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Syria and Europe: the practice of multipolarity

Abstract

Since 2001, the United States and Europe were stuck in the mire of the confrontational policy in the Middle East but they did not reap the fruits they had expected. Despite all difficulties, Syria closed the ranks domestically and sustained pressure by exploiting all the opportunities offered by a changing international system. At the end of the day, Damascus seemingly did not give up much of its diplomatic and economic claims in the region and if it did, that would be more attributable to the consequence of the political change occurring in the ruling élite rather than to that of western pressure. Along with its historical legacy of Arab nationalism, one might speak of Syria's "domestication" of neoliberalism: this process occurring when the main sponsors of neoliberalism in the West have lost much of their enforcement power.

1. Mediterranean attractiveness

In recent years, the ongoing military and political conflicts in the Near East did not deter the positive economic outlook which, coupled with the rise in oil prices, offered major opportunities for infrastructural projects, exports and foreign direct investments. This process run parallel with the growing assertiveness of regional politics against international pressure, namely from the Us and the European States: the ongoing crisis might further enhance such trends towards regionalisation in a multipolar context. In the light of its relationship with Europe, Syria is a remarkable case in point¹.

During the five last years, Syria and the other Mediterranean economies have experienced an overall average growth of 4,5-5% every year. Since 2003, the only Arab world has witnessed a strong and continuous upward trend in terms of FDI inflows: the share of the Arab world of total FDI flows to developing countries doubled from 6.2% to 14.6%. Between 2003 and 2007, Mediterranean countries, among them Syria, received US\$200 billions in FDI, that is 20 times higher than European direct aid to the region. According to the Institute of International Finance, Gulf investors took advantage of the liberalizations and privatizations adopted by North African and Near East Governments and put more than US\$60 billions into their economies².

However, since autumn 2008, the financial crisis rapidly transformed into the deepest global economic recession since the 1930s. Despite the huge surpluses accumulated by the GCC countries, the whole Middle East region has witnessed a slowdown in economic growth because of high instability in oil prices, correction in the housing sector, drop in FDI inflows and lower export earnings related to the recession in foreign markets, notably the EU: according to the UN-Economic and Social Commission for Western Asia (ECSWA), the region is predicted to limit economic growth at an average 3.7-3.3% with a consumer inflation rate of 8.5%³.

In this context, Syria presented no exception. Since 2000, Syrian GDP has grown at an average rate of 4% with another boost in 2005 and 2007; at the same time, foreign direct investments marked a significant increase, though with Syria still remaining on the "below-potential" category of the ESCWA countries⁴. In particular, according to Syrian official statistics, foreign investments from the Gulf amounted to about \$750 millions in 2007 and may have exceeded \$2 billions annually over the past five years⁵. Another sign of the rising dynamism and diversification of Syrian economy have been two key-

1 A revised version of this paper was published in *Foro Internacional*, "Siria y Europa: la práctica de la multipolaridad", 198, vol. XLIX-4, 2009, pp. 864-891. I would like to thank the Orient Center for International Studies in Damascus for the stimulating debates we enjoyed so far, as well as for the highly valuable workshop "Syria in a Changing World" held in November 7-9, 2009 in Damascus and co-organized with the University of St. Andrews Center for Syrian Studies.

2 See, P. Malanima (2008).

3 ESCWA (2009), p.V-VI, 28.

4 World Bank (2008), p.11.

5 Oxford Business Group, (2008), p. 12-14. See also Economic Intelligence Unit (2008).

decisions made in Damascus: first, to de-peg the Syrian pound from the US dollar and peg it against a basket of foreign currencies that make up the IMF's special drawing rights (SDRs): this move is representative of Syria's trade position with the rest of the world. Secondly, the adjustment completed in 2007 by the Central Bank of Syria of the composition of its foreign exchange reserves from primarily US dollars to 50% of assets denominated in euros. Such moves contributed to mitigate the effects of the current financial and monetary crisis because it means that the Syrian pound is less likely to shift substantially in value relative to global currencies, thereby upsetting the balance of trade with the rest of the world. These considerations do not limit to Syria. In fact, according to ECSWA, "*The alignment of the region's monetary policy on that of the United States became the focus of policy debates, and the argument for foreign exchange regime reforms, including a de-pegging and/or revaluation of national currencies against the United States dollar intensified as the United States dollar weakened*"⁶. As far as the global crisis is concerned, the Syrian government announced that the crisis will have a direct negative impact on the state budget: the state is to increase its investments in different sectors without relying on those external resources which have played a great role in boosting economic growth until today⁷.

Meanwhile, from a diplomatic point of view, efforts to isolate Syria both at regional and international levels have failed, and struck a heavy blow to the regional and international strategies of their champions: especially the US, Israel and Saudi Arabia. On the contrary, the Syrian leadership has so far achieved a good string of diplomatic successes, compared with its actual power and the political containment it was supposed to be placed under⁸. Hence, it did not come as a surprise that European diplomacies have resumed their political and economic activism in Syria, as demonstrated by contacts held by Italy and Germany soon after the Lebanese war in summer 2006, the much trumpeted project of *Union for the Mediterranean* and the related visits of French President N. Sarkozy in Damascus, as well as the recent moves of British and US diplomacy towards re-establishing ties with Syria⁹. Not surprisingly, political and economic rationales integrated one another, though they did not necessarily coincide both temporally and in their goals.

2. Syrian-European relations between diplomacy and economics

After the II Gulf War in 1990-1991, and the ultimate demise of the Soviet camp, the newly-established European Union (EU) started to engage comprehensively the Mediterranean region through the so called "Barcelona

6 Oxford Business Group (2008), p.38-40; ESCWA, *Regional Economic Forecast* (2008). The SDRs are weighted at 44% euros, 34% Us dollar and 11% each for sterling and yen. The European Union is currently Syria's largest trading partner; in 2006 the US was the 14th partner, as substantial amount of oil trade is conducted in US currency; the UK is Syria's 12th-largest trading partner and Japan the 20th.

7 S. Nagpal (2009) p.36. See also, I. Saif, F. Choucair (2009).

8 S. Mubayed, "The Arab Cold War" (2008); Economist Intelligence Unit ViewsWire (2008).

9 Interviews of Italian and German officials with the author, Damascus, July-October 2006. 2006. See G. Corm (2007); R. Aliboni, F. M. Ammor (2009); I. Black, J. Sturcke, (2008).

Process" (Euro-Mediterranean Partnership, EMP) in 1995: the latter based on a common regional approach and aimed at the establishment of a free-trade area by 2010 through the implementation of the Euro-Mediterranean Association Agreements (AA). As Dostal convincingly argued, "*the explicit goal is the economic integration of the MENA countries with the EU and the world economy in a dual process (...) and the EU works as the agent of the global trade regime*". However, recent experience has shown the negative impact of European competitive goods on domestic production, state budget and labour markets of Middle East and North Africa countries (MENA)¹⁰. After being disappointed by the poor economic and political results of the Barcelona Process and just prior to the scheduled enlargement to the East, the EU endorsed the *European Neighbourhood Policy* in March 2003: its "*everything, but institutions*" clearly set a strategic priority for the foreign policy and economic investments of the European Union towards the Eastern new members or partners, at the expense of the Mediterranean ones. Many resources would be paid to integrate the eastern members and partners, whereas the southern ones would be dealt with one by one and on more selective grounds: a bilateral approach was supposed to be more effective and "compelling" towards the southern neighbours. However, the literature has shown that the EU's conditionality works only when "membership" is offered for negotiations, and even in this case its success is not granted at all¹¹. The most recent Union for the Mediterranean (UfM), prompted by the French President Nicolas Sarkozy and later joined by other EU members, seems not to depart from previous patterns, except for one aspect which nevertheless deserves attention: the UfM is based on a more intergovernmental and realist approach, which departs from the previous normative practices of the Barcelona Process; this would give Euro-Mediterranean relations greater political substance¹².

Syria joined the Barcelona process since its incarnation, but it fell short of signing the related Association Agreement: firstly, because in the aftermath of the 1991 Gulf War Syria was financially rewarded by Gulf States for its joining the international coalition to oust Saddam from Kuwait, so it was not pressured to enact the wide-range liberalizations required by the treaty; secondly, late President Hafiz al Assad focused all resources on the peace negotiations with Israel, which eventually collapsed in 2000, and confirmed the priority attached by the Ba'thist leadership to politics over economics. Last but not least, despite entering negotiations in 1997, Syria did not sign the AA because of domestic opposition and the economic difficulties it had to overcome in order to catch up with all the liberal provisions required.

The Syrian regime originally relied on the support of a broad coalition, which consisted on small and medium peasants, unionised workers, public sector employees and civil and military state institutions. Until 1970, the big bourgeoisie was excluded from access to the state and only with Hafiz al Assad

¹⁰ J. M. Dostal (2009), p.12; R. al Khoury (2008). For a critical view, see S. Amin, A. el Kenz (2003).

¹¹ R. Aliboni (2004).

¹² See Aliboni, Ammor (2009), p.9.

a compromise was set between the traditional power-centres and the newly established, "provincial" elite: the state and the regime held the upper hand, whereas the private sector played a complementary role. While domestic accumulation proved quite low, the macro-economic stability of the regime relied on geopolitical rents at the crossroad between the Arab-Israeli conflict and the Cold War and on the oil sector since the late 1980s, as well. The fall of oil prices and the alliance with revolutionary Iran in mid 1980s put at strains state budget and forced to cut-spending and selective liberalizations: although these did not lead to a major reassessment of an economic system where the state still controlled strategic activities, the public sector's share of GDP declined whereas the private one now accounts for 65%; this involved a gradual, selective but nonetheless steady rise in influence of the Syrian bourgeoisie¹³.

Since his inception at the Presidency, Bashar al Assad had first to consolidate in the domestic arena before engaging on major reforms, so that from 2000 to 2003 major shifts in economic policy were avoided. The same "Damascus Spring" which supposedly banked on the new Presidency to inject fresh air and open political debate in the country was soon crushed not to endanger central power in times of high regional instability and incoming external threats¹⁴. From an economic point of view, the Syrian government had no preference for liberalization, as the bulk of its constituencies still based on the state-sector. However, the harsh decline in oil production and the related revenues since 2000 forced Damascus to engage in a sustained take-off of private investments, which depend on Syrian conformity to the standards of the global market. The appointment of a powerful group of liberal technocrats in key-state institutions and their association with the new private business community paralleled with the decline in influence of Syrian labour forces. However, this process did not prevent large public debate: domestic opposition and skepticism over reforms and negotiations could partially derail a major push towards privatizations, the latter still being a sort of "red line" for liberals. On the one hand, for many liberal reformers in Syria, the Association Agreement with the EU was the opportunity to catalyze and "lock-in" the current economic *infithah* (opening): accordingly, they would have an effective legally-binding instrument to justify unpopular measures vis-à-vis opponents and the resenting population. On the other hand, critics pointed out that, facing the US-led offensive in Iraq, the Syrian negotiators seemed to accept not only far-reaching economic provisions but also political conditions: and this was a major departure from the renowned Syrian "toughness" in negotiating; notwithstanding the self-evident asymmetry in dealing with the EU, critics claimed that this meant accepting a fundamental lack of bargaining power¹⁵. Indeed, the Syrian leadership faced a difficult choice between unpopular reforms and the need for popular support to face a fast deteriorating regional environment¹⁶.

13 See R. Hinnebusch (2001); H. Batatu (1999); V. Perthes (1997). For an overview over the previous period, see H. Rizkallah (1969).

14 See C. Wieland (2006); A. George (2003); V. Perthes (2004).

15 See both J. M. Dostal (2009) and A. Zorob (2009). See also, M. Trentin (2008).

16 R. Hinnebusch (2003); B. Haddad (2006).

At the international level, though there was some willingness on the part of Damascus to cooperate with the US and Europe in their "War against Terror", its vocal opposition to the Iraqi invasion in March 2003 set Syria on a collision path and led to the US Congress passing of the *Syria Accountability and Lebanon Sovereignty Act* (SALSA) in May 2004¹⁷. The Europeans too exploited the Association Agreement as a tool of pressure on Syria and inserted wide-range clauses dealing with cooperation against terrorism and WMD, which have never appeared on previous Association Agreements. The first draft of December 2003 was blocked by UK, Germany and the Netherlands which asked for more tightening clauses on the WMD dossier and substantially endorsed Washington requests on their behalf. After a tug-of-war, an agreement was reached in October 2004 but was soon put on hold again because of the crisis unleashed in Lebanon. Now, the European Union aligned with Washington's confrontational and containment policy in Fall 2004 mainly because of the stalemate over the election of the new Lebanese President and the subsequent murder of former Prime Minister Rafiq Hariri: Syria was charged for its meddling in Lebanon and for the murder, and the UN Security Council Resolutions n.1559 and n.1595 set the formal points of reference for international cooperation on the Lebanese-Syrian dossier¹⁸. While the Syrian leadership had committed itself to liberalize the economy according to the framework provided by the Association Agreement, the EU now refused to sign and resorted to political conditionality as far as the deal was concerned¹⁹. The political crisis in Lebanon and the staunch opposition of French President Jacques Chirac to deal with the Syrian leadership caused a major disruption in Syrian-European relations. The French departure left Germany as the main point of reference for *current affairs*, but, despite good intentions to keep contacts open, tension remained high.

It is true to say that ties were never completely severed and European Capitals refused to apply the whole range of economic sanctions that Washington pushed for. Nevertheless, most of the European diplomacies aligned with the US in order to isolate Syria and to exert pressure on Damascus to give up some of its traditional regional assets: such as the hegemonic role played in Lebanon since the Taif Agreement in 1989; its support for Palestinian resistance movements; its interests in the neighbouring Iraq; and, above all, its strategic partnership with Hizb'allah and Iran. Under such conditions, the supposed *normalization* of Syria with the international community implied a reversal of the main pillars of the Syrian foreign policy since the early Seventies, which would inevitably affect the very domestic legitimacy of the ba'thist regime in Damascus²⁰.

Facing hard pressure, the Syrian leadership resorted to "*closing the ranks*" and holding a tighter control over domestic opposition and internal dissidence:

17 J. Couterut (2004). See also, R. Hinnebusch (2005).

18 See N. Blanford (2005); D. Pioppi, N. Tocci, K. Karam (2006).

19 See A. Zorob (2007).

20 Interviews of Syrian and German officials with the author, Damascus, June 2005 and summer 2006. See Hinnebusch (2001); International Crisis Group (2005).

notably, not only those political and economic circles closely linked to its regional and international adversaries but its own traditional constituencies, as well²¹.

The reform-camp did not give up strategic plans for pursuing a “neoliberal economic development”, which would move Syria away from the remnants of the import-substitution-industrialization and lead it to an export-oriented economy: rather, they continued at a slower and more fragmented pace²². In June 2005, the Tenth Ba’th Party Regional Congress ratified the transition to a “social market economy”, meaning a formal compromise between the liberals and their opponents; in May 2006, the Syrian President signed the Tenth Five Year Plan, which adopted “indicative planning” and private forces empowerment as its main pillars and ostensibly tried to frame next liberalizations into a more comprehensive plan. Since then, public debate has not diminished but the government constrained it “*within the official limits*”²³. Meanwhile a whole set of domestic reforms opened the banking and insurance sectors to foreign competition and enforced several reductions on custom duties and state subsidies. Regionally, Syria entered the Greater Arab Free Trade Area (GAFTA), signed in 1997 but formally operating since 2005. In the context of the remarkable reapproachment with Turkey, Syria signed several bilateral free trade agreements, which moved the Syrian market closer to the borders of the EU and consequently compelled Syria to adapt to the EU standards of trade: in the eyes of the reformist technocrats, these agreements partially substituted for the EU-AA²⁴.

Many administrative obstacles still prevent the full viability of the new wave of liberalizations. For such a reason, several foreign actors rushed to Damascus to provide consultancy to reform the decision-making procedures and train the administrative personnel to the rationality of a market-based economy. The German Gesellschaft für Technische Zusammenarbeit (GTZ) worked in the main Syrian economic institutions concerned with reform, particularly at the State Planning Commission which elaborated the last Five Year Plan; Italy, France, the UNDP, ECSWA as well as the European Commission have so far provided further technical assistance and consultancy. Accordingly, representatives from the IMF advocate for the overall restructuring of the financial sector in order to boost a second wave of liberalizations: in this case, the state will not be able to provide the public sector with soft loans and the Central Bank would enhance its autonomy and focus primarily on price stability²⁵. Meanwhile, there has been occasional attention to the negative impact that liberalizations have on most-exposed

21 Interviews with the author, Damascus, June 2005 and summer 2006. See also Wieland, *op. cit.* 2006

22 S. Aita (2006).

23 A. Zorob (2009), p.41-42. However, harsh debates continued in several occasions, as witnessed by the Conference *Syria in a Changing World*, Damascus, November 2008.

24 Interview with Deputy Minister of Economy and Foreign Trade, George Habash with the author, Damascus, July 16, 2006.

25 interviews with the author, Damascus, summer 2006 and 2008. For an overview on European advisory programs in Syria, see Zorob (2009), p. 41. See also, the Bertelsmann Stiftung, *Bertelsmann Transformation Index* and the related *Syria Country Report 2003, 2006 and 2008*; C. Kauffmann, L. Wegner (2007); O. Hamad, “Taming the Beast” (2008); Oxford Business Group (2008), p.20

social groups: wage increases for the public sector, additional job creation within the latter and reintroduction of industrial quotas to protect domestic production seem to be "side payments" because they do not "*challenge the underlying trend of liberalisation*"²⁶.

A major turning-point occurred with the failed show of strength by the US and Israel in the Lebanese war of the summer of 2006. Its outcomes urged European capitals to resume contacts, as proved by the activism of the Italian, German and French diplomacies in Damascus: constructive engagement proved to be necessary if European states wished to save their pro-western allies in Lebanon, in Egypt and in Saudi Arabia, which found themselves in full defensive posture compared to their rivals in Lebanon, Syria and Iran; the Europeans also pressured for the deployment of the Unifil II in order to ease the Israelis from their failure to reach any significant victory on the ground as well as to break the deadlock caused by the US and Israeli confrontational policies; emboldened by the effective resistance, Hizb'allah agreed to the international military deployment, so that the UN proposals proved to be a "honourable compromise" for all²⁷. Despite all the sufferings and damage, the contested "Divine Victory" in Lebanon marked a huge score of success for those forces which advocated a staunch resistance to western policies and renewed the flag of nationalist, liberation movements. The Syrian leadership had fully endorsed this "nationalist front" and entered on a collision path with the so called "moderates" in Egypt and Saudi Arabia because of their compliance with Western projects and Israeli military attacks. The Lebanese war in 2006 was a major turning-point for the region and for Syrian relations with Europe, as well. Since then, constructive engagement was not only a viable solution or alternative, it was a necessity, too. In the so called "asymmetrical" wars, "*tough lines work if you have the power to enforce them. Diplomacy is something forced upon the stronger party in a two-way conflict*"²⁸.

3. The strategic asset of a multipolar world

Syrian resistance to foreign pressure was not only a matter of warfare and diplomacy; nor was it only Syrian *steadfastness* which prevented the most radical forces in the US and Europe to allow Damascus to "surrender". Indeed, the Syrian leaders could live up to their *steadfastness* and effectively face the western offensive thanks to the gradual but steady emergence of a multipolar world, with all the opportunities that such a process may provide for a country which has conflicting interests with major western powers. Far from being isolated from the rest of the world, Syria could enjoy the rise in power of the Asian markets and other fast-growing economies. Among others, China and

²⁶ Dostal (2009), p.23-24.

²⁷ For the crisis that erupted between Hizb'allah and its Lebanese opponents and the successive Doha Agreement, see J. Quilty (2008); E. Dingel (2008). See also the several *Middle East Reports* released by the International Crisis Group on the issue since 2006.

²⁸ Immanuel Wallerstein (2008).

Turkey provided a relevant market for purchasing both consumer and capital goods, whereas Russia was back on stage for military partnership, as well. Dostal has labelled "venue shopping" the Syrian strategy to negotiate with external powers in order to fuel domestic growth against western boycott²⁹. Contrary to their stated goals, the aggressive approach to Syria drove Damascus closer to its strategic ally in Teheran, which is actually one of the reasons for the West to accuse Syria of compliance with the so called "Axis of Evil"³⁰. Far from being paradoxical, the pressure and containment policy implemented against Syria resulted in moving Damascus further "to the East" rather than "back to the West". The isolation imposed by the West did not imply a reassessment of Syrian previous policies: from a political and economic point of view, it only deprived the reformist camp of a major binding asset in the struggle for domestic change; remarkably, isolation moved Syria to further diversify its economic relations with partners that are far less "conditional" than the European ones.

The European Union still remains the major economic partner for Syria, but its market positions are far from being granted because its member states do not anymore enjoy the economic preeminence they had in previous times, notably in the 1990s. Regionally, Asia and the EU received the highest share of Arab exports in 2007: 47.6% and 28.5%, respectively. According to the European Commission, in 2006 the EU amounted to 21% of Syrian total imports and 32.3% of its exports, the latter being primarily composed of energy products. Syrian non-oil exports to the EU more than doubled from 2000 to 2006 but on the whole Syrian non-oil exports have risen sixfold in the same period, so that EU share decreased from more than 20% in 2000 to 12% in 2006. Nearly one third of them are made of agricultural products, whereas other countries like Marocco or Tunisia deliver to the EU more than 50% of their agricultural production: from this point of view, Syria enjoys a more differentiated structure of foreign trade. Meanwhile, Arab and Asian countries have rapidly increased their share in Syrian foreign trade: 20,56% of Syrian imports and 11.56% of its exports, mainly composed of agricultural products, foodstuff and manufactures. Among the Arabs, Saudi Arabia ranks second for Syrian imports with 12.2%, whereas Iraq takes the lion share with 27.4% of total Syrian exports. Among Asian countries, China has jumped to 28.57% of Syrian imports in 2007, followed by the neighbouring Turkey with 27.72%, India with 19,15% and Japan with 15.51%. Among Eastern European states, Ukraine, Russia and Romania are rapidly increasing their market share, although the reapproachment between Syria and President Putin's Russia is mainly based on geopolitical and military reasons: here, Russian oil and gas companies replaced their western competitors as these abandoned their contracts following the threat of US sanctions³¹. If Syrians still prefer to import German or Italian machinery, the rapid technological upgrading and the cheap prices of

29 Dostal (2009) p.19; Economic Intelligence Unit (2008); S. Aita (2005). For Syria and Russia, see the excellent work of Marta Tawil (2009). For China, see, Chris Zambelins, "The Geopolitics of Sino-Syrian Relations" (2008); Anouar Abdel-Malek (2004).

30 In summer 2006, Damascus and Teheran signed a new military defense agreement, R. Hughes (2006).

31 See, S. Aita (2005); J.M. Dostal (2009), p.27.

Turkish and Asian products could provide not only a second-option but a *viable* alternative in the foreseeable future. Moreover, most of the Asian states do not apply any political conditionality to their business in Syria, which is quite an asset compared to that of Europe and the United States³².

In the international context a major asset for the Syrian leadership has been the economic growth and political diversification of the Gulf Monarchies in recent years: fueled by skyrocketing oil prices, direct investments from the Gulf compensated for the drop in domestic oil production and sustained economic diversification and growth: all in spite of western sanctions³³. Such a considerable engagement of Gulf investors has been recently labelled as the *Dubai Consensus*: a general economic agreement according to which investments and loans would focus on sectors like finance, telecommunications, constructions and services, which would then boost the overall economic growth of Mediterranean and Near East countries.

The massive inflow of Gulf capitals proved very useful for the Syrian leadership for two main reasons. First of all, the growing assertiveness of the Gulf Monarchies of Qatar and the United Arab Emirates gave Syria the opportunity to “contain” Saudi Arabia as the main investor and political broker in the Gulf: Saudi Arabia has endorsed a confrontational approach toward Syria, and tried to boycott Damascus both on almost every regional issue³⁴. Secondly, the so called *Dubai Consensus* did not entail any major shift from the economic policies adopted in Damascus: in fact, it is perfectly suited to the process of liberalization which would base economic growth on the enhancement of the private sector³⁵. Actually, the so called *Dubai Consensus* perfectly integrated with the neoliberal globalization process, since it shared most of its basic principles and practices³⁶. Much to the good fortune of the Syrian Government, the recent drop in oil prices and the financial storm hitting the Gulf have occurred after Damascus engaged back with European and Saudi diplomacies; and, with the renewal of diplomatic ties, economic deals also followed suit³⁷.

4. The International Economic Crisis (2007-2009) and diplomacy

The current international economic crisis could not but impact on the Middle East, as well. The high instability in oil prices, the correction in the housing

32 Interviews of officials at the Ministry of Economy and Foreign Trade and the State Planning Commission with the author, Damascus, summer 2006; Oxford Business Group (2008), p.21.

33 ESCWA (2009), p.11; M. A. Derhally (2008). For an appraisal of the Gulf States role in the region during the recent Oil Boom, see S. Hertog (2007). See also A. Hurrell, L. Fawcett (1995).

34 S. Mubayed, “The Arab Cold War” (2008); G. Steinberg, (2008), p.17-29.

35 See Oxford Business Group (2008).

36 Discussions held at the Panels: “Controllo delle risorse strategiche, violenza e instabilità politica nell’area MENA”, National Conference of SeSaMo, Turin, October 17, 2008, and “Wirtschaft im Vorderen Orient” I, II, III, DAVO Congress, University of Erfurt, 2-4 October, 2008. See also, A. Kanna (2007); I. Warde (2000).

37 G. Baghdadi, T. Reals (2009). As far as the Syrian-Saudi reapproachment, see N. Blandford (2008).

sector, financial crunches and economic recession led to a sharp decrease in global FDI: according to the UNCTAD they could drop to 21% in 2009. However, the crisis might increase the intra-regional FDI as a result of the repatriation of investments abroad back to the region: analysts set some long-term trends in the international finance toward the redistribution of wealth from developed to emerging and oil-exporting countries as well as a redistribution of wealth from private to public hands. Oil revenues in the GCC countries are expected to drop by 60% in 2009 and will severely impact in their investment capacities. However, Arab oil-importing countries, among them Syria since 2007, will benefit from the drop in oil prices because it would lead to a cut in their import bill. Revenues from trade will be affected, too, since the economic recession in the EU will decrease the export of those countries mostly dependent on the EU demand. On the contrary, the intraregional trade could also benefit as some of the exports that used to be delivered to the EU and the US could be redirected to Middle East countries: many Arab Sovereign Wealth Funds (SWF) started to inject liquidity into their economies and this would be a major boost to intraregional trade, which still remains below its potential: many regional countries, like Syria, enjoy comparative advantages in agriculture, textile, clothing and chemicals and there still is an enormous potential for research and training; the GAFTA already provides a useful framework to work on³⁸. Given the situation and the general trend toward a multipolar world based on macro-economic regions, the UN-Economic and Social Commission for Western Asia suggests their members to diversify urgently their exports and partners as well as to turn away from high dependence from a single developed market, such as the EU "by strengthening their trade with dynamic developing regions, such as the Asian countries"³⁹. As far as Syria is concerned, the economic forecasts expect Damascus to be adversely affected by the drop in financial transaction, notably from the GCC, and export to the EU. Such events will affect negatively Syrian state budget but the same sources highlight the potentials of Syrian non-oil exports in the region and in Asia, as well: so, it is not by chance that the Syrian Government is currently advocating for a deeper regional integration, which would be in their full interest⁴⁰.

The diversification of Syrian economic relations ran parallel with the decline in the European capacity to exert effective political pressure. Similarly, the Lebanese since 2006 and the summer 2008 crisis in Georgia provided evidence of the difficulty for the United States and its close European allies in fully implementing its strategies and could not help but boost those forces arguing for their overall reassessment: Syrian President Bashar al Assad grasped the opportunity and his full support for the Russian Prime Minister Valdimir Putin showed that Damascus felt more confident to criticize and take a clear stand

38 ESCWA (2009), p.VI, 18-19, 21, 24. On the crisis, see A. Lyon (2008); T. Johnson (2008); S. Aïta (2008). See also, B. Sester, R. Ziemba (2007).

39 ESCWA (2009), p.26. For an interesting overview on current trends in the international currency market, see J. Stourpe (2009) and L. Costabile (2009).

40 Ibid. p.36. See also, I. Saif, F. Chouciar (2009).

against Washington⁴¹. Moreover, two other major events concerning Syria actually occurred without direct European involvement and despite the United States' opposition, as well: the Doha Agreement in May 2008 and the indirect talks between Syria and Israel. In the hope not to be excluded, major European diplomacies endorsed both processes and had to recognize the current success of Turkey as a rising regional actor: Turkey, whose leadership seemed to prove that active engagement with Syria and a more balanced stand in the Arab-Israeli conflict could effectively bear some fruits⁴². Actually, both France and Germany have deployed major military and financial resources in Lebanon and in the whole region: this military deployment should grant them a stronger role in a possible deal among the Arabs, and the United States and Israel⁴³. Indeed, the funding of the Israeli-Palestinian peace-process, the Barcelona process as well as the containment of Iraq and Iran in the 1990's did not grant the Europeans any major political role in the region⁴⁴. Nevertheless, the tragic war waged by Israel in Gaza in late December 2008 successfully rallied up the US and the EU in support of the long-standing "Iron Wall" strategy of Tel Aviv against its neighbours⁴⁵.

Despite their strategic setbacks in the region, the US are still a major player and they will try to assert their role, with or without their European allies; the latter have stepped in to fill the vacuum left by the late Bush Administration but they are also likely rally up behind Washington as the Obama Administration will return to pragmatism, even in order to reap the benefits of "stability". Since the summer of 2006 the Near East, and particularly Syria, has been a matter of contention between European diplomacies and the Bush Administration: for example, they differed over the approach to the Israeli offensive in Lebanon and to the connected Doha Agreement; these events involved the possibility to reward Syria for its role in favouring the deals, even though Damascus does not play the previous hegemonic role over its Lebanese allies. Most European capitals endorsed the Turkish mediation in the Syrian-Israeli indirect talks, whereas Washington made plain his skepticism. Then, while France, Great Britain and other European diplomacies were striving to get their way back to Damascus, the Bush Administration led a military attack inside Syrian territory in late October 2008: foreign observers widely believed that was meant to undermine international efforts to re-engage Syria as well as to disrupt the even limited contacts previously held by US State Department

41 N. Blanford (2008); R. Weitz (2008); S. Mubayed (2008). For an interesting appraisal of the strategic relationship which is consolidating between Russia and China in the framework of the Shanghai Cooperation Organisation (SCO), see M.K. Bhadrakumar (2009).

42 International Crisis Group (2008) and (2009); EU Commissioner Ferrero-Waldner and High Representative Solana (2007). The recent crisis in Turkish-Israeli relations (2009-2010) also proved to Ankara the difficulties of an even-handed, mediating role in the Arab-Israeli conflict: namely, the conciliation between a widespread, popular support for the Palestinians, the search for a leading role in the Middle East and the requirements of diplomacy with the Israeli counterpart, Y. Taşkin (2010); W. Kristianasen (2010).

43 As far as Germany, see German Foreign Policy (2009); V. Perthes (2009). As for the French policy, see A. Gresh (2008).

44 See F. Rizzi (2004).

45 See N. Tocci (2009). For an historical overview, see the excellent A. Shlaim (2001).

and Gen. Petraeus⁴⁶. Far from being effective, those actions seemed quite out of tune with the current trends in the Near East and in particular with the growing assertiveness and political autonomy of regional players: actually, they proved the resilience of the Bush Administration in adapting to *facts on the ground* which were not of their own making or ran counter to their stated goals⁴⁷.

The economic crisis will dictate much of the political agenda of the new US Presidency: it will oblige Washington to focus more on domestic issues as well as to diminish the worrisome external dependence on foreign capital which could constrain the very sovereignty of the United States⁴⁸. For such a reason, it is likely that the latter would try to deal with their supposed-to-be rivals, as soon as possible. Since late February, the Us have pledged to resume ties with Damascus: on the one hand, a string of diplomats and senior politicians visited Syria in recent months to discuss bilateral and regional issues, notably the Us endorsement of the Syrian-Israeli peace talks, the Iranian stand-off, Iraq and Lebanon; on the other hand, the renewal of sanctions shows that Washington is not ready for a dramatic improvement⁴⁹. Despite the change in public discourse, one cannot exclude the risk that the Obama Administration would be stuck off in Middle East because of the harsh resistance of many senior army officers and politicians who are still determined to keep their tight hold on Iraq and the region. Moreover, the Israeli political landscape which has consolidated with the establishment of the Netanyahu government will pose a great challenge to the Obama plans for “constructive engagement” with Arab and Muslim states⁵⁰. Eventually, much will depend on the pressure caused by the trade-off between US domestic recovery and military spending abroad: far distant from the Roosevelt era, in the present day so called military-industrial complex does not involve growth in employment; quite to the contrary, it drains major resources for investments and spending from other economic and social sectors⁵¹.

Taking into account the Us policy in the Middle East, there is still a wide gap, if not an actual conflict, between Syrian and European policies in the region. Most European governments and its regional allies in Egypt, Saudia Arabia and Jordan still believe that Syria should cease its support for Palestinian resistance movements, and particularly Hamas, for Hizb’allah in Lebanon and eventually they hope to drive Damascus away from Teheran. Nevertheless, they have recognized the strategic role played by Damascus and its capacity to disrupt western policies in the region. Instead of containing and destabilizing it, they hope to engage Syria and attract it to the so called “moderate” camp, in order to make full use of its regional influence and “*realign the region’s architecture*” to Western advantage. From such a perspective, the Israeli withdrawal from the Golan Heights could be a major bargaining chip. However, one should not expect Syria to cut with its long-standing allies: quite to the contrary, the

46 S. Mubayed, “The Strike That Shattered Us-Syria Ties” (2008); J. Karl (2008).

47 G. S. Frankel (2008).

48 In particular, see B. W. Setzer (2008).

49 S. M. Hersh (2009); A. D. Miller (2008); E. Samo (2009).

50 G. Porther (2009); *The Wall Street Journal* (2009); R. Dreyfuss (2009).

51 W. K. Tabb (2008).

leadership in Damascus might try to bring them in regional talks which would involve the Us, the Eu and perhaps Israel, too⁵².

4. Which fate for neoliberalism in Syria?

The trend over Syrian diversification of economic and political ties, coupled with the current global crisis, might have a further impact on European-Syrian relations. Today, a Cold War scenario is not the case because there is no major alternative world-power in sight; nevertheless, the same globalization process the world experienced in the 1990's and which was featured by the so called *Washington Consensus* has lost ground under the ongoing economic crisis⁵³. The international crisis has dealt a great blow to the very legitimacy of the development models adopted and exported worldwide by the United States and Europe for more than thirty years: a hegemonic model featured by neoliberal dogmatism, unilateral and deregulated integration into the world market, a supply-side and fundamentally export-led economy, and the overall retreat from State direct intervention in the economy⁵⁴. Currently, it seems that there is no alternative model on the world stage, whereas there are many different, pragmatic, day-to-day efforts to tackle the crisis which are mainly based on local expertise and practices. Such a fragmented context may offer a major opportunity to reassess previous patterns of development and elaborate new ones, and Syria is no exception in this respect⁵⁵.

Even in the absence of an effective and comprehensive framework, the liberalisations adopted by the Syrian Government are substantial and everything suggests that the leadership has committed to an ambitious and far-reaching reform programme. Consistently, the official political discourse now presents the "entrepreneurial way of thinking" as the ideal solution⁵⁶. The current reforms are actually transforming both the Syrian economy and the social and political features of the Ba'thist regime: through a gradual, selective but nonetheless steady pattern, Syria seems to move from "Populist Authoritarianism" to some sort of "Bureaucratic Authoritarianism", which is much more in tune with global trends in many developing and postcolonial

52 See International Crisis Group (2009) and M. Yacoubian, S. Lasensky (2008); S. M. Hersh (2009).

53 The term *Washington Consensus* was coined in 1989 by economist John Williamson to describe a set of specific economic policy prescriptions that he considered a "standard" reform package by Washington D.C based institutions such as the International Monetary Fund (IMF), World Bank and the U.S. Treasury Department. The *Washington Consensus* is a very popular and often inflated term in debates about trade and development and is often seen as synonymous with "neoliberalism" and "globalization." See J. Williamson (1989) and (2002).

54 For the concept of hegemony I mainly refer to the works of Antonio Gramsci, that is the capacity of the ruling class to exert power by both dominion and consent, and to establish its own values and interests as "universal", here meaning "national", S. Belligni (2004) and A. Gramsci (1975). As far as neoliberalism, see D. Harvey (2005); D. Sacchetto M. Tomba (2008); G. Arrighi B. Silver (1999).

55 See, L. Cordonnier (2008); World Bank Development Research Group (2008). For an alternative point of view about new patterns and perspective of development, see G. Arrighi (2007) as well as Midnight Notes (2009).

56 K. Selik (2009), p.57-58.

countries. In line with the official Ba'thist discourse, the Syrian Presidency stresses the refusal for an imported Western style development, and looks at the East Asian experiences as a way to put forward economic modernization before political change⁵⁷. According to Hinnebusch, the current deficiencies of the state to extract economic resources drives it closer to the private and foreign investments: the political consequences would be the demise of the relative autonomy enjoyed by the Ba'thist leadership so far and the "rolling back" of the populist social contract which deters further deepening of liberalizations. The evidence from the ongoing process shows the emergence of an oligarchic capitalism based less on "*a competitive market than replacement of public with private monopolies*"⁵⁸. However, in line with its historical record, economic reforms have always taken place within the broader aim of regime consolidation, so that even current liberalizations should not endanger the Syrian leadership. In this respect, the regime both resorted to tighter controls on dissent and upheld privatizations of the public sector in order not to antagonize directly its traditional constituencies; the same slogan of "social market economy" suggests a compromise⁵⁹. Though labour, peasants and state employees being still marginal in public debate and decision-making, the need for popular support to face external threats is still a card in the hands of internal dissent. Moreover, the shortcomings of reforms, the widespread corruption and increasing social inequalities may prove highly valuable arguments for opposition forces⁶⁰.

Past and recent experience in the Near East, as elsewhere, have shown that the key-element for sustainable development is the enhancement of domestic productive forces, both to boost the national markets as well as to move into regional and international ones. Indeed, far from being beneficial by itself, market interdependence may actively enhance both growth and instability all along the chains of production, as well as channeling resources to some productive sectors at the expense of others. Schmidt convincingly argues that "*without a state that gives priority to collective instead of particular interests, capitalism will not become developmental*" and will benefit most the developed partners: the rest will engage in a "race to the bottom" by lowering labor costs on regional and global scale⁶¹. On the contrary, according to the neoliberal approach, the enhancement of productive forces merely meant to support a supply-side, export-oriented economy, and, conversely the neglect of domestic demand linked to labour forces. Much the same occurred to the state apparatus as an investor and redistributive agent. Such policies were implemented worldwide by Washington and Brussels and found many

57 Ibid. (2009) p. 41; R. Hinnebusch (2009), p.3. For some Asian case-studies, see Marc T. Berger (2004).

58 R. Hinnebusch, "Debates on Syrian Political Economy Under the Ba'th" (2009), p.1-3.

59 R. Hinnebusch, *The State and the Political Economy of Reform in Syria* (2009), p.23-24, 45.

60 Interviews of Syrian researchers, politicians and public officials with the author, Damascus, June-September 2006, November, 2008.

61 S. Schmidt, (2009), p. 25-29,40. See F. Rodriguez and D. Rodrik (2000), pp. 289-302; see also D. Rodrik, A. Subramanian and F. Trebbi (2004) and the "Dossier Protectionnisme" in *Le Monde Diplomatique*, March 2009.

supporters among ruling élites in developing states 62. Even the new generation of businessmen and politicians which have now grown in wealth and power and were once connected to Islamist movements have perfectly integrated into the neoliberal worldview: "*Having been converted to the virtues of the private sector and the market as well as the cause of the 'minimum state,' market Islam already appears as the ideal partner of the Americans not only in their Middle East policy, but also in the conflict of modernity that opposes it to the Europe of the Enlightenment, of secularist and statist rationalism,*" concludes P. Haenni with particular reference to the so called US-neoconservatorism⁶³. Although there is no necessary positive connection between the Obama Administration and US religious conservatives like in the Bush administration, both its adherence to the US traditional values and the defence of US regional presence would be enough to endorse this rising élite as a new, profitable partner⁶⁴.

Today, while struggling to find an effective solution to the current crisis, the European and US leaders are still locked into the theories and practices of the previous neoliberal paradigm. Unless they prove much more flexible or resolute in abandoning such a paradigm, they are likely to try and enforce it further on their developing partners⁶⁵. In fact, the official programs promoted by the European Union, the IMF and influential think tanks in Syria still held true to the fundamentals of neoliberalism⁶⁶. From a strategic point of view, the Association Agreement between Syria and the EU enforces global trade liberalisation under the current WTO and IMF rules while also enhancing the EU regional project of establishing a set of friendly dependent neighbours in the southern and eastern shores of the Mediterranean. The whole set of measures contained in the AA will benefit EU companies most. If enacted as such, the wide-range opening would result in unbalanced trade flows, Syrian trade deficits and, in the longer run, Syrian external indebtedness. As many other cases have shown, there is any necessary positive correlation between liberal trade regimes and economic growth: if not supported by state and public intervention, the benefits for Syria in terms of technological upgrading and overall competitiveness are at least doubtful and may conduct to deindustrialization, too. Lat but not least, there is lot of evidence that the most vulnerable social classes will carry the burden of the adjustment reforms and will not enjoy any benefit in the foreseeable future⁶⁷. Given the current crisis and the gradual change in international economics, one could question whether

62 See R. Owen, S. Pamuk (1998). For the relation between economic and political liberalization in the Arab World, see D. Pioppi (2004).

63 P. Haenni (2005). For some aspects of the new Syrian business class, see R. Allaf and J. Lennert (2008).

64 Actually, those élites may suit well the Us dilemma of "democracy-promotion" and "stability" in the region: and the same is true for the European governments. See M. Aussenburg, T. Koepf eds. (2007); M. Aussenbug (2008); L. Guazzone and D. Pioppi eds. (2009).

65 For the the debate over discrepancy between the change in the official discourse of the IMF and its actual practices in the latest interventions. A. Zacharie (2009). See also World Bank Development Research Group (2008); L. Cordonnier (2009).

66 See note 25.

67 S.Schmidt (2009) p.36.

the European Union is the only strategic, valuable partner for domestic reforms.

Conclusions

The recent European reapproachment with Syria was not motivated by a convergence over long-standing Syrian claims in the region. The main reason for European diplomacies to engage back with Damascus was the specific realization of the failure of the confrontational policy adopted by the United States and later by the Europeans since 2004. The combined effect of the failures of confrontational policies and the diversification of international politics eventually put at risk the same assets that the European diplomacies could hope to bank on. Despite all difficulties, Syria closed the ranks domestically and sustained pressure by exploiting all the opportunities offered by a changing international system. At the end of the day, Damascus seemingly did not give up much of its basic claims in the region and if it did, that would be more attributable to the consequence of the political change occurring in the ruling élite rather than to that of western pressure⁶⁸.

Despite all its peculiarities, the Syrian case might be paradigmatic of the overall changing course of the international power system. The United States and Europe were stuck in the mire of the confrontational policy and they did not reap the fruits they had expected. Meanwhile, other actors entered the stage in order to assert or re-assert their influence, such as Russia, China, Turkey and the Gulf States, and they objectively offered Damascus the opportunity to get out of the supposed-to-be "cold". In this case, the emergence of an economic, if not a political multipolarity proved extremely important and effective for a small country like Syria. However, much rests on the influence that such a multipolarity might have on the model of development now at works in Syria. As a matter of fact, despite the remarkable diversification of political ties, Syrian leadership remains committed to a modernization project whose basic features are alike the neoliberal ones highly supported by their European partners. Along with the historical legacy of Arab nationalism, one might speak of Syria's "domestication" of neoliberalism: this process occurring when the main sponsors of neoliberalism in the West have lost much of their enforcement power.

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⁶⁸ See, V. Perthes eds. (2004).

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