Position Paper

Raising the Cost of Engagement with the Syrian Regime

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The present agreement between the Arab League and the Republic of Turkey on a package of economic sanctions is a political message directed primarily at the forces that benefit from the regime in Syria aiming to convince them that their alliance with the regime will bring them nothing but loss and that their interests lie in disengaging from it. These sanctions supplement a set of economic sanctions approved by the European Union and the United States of America; and though they are generally effective in the long run, in practice they do not serve the immediate goal of dissuading the regime from using violence and systematic killing against peaceful protesters. However, they confuse the regime and limit its ability to maneuver by decreasing necessary resources. They also stimulate new groups of affected people to determine their position and stand against the regime, after it appeared unable to provide basic needs for daily life as well as protection for business, economic activity, wealth and assets. Still, they will have great impact on the Syrian people and their daily lives when the government allocates the largest portion of its scarce and depleting resources for security services.

Arab and Turkish Economic Sanctions

On 27th November 2011, the Arab League endorsed a set of economic sanctions, of which the most important are:

- the termination of business with the Central Bank of Syria
- the termination of commerce with the Syrian government excluding trade of strategic commodities that affect the Syrian people
- the freezing of the Syrian government's financial assets
- the termination of all financial dealings with the Syrian government
- the termination of all dealings with the Commercial Bank of Syria
- the termination of funding of any official commercial trade by Arab central banks with the Central Bank of Syria
- the freezing of Arab funding of projects in Syria.

Apparently, the sanctions focus on state-owned establishments and the activities directly related to the government as well as joint Arab projects, in which states or state establishments

take part. Consequently, they impact government performance by reducing alternative opportunities and raising their cost. Sanctions on both the Central Bank and the Commercial Bank of Syria deprive the government of the ability of financing foreign purchases. They also affect the business operations of the private sector, and prompt some businessmen to disengage from the regime.

After announcing the Arab League's sanctions, the Turkish government itself was quick to announce a package of sanctions that included:

- The termination of loans by Export-Import Bank of Turkey financing infrastructure projects in Syria
- The suspension of relations between the central banks of the two countries
- The freezing of the Syrian government's financial assets
- The termination of all financial credit dealings with Syria
- The suspension of high-level strategic cooperation with Syria

The Syrian government fired back at Turkey by suspending the free trade agreements between the two countries and increasing transit tariffs, as well as imposing surcharges on diesel prices for Turkish vehicles that cross into Syria, in an attempt to demonstrate a challenge and an ability to impact the economy of its opponent. Nevertheless, Turkish sanctions play their role well, as Turkey is a major and strategic trading partner in the region. The consistency of Turkey's stance with that of a number of Arab countries strengthen their positions and give the sanctions a greater opportunity to affect.

The Impact and Role of Sanctions

Arab countries had constituted a main market for Syrian manufactured products, and Syria relatively benefited from establishing the greater Arab free trade zone, for Arab countries absorbed 52.5% of the total Syrian exports in 2009, and this percentage is expected to increase with the halt of Syrian oil exports to EU countries. Most trade with Arab countries is done through the local private sector, but the imposition of sanctions on the Commercial Bank of Syria and the ban on dealing with it will make Syrian dealers unable to open letters of credit and complete transfers to their accounts in local banks, which will add additional burden to exported goods, making them uncompetitive and losing long-time buyers. Nonetheless, the impact on Syrian exports seems to be limited in the wake of Iraq's refusal of the sanctions as the country is the primary Arab importer of Syrian commodities (comprising about 49% of the total exports to Arab countries). Added to this are the reservations voiced by Jordan and Lebanon and their lack of commitment to those sanctions (Jordan and Lebanon's shares of the Syrian exports are 6.3% and 6.4% respectively) – a fact that entails that more than 60% of the total Syrian exports to Arab countries will be remain unaffected.

As for Syrian imports, the share of Arab countries is only 16.4% (in 2009), and in 2009 59% of those imports came from two countries – Egypt (34.5%) and Saudi Arabia (24.6%) . Thus, the two countries' commitment to the sanctions will affect the availability of goods in the Syrian market, and may cause the pressure of inflation on the prices of food and some industrial materials. The impact may hit oil products and gas supplies for household use, as domestic production suffers from shortage. Sanctions on state-owned companies and banks will lead to serious difficulties in providing these goods from the world market, and to higher costs for the government, as it is the only body authorized to import and distribute with such goods. Hence, boycotting the Central Bank and the Commercial Bank seems harsher and more effective than freezing assets.

Sanctions will limit the flow of Arab and foreign investments that are key to the Syrian government, which granted many exemptions and facilities for foreign direct investment that amounted to $1.9 billion in 2010 (and $2.6 billion in 2009). Arab investments constitute an important part of foreign investment in Syria – especially in the fields of finance and real estate. The Inter Arab Investment Guarantee Corporation estimated those investments at about US$ 333.5 million in 2010. However, some real estate companies ceased their operation in Syria long before the sanctions were announced.

In addition to investments, development aids provided to Syria amounted to about $136 million in 2008, but it will be deprived of the investment financing, which, in turn, will be accompanied by a decline in Syria's foreign exchange reserve as a result of the collapse of tourism, and the Syrian regime's inability to export oil surplus, a major source of foreign exchange. Public debt is another burden that amounted to $4677 million in 2010, with an annual obligation estimated at about $265 million.

Hence, Syria will soon face many difficulties that will be furthered by Turkish sanctions – especially the suspension of relations between the central banks of the two countries, the termination of financial credit dealings, and termination of loans from the Turkish Export Bank for financing infrastructure projects. According to the results of a survey on direct foreign investment in Syria in 2009, the value of Turkish investments that year amounted to 1273 million Syrian pounds, which means that Turkish investments are relatively small but of particular importance as a result of their concentration in the manufacturing sector. These investments were expected to increase in the coming years (exceeding $3 billion in the next five years).

Trade between Syria and Turkey amounted to 10% of Syria's foreign trade in 2010, and Syrian exports to Turkey constituted 3% of Syria's total exports, while imports from Turkey were approximately 7.6%. Trade between the two countries has been growing since the free trade zone agreement came into effect in 2007. However, the Turkish side was the greater beneficiary. Turkey's share of Syria's total imports grew from 4% in 2002 to about 10% in 2010, while Turkey's share of Syrian exports, which was 7.4% in 2002, did not exceed 5% of Syria's total exports in 2010.

Oil has been the main Syrian export to Turkey, but it tumbled after the imposition of an international ban on Syria's oil exports.

Conversely, Turkish exports will be affected by Syria's counter procedures. Turkey's exports to GCC countries will also be affected as a result of Syrian transit restrictions. Therefore, Turkish sanctions will increase the impact of Arab sanctions on the financial and investment sectors, but will have no major influence on commerce.

Conclusion

In general, Syrians' fears have increased due to the expansion of sanctions that affect their living conditions and daily lives. Exchange rates for the Syrian pound have further deteriorated to about 60 SYP per US Dollar. The prices of gold and various goods, especially imported ones, have risen. The market has started to witness recurrent price rises, which may cause an inflationary explosion that will hit poor and middle-class people who now suffer from shortages in essential consumer goods and from monopolies on necessary items like diesel and household gas. The suffering is partly attributed to the collective punishment policy exercised by the regime in certain areas but the phenomenon is expanding to include different areas in varying degrees, generating a collective concern over and fear of the unknown future. Apparently, the sanctions in their present form are less harmful than other types of comprehensive sanctions but, more importantly, are seen as a political message expressing an international collective stance aiming to shake confidence in the regime and reduce chances of wagering on it. However, the effectiveness of those sanctions can be achieved only by balancing their influence on the regime's cohesion and their exhaustion of the people's ability to resist and maintain their battle.

1- See: "The Investment Atmosphere in the Arab States 2010", The Inter Arab Investment Guarantee & Export Credit Corporation, Kuwait, June 2011.