

Syrian Opportunity?

*Syria's only hope
long-term in avoiding
economic crisis is to
improve its bilateral
relationship with
the United States.*

BY DAVID D. HALE

The United States has recently begun to re-engage with Syria after a long period of virtually no contact. House Speaker Nancy Pelosi visited President Assad in early April. Secretary of State Condi Rice saw the Syrian foreign minister at a regional conference during May. Both Pelosi and Rice saw the Syrian officials because of their concern about America's problems in Iraq. There was little time to discuss the U.S. relationship with Syria itself. It is unfortunate that they did not discuss U.S.-Syrian relations because the Assad government has begun a program of cautious economic liberalization which can succeed only if Syria significantly improves its bilateral relationship with the United States. Washington therefore has more potential leverage over Syria than at any time since Mr. Assad's father seized power during the late 1960s.

Bashar Assad took power in 2000 after the death of his father, who had ruled the country with an iron fist for thirty years. He began a cautious program of political liberalization and appointed numerous European-educated technocrats to key positions of power in his regime. He soon married a Syrian woman who had grown up in the United Kingdom and worked as an investment banker at JPMorgan before being

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admitted to Harvard Business School. Assad then began a program of economic reform in order to reduce the country's longstanding economic isolation. He allowed private banks to reappear in 2004 for the first time since 1963. He significantly reduced tariffs and pursued a free trade agreement with other Arab countries as well as Turkey, and sought an economic partnership agreement with the European Union. In 2005, he traveled to China in order to seek trade and investment. China responded by investing in the Syrian oil industry and opening textile factories to exploit Syria's large cotton crop. Syria hopes to open a new stock exchange this year.

Syria needs to modernize its economy and engage with the global economy because it faces a potential crisis during the next ten years. Its oil production is now declining and the country could be forced to import oil by 2015. As oil is the country's

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Married Up

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leading export and provides significant revenue for the government, Syria will have to develop other sectors of the economy or face a major crisis in both her fiscal policy and the balance of payments. Syria's manufacturing exports are equal to only 3.1 percent of GDP compared to 24.5 percent for Jordan. Syria also needs to create more jobs for its rapidly growing population. The United Nations is projecting that Syria's population could rise from 18 million to 36 million over the next forty years.

The United States could play an important role in helping Syria to meet these challenges. It has long imposed economic sanctions on Syria and discouraged the Europeans from offering the country any trade agreements. The United States has been hostile to Syria for several reasons. Syria is an ally of terrorist groups such as Hamas and Hezbollah, and has long tried to dominate Lebanon. Syria has been an ally of Iran since Iraq's invasion of that country twenty-six years ago.

Syría's foreign policy is a reflection of its history. The Syrians attempted to establish independence after the collapse of the Ottoman Empire at the

end of World War I, but the Treaty of Versailles awarded the country to France. The French dislodged Syria's provisional king in 1920 and ruled the country until 1946. Two years later, Israel claimed independence in territory which the Syrians once regarded as part of their homeland. Syria joined other Arab countries in resisting Israel and did not join the peace agreement Egyptian President Anwar Sadat negotiated in 1978. Syria came close to achieving a peace agreement with Israel under both Prime Ministers Yitzhak Rabin and Ehud Barak, but the deals were killed when Rabin was assassinated and Barak failed to win reelection. Israel therefore continues to occupy the Golan Heights. Syria has always been active in Lebanese politics because Beirut is only a ninety-minute drive from Damascus and both countries were part of the Ottoman and French colonial empires.

President Assad says that he would welcome an opportunity to engage with the United States and revive talks with Israel over the Golan Heights. The Syrians are concerned about the situation in Iraq because they have taken in over one million refugees and their own country is potentially vulnerable to sectarian strife. President Assad's family belongs to the minority Alawite sect while 75 percent of the country is Sunni and 12 percent is Christian. He has tried to be less protective of the Alawites and married a Sunni over the protests of his mother, but Syria is still not immune to the risk of sectarian warfare. What the United States should recognize is that Syria has become a different country than the isolated socialist Alawite-dominated country bequeathed by

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President Assad's father. Syria has many vulnerabilities the United States should seek to exploit. It wants

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to end the sectarian conflict in Iraq. It needs to modernize its economy and engage with the world economy in order to cope with falling oil production and a growing population.

The United States has a long history of letting politics dominate its economic relations with countries in the Middle East. The United States offered Jordan a free trade agreement five years ago. Since 2001, Jordan's exports to the United States have grown from \$229 million to \$1.3 billion. The United States had no foreign trade with Libya three years ago. After Libya abandoned its nuclear weapons program, the United States dropped its sanctions and imports from Libya are now worth nearly \$2 billion. America's foreign trade with Iraq has also tripled since the occupation in 2003. The United States has a modest amount of foreign trade with Syria but it's equal to only 25 percent of its trade with Jordan, despite the fact that the Syrian economy is more than twice as large.

Instead of treating Syria as a rogue state, the United States should offer Syria the opportunity to become a new emerging market. There are still powerful old-guard factions in Damascus opposed to economic reform and engagement with the global economy. President Assad would have a greater chance of achieving success with his reform program if he were supported by the United States in pursuing economic partnership with Europe and membership in the World Trade Organization. Prominent members of the United States Senate traveled to Damascus during December in order to meet with President Assad. Members of the House, including Speaker Nancy Pelosi, followed soon after. The Bush Administration should also take advantage of Assad's need for improved relations with the United States in order to enlist his help in pacifying Iraq and resolving the long festering conflict in Palestine. ♦