not able to adjust their manufacturing equipments in order to take advantage of economies of scale offered by GAFTA, even in the long term.

By contrast, the improvement in the production capacity and marketing experience of Syrian olive oil companies allows them to benefit from economies of scale. However, despite Syria's rising share in the GAFTA's olive oil market, the economies of scale effects are mainly driven by its even higher and steadily increasing share in the European olive oil market.

Conclusion

The main aim of this paper was to examine the impact of trade liberalization in line with the GAFTA Free Trade Area on two Syrian industries, namely Textile and Olive oil since 1997. As a result of the unilateral measures of trade liberalization starting in 2004, the competition on the Syrian textile market has increased, especially from Asian, Turkish and European ready made clothing. Competitive companies gained from tariff reduction on imported inputs for the T&C industry with the effect that their costs could be reduced and profit margins increased. In contrast, the Syrian olive oil market is still completely protected by import bans against foreign competition.

As GAFTA has not yet been fully implemented neither in Syria nor in other member countries, the increasing T&C and olive oil trade between Syria and GAFTA members is a consequence of the unilateral trade liberalization programs that were recently undertaken in GAFTA member countries, including Syria, rather than the effect of the GAFTA agreement itself. Despite the comparative advantages of Syria in textiles and olive oil production, Syrian companies will not be able to benefit from economies of scale effects due to the market expansion of GAFTA until the market in member countries will be opened up completely for Syrian products by full implementation of GAFTA targets. Similar to other members of GAFTA, the Syrian market is still protected by various non-tariff barriers against suppliers within the free trade area. So, the effects of competition on the Syrian T&C and olive oil industries due to GAFTA are limited.

Nevertheless, the GAFTA market has become more relevant for Syrian clothing and olive oil exports since 2004. Compared with the European market, Syrian T&C and olive oil companies have a better chance to establish their own brand on the GAFTA market. The potential to export into this region depends, however, on the implementation of GAFTA. The more trade barriers are lifted between member countries the more joint ventures or intra-regional investments will be generated in the GAFTA region and the greater the export potential for Syrian companies. However, given the current political and economic circumstances in GAFTA member countries, it is unlikely that GAFTA will lead to extensive trade among its members without further intra-regional economic integration, such as direct investments, business co-operations, or joint business ventures.

[1] The average shares are own calculations based on the national foreign trade statistics of Syria; non-oil exports are defined as the entire exports minus crude oil exports (HS 27). Raw cotton and cotton yarn (HS 52) account for 50-60% of the entire T&C exports of Syria. Accordingly, T&C exports, excluding raw cotton and cotton yam, represent no more than 13% to 15% of non-oil exports.

[2] The cotton policy incorporates numerous facilities (subsidies) to cotton farmers, such as cash credits and/or material support (seed, fertilizer ... etc.). See Khoury, (not stated), p. 77.

[3] Cotton Ginning and Marketing Organization is an autonomous government institution established by presidential decree number 106 in 1965. See Cotton Marketing Organization, www.cmo.gov.sy.

[4] The difference between the purchase price and the international price are a national support scheme for farmers, which is financed by the public Agricultural Bank. This subsidy is estimated to amount to 1.3% of GDP in 2004 and 1.1% in 2005. More details see IMF (2006), pp. 55-57.

[5] There are only two public enterprises that have less than 400 employees.

[6] A copy of the questionnaire and more details about the survey may be obtained upon request from the author at said@uni-bremen.de.

[7] The official Foreign Trade Statistics of Syria (CBS) for 2005 show that the category “goods with passengers” constituted approx. 27% of the total exports and 59% the non-oil exports. In an interview with Abdallah Dardari (Syria's Deputy Prime Minister of Economic Affairs) in Damascus in March 2007, he explained that the foreign trade statistics of 2005 are not absolutely accurate and that T&C exports as reported by the Chamber of Commerce exceeded those of CBS in the same year. Accordingly, CBS took into account the export data of the Chamber of Commerce, starting 2005; this explains the jump in export figures of the T&C products in 2006 compared to the year before.

[8] The Harmonized System (HS) is a commodity classification system in which articles are grouped largely according to the nature of the materials of which they are made, as has been traditional in customs nomenclatures. The HS is intended to serve as a universally accepted classification system for goods, so that countries can administer customs programmes and collect trade data on exports and imports.

[9] This estimation is based on the following assumptions: The annual growth rate of olive trees is 2.76%; the coefficient of elasticity amounts to 0.4; the pro capita consumption is 5.4 kg and additional 23 million so far fruitless olive trees will carry fruits until then. See Malevolti (2003) and SEBC (2004).

[10] Among the most important olive oil enterprises that have been established in Syria since 2001, are the Spanish-Saudi Arabian company "The East Mediterranean olive oil company" (EMOC) and the Syrian-Swiss company "Near East olive products" (NEOP). EMOC was established by a big Spanish olive oil company *“Aceites del Sur“* and the Saudi Binladin Group in 2001 and took up business in 2003. See EMOC, [http://www.emocsyria.com/]. NEOP was established in 2002 and is owned at 80% by a Swiss company (FPM SA); see NEOP, [http://www.sebcsyria.org/oliveoil/co40.htm].

[11] Syrian olive oil exporting companies estimated an average profit rate of 15% if the olive oil is exported as a product for end consumption, compared to

5%, if it is exported unprocessed in bulk. This was one of the results of a survey undertaken by the author in March 2007, including a questionnaire filled out by eight Syrian olive oil companies. A copy of the questionnaire and more details on the results of this survey may be obtained upon request from the author at said@uni-bremen.de.

[12] The olive oil types (HS 1509.10.21) and (HS 1509.90.21) have tariff rates of 7% and 20%, respectively.

[13] Only in 2007, Syria lifted prohibition on olive oil import from GAFTA members, see Ministry of Economy & Trade, Decree No. 338, [http://www.syrecon.org/index.php?module=subjects&func=viewpage&pageid=524], accessed 29 September 2008.

[14] More than 35% of the T&C products have a duty rate of 50%, which covers the HS codes 56 to 63; see the customs duties of 2007 in: Ministry of Finance, www.syrianfinance.org/ara/article/80-sub.htm.

[15] GAFTA members are Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates and Yemen. Membership is open to all members of the Arab League.

[16] See League of Arab States, Executive Program of Agreement to Facilitate and Develop Trade Among Arab Countries (1997).

[17] The annual tariff reduction was 20% in the last two years. By 2004, the trade tariff reduction among GAFTA members reached 80%.

[18] See League of Arab States, Trade and Development Department, Economic and Social Council, Decision No. 1381, 1999, about exemptions applied within GAFTA.

[19] According to Balassa, deflection of trade occurs when imports from non-members come via another member country with a lower tariff rate thus exploiting the duty-free access to other members of the Free Trade Area. Most Free Trade Areas adopt "rules of origin" to limit trade deflection. See Balassa (1962), in El-Agraa (1982), pp. 22-3.

[20] Trade creation occurs when expensive domestic products are replaced by cheaper imports from another member of the Free Trade Area. By contrast, trade diversion is the replacement of more efficient, or cheaper, producers from the rest of the world by imports from a higher cost or less efficient producer from the Free Trade Area. Accordingly, the welfare gains of members of a Free Trade Area arise when the welfare-improving trade creation effects exceed welfare-reducing trade diversion effects, see Viner 1950.

[21] This assumption is based on (a) the findings of a survey conducted by the author in March 2007 including a questionnaire for 28 Syrian companies (12 private & 8 public textile companies and 8 olive oil firms); (b) the results of interviews conducted in Syria (March 2007) with officials from Ministry of Economic & Trade, Ministry of Industry and State Planning Commission, as well as with the chairmen and representatives from Chamber of Industry and Commerce in Damascus and Aleppo. More details about the survey and the interviews may be obtained upon request from the author at said@uni-bremen.de.

[22] Interviews were conducted by the Author with the chairman of the Chamber of Industry and Commerce in Damascus; the chairman of the Chamber of Industry in Aleppo in March 2007; the chairman of the Cairo Chamber of Industry and the chairman of the Cairo Chamber of Commerce in January 2008.

[23] Syrian olive oil is exported either in final packaging (e.g. a bottle) under the brand of the Syrian company, or in bulk. Packed olive oil in bottles is meant to be sold as a final product through retail trade channels. As bulk, the olive oil requires refining and/or packaging under the brand of the importing company.

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