

DRAFT

DEEPENING TRADE REFORMS IN SYRIA  
FOR  
IMPROVING COMPETITIVENESS AND  
PROMOTING NON-OIL EXPORTS

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## **INTRODUCTION**

Expansion and diversification of non-oil exports have been a key objective of Syria's development strategy. This is motivated primarily by anticipation of the twin balance of payments and fiscal deficits that the country would face as a result of secular decline of oil production and exports and the consequent fall in foreign exchange earnings and public revenues. By generating foreign exchange to finance essential imports and creating a new economic base for raising public revenues, promotion of non-oil exports would effectively counter the twin deficits.

To realize this objective, the Government has taken a number of measures particularly during the 10<sup>th</sup> Five-Year Plan period (2006-10) to reform the trade regime and introduced complementary actions in other policy areas to enhance competitiveness and stimulate non-oil exports. Reaction to these measures has been positive; the growth and structure of non-oil exports have changed significantly, displaying faster growth and a greater degree of diversification in terms of product type and geographic destination. There is a broad consensus that more need to be done to broaden and deepen the reforms in order to maintain this momentum.

With close collaboration with the Ministry of Economy and Trade (MoET), the World Bank has prepared four papers to assess the progress so far in reforming the trade regime and to identify further actions to deepen the trade reforms<sup>1</sup>. The output of these papers will provide inputs in the 11<sup>th</sup> Five-Year Plan (2011-15). This note summarizes the main findings of these papers. For easy reference the principal recommendations of the papers are presented in the attached policy matrix.

### **WHY SHOULD NON-OIL EXPORTS BE PROMOTED?**

The Syrian Government is not taking promotion of non-oil exports as an end in itself, but using it as a means to achieve four objectives necessary to accelerate inclusive growth. These objectives are:

- Generating adequate foreign exchange earnings in the face of declining oil exports to finance the essential imports necessary for investment and production in the non-oil sector,
- Creating external demand to supplement domestic demand to be able to absorb expanding production in the non-oil sector,
- Enhancing employment creation for inclusive growth in labor-intensive sub-sectors,
- Encouraging foreign direct investment to expand the productive capacity in the non-oil sector.

Given its strategic location in the middle of the major markets of Europe, the Middle East, Asia, and Africa, and an already reasonably diversified production and export base

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<sup>1</sup> "Trade Reforms and Export Diversification in Syria: A Diagnostic Review", November 2009, "Improving Export Incentives and the Free Zones System in Syria", June 2010, "Estimates of Trade Adjustment Costs in Syria", February 2010, "Export Diversification Trends in Syria", May 2010.

compared to other countries in the region, Syria has the potential to further expand and diversify its non-oil exports, as clearly demonstrated by recent performance. Substantial potential exists particularly in fruits and vegetables, cotton, live animals, olive oil, processed food, textiles and garments, construction material, other light manufacturing, and tourism.

### **REFORMS SO FAR AND THEIR IMPACT**

The trade reform process started in early 2000s but gained momentum with the 10<sup>th</sup> Five-Year Plan. The Plan formalized the ongoing reforms, articulated the strategic longer-term objectives of transition, and placed trade reforms in a broader policy framework that included actions in macro economy, infrastructure, private sector development, regulatory environment, financial sector, and government finances.

The 10<sup>th</sup> Five-Year Plan places particular emphasis on trade and trade-related reforms in anticipation of Syria's post-oil outlook. It has a well-articulated trade section with an action matrix presenting time-bound policy actions, expected outcomes, and a list of indicators for effective monitoring. Policy reforms proposed in the trade action matrix include: gradual liberalization of imports, developing an export incentive system, improving trade facilitation, easing access to trade finance, setting up an Export Development and Promotion Agency, and preparing sector/product-specific export programs. Several steps have been taken to implement these reforms. They will be reviewed in detail later in the paper.

The economy responded strongly to reforms particularly since 2004. Despite declining oil production, the growth of GDP averaged 5.2 percent from 2004 to 2008 compared to 2.7 percent achieved in the five-year period prior to 2004. The non-oil sector has become the engine of growth with an average growth rate of 7.3 percent in this period.

Important changes have taken place in the structure of Syrian non-oil exports with regard to its growth, product composition, the share of the private sector, and the relative importance of the trading partners (Table 1). Non-oil exports increased from \$ 1,651million in 2003 to \$ 8,967 million in 2007 with its share in GDP rising from 7.6 percent to 18.1 percent in the same period. Private sector played an important role in non-oil export growth raising its share in total from 72.4 to 92.8 percent.

Diversification is evident within the non-oil exports with increased number of products being exported, especially in manufacturing goods. The number of exported products (at 3-digit level) increased from 150 in 2003 to 162 in 2007 (Table 1). The geographic composition of exports also shows significant change. The EU's share in total exports declined from 61.1 to 43.0 percent during 2003 – 2008, while the share of the Middle East and North Africa (MNA) increased from 12.6 to 25.7 percent. This is an indication of increased integration of Syria with the MNA region, but also reflect declining share of oil in Syria's exports, which goes mainly to the EU markets.

Table 1: Main Trends in Non-Oil Exports

	2003	2007
Non-oil exports, million \$	1 651	8 967
Share of non-oil exports in GDP (%)	7.6	18.1
Share of private sector in non-oil exports (%)	72.4	92.8
Number of products exported*	150	162
Destination of exports (% of total)		
EU	61.1	43.0
Middle East	12.6	25.7

\* Number of products calculated at 3-digit level STIC classification, and includes only products whose value exceeds \$100 000 or 0.3 percent of total exports.

## NEED FOR FURTHER IMPROVEMENT IN COMPETITIVENESS

Syria's ranking in four international competitiveness indicators is summarized in Table 2<sup>2</sup>. They show improvement in recent years reflecting the impact of the trade and other policy reforms, to which non-oil exports have responded positively. However, the indicators also show that Syria's ranking is still relatively poor and there is substantial scope for further improvement.

Table 2: Syria – Ranking on Various Competitiveness Indicators\*

	2007	2008	2009	2010
Global Competitiveness Index	64.1	61.1	58.2	70.7
Global Enabling Trade Index	-	90.7	89.3	82.5
Logistics Performance Index	90.0	-	-	51.6
Trading Across Borders Index	68.0	70.2	60.7	64.5

\* The number of countries included in the calculation of each index varies over time and among indexes. This makes the interpretation of trends difficult. To avoid this problem, the rankings are normalized so that 1 indicates the best ranking while 100 shows the worst.

The Global Competitiveness index, prepared by the World Economic Forum, is a widely used broad indicator. Syria improved its ranking in this index from 64.1 in 2007 to 58.2 in 2009<sup>3</sup>. The deterioration of the ranking in 2010 to 70.7 is due largely to the substantial improvement in policy environment in some other countries compared to Syria.

<sup>2</sup> These indexes are calculated as an average of a number of sub-indicators. For a detailed discussion of the sub-indicators and the competitiveness issue in general, see "Trade Reforms and Export Diversification in Syria: A Diagnostic Review", November 2009, World Bank.

<sup>3</sup> Note: Because of normalization, the ranking runs from 1 to 100, 1 being the best (See the footnote in Table 2).

The Global Enabling Trade Index, prepared also by the World Economic Forum, shows the extent to which the trade enabling measures and policies are in place. Syria's ranking in this index has steadily improved from 90.7 in 2008 to 82.5 in 2010.

The Logistics Performance Index focuses on the logistical aspects of trade such as infrastructure, tracking and tracing, international shipment, etc. It is prepared by the World Bank. Syria has improved its ranking significantly in this index from 90.0 in 2007 to 51.6 in 2010.

The last index, Trading Across Borders, is a sub-indicator in World Bank's Ease of Doing Business Index. In this index too, Syria's ranking shows improvement from 68.0 in 2007 to 64.5 in 2010.

Table 3 compares Syria's ranking with Egypt and Turkey, two main competitors in the region. In all four indices in 2010, Syria ranks significantly poorly especially compared with Turkey. Only in the case of the Logistics Performance Index Syria outranks Egypt, but scores 51.6 compared to Turkey's 25.2.

Table 3: Competitiveness Ranking – Syria, compared to Egypt and Turkey, 2010\*

	Global Competitiveness Index	Global Enabling Trade Index	Logistics Performance Index	Doing Business Trading Across Borders Index	Doing Business Total Index
Syria	70.7	82.5	51.6	64.5	78.1
Egypt	52.6	60.3	59.4	15.8	57.9
Turkey	45.9	49.2	25.2	36.6	39.9

\* Rankings are normalized as noted in Table 2, so that 1 represents the best performance, while 100 the worst.

Syria can do much more to raise its ranking further in international competitiveness. This paper summarizes the recommendations for further reforms to achieve this objective.

## **TRADE REFORMS: WHAT HAS BEEN ACHIEVED? WHAT MORE NEED TO BE DONE?**

### **Import Regime**

Measures have been taken in recent years to improve and simplify the import regime, including: reduction of tariffs on some inputs and the maximum rate from 255 to 60 percent, elimination of a number of non-tariff barriers (NTBs), simplification of licensing system and reduction of the number of products on the “negative list”. However, there remain several features of the import regime that complicate import clearance and introduce discretion in implementation encouraging illicit practices and increasing costs. Some of these features are not consistent with WTO rules. Reforms will need to continue in the following areas.

- The simple average most favored nation (MFN) tariff is 14 percent, slightly higher than the average of the developing countries overall, but the current regime has too many non-

zero tariff bands (1, 3, 5, 7, 10, 15, 20, 30, 40, 50, 60) and a high maximum rate. It would be advisable to simplify the system by reducing the number of bands to 3 or 4 and the maximum rate to 20-25 percent supplemented with an excise tax on luxury goods, and eliminating the nuisance rates (rates under 5 percent).

- In addition to tariffs, Syria has a complex system of other taxes and charges, which includes four taxes (municipal, consumption, import permission, and pre-income tax) and a large number of service fees. These taxes are not consistent with WTO rules because some of them are levied on imported goods only or applied with a higher rate on imported goods, if domestically produced goods are also subject to these taxes. It is recommended that the system is replaced with a VAT and an excise tax levied at the same rate on the imported and domestically produced goods, and a few service charges rendered by the customs administration that are consistent with WTO rules.
- The remaining NTBs include a long “negative list”, licensing for each shipment, and the state monopoly on exportation of certain products (cotton, wheat grain, tobacco, maize, calcium phosphate, etc). There is considerable uncertainty about the number of products on the negative list. In the case of four digit level products on the list, it is not clear whether all six and eight digit level products under that category are included. This creates a significant degree of discretion in interpretation of the negative list when the goods are cleared. Further reforms should include defining the “negative list” at the 8-digit level, reducing the number of products on the list, lifting the state monopoly on exports, and issuing import licenses for multiple shipments in a certain period of time.

Attention should be paid to two points when the decision is made on these reforms. First, they need to be considered in the context of WTO accession process because they will be on the negotiation agenda. Because the reforms proposed in this paper are consistent with WTO rules, early implementation of them may speed up the negotiations. Second, the combined affect of these reforms should be estimated on the public revenue and care be taken to ensure that the reforms are revenue neutral. Policy simulations conducted by the Bank show that it is possible to implement these reforms without revenue loss.<sup>4</sup>

## **Export Incentives**

The objective of export incentives is to reduce the costs of exported products with policy instruments consistent with WTO rules. These costs include: taxes on imported inputs (tariff and other taxes), domestic taxes (direct and indirect), costs of doing business and trading (administrative costs of setting up and managing business, importing and exporting), and

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<sup>4</sup> The World Bank developed an interactive Excel tool (Tariff Reform and Impact Simulation Tool, or TRIST) to simulate the short-term impact of tariff reforms on fiscal revenue, imports, and domestic output and employment. Its purpose is to allow policymakers to quickly evaluate the adjustment costs associated with trade policy decisions. In the past few years, TRIST has been used by the Bank staff and local researchers for a number of African countries. As part of the trade work, the Bank trained the staff of the MoET and other departments to use TRIST to assess the impact of tariff reforms including the impact of Syria’s trade agreements. For the simulation results for Syria conducted by the Bank staff, see “Estimates of Trade Adjustment Costs in Syria”, February 2010.

infrastructure services (electricity, transportation, telecommunication). Syria does not have an incentive system in place to reduce these costs to enhance competitiveness of Syrian products in international markets. Based on international experience, it is recommended that the following incentive instruments are included in Syrian trade regime.

- Tariff and tax drawback and exemption. Under these schemes, the portion of imported inputs that are actually used in the production of exports are not required to pay tariffs and taxes. In the case of the “drawback” option, tariffs and taxes that were paid on importation of goods are refunded once the manufactured goods, in which imported goods are incorporated, have been exported. In the “exemption” option, tariffs and taxes are not paid at the time of importation. The drawback scheme, which is administratively simpler, is applied in the case of new or occasional exporters, whereas exemption is usually granted to well-established export companies with good track record and exporting all or a large share (> 80 percent) of their production. In both options, technical calculations, called “rate of yield”, are needed to determine the ratio of the imported materials used in per unit of output agreed between the manufacturer and customs.

The Syrian Customs Law provides provision for drawback for a limited number of imported inputs, but it is not implemented. The exemption option does not exist in the Customs Law.

Syria will need to amend the Customs Law to extend drawback to all imports used in production of exports and include tariff and tax exemption option in the Law. Substantial technical assistance would be needed to design the proposed incentives and set up an effective administrative mechanism to implement them.

- Manufacturing under bond. This is a variation on the exemption option. Under this scheme, imported materials go directly in locked premises in the factories or in a warehouse outside the factory controlled jointly by the customs and the manufacturer, and remain there locked up until they are removed jointly and used in production. This scheme is appropriate for businesses that have a high proportion of imported dutiable inputs. Governments normally set a minimum of production that must be exported for companies to be eligible for this scheme.

This scheme does not exist in the Customs Law. It is recommended that this incentive option is also included in the Law, the necessary supporting policy directives are prepared, and an implementation mechanism is set up with technical assistance.

- Free zones and bonded warehouses. These arrangements offer warehousing, storage, simple processing such as sorting and re-packaging, and distribution facilities for trade, transshipment and re-export operations. Imports in these locations are exempted from tariffs and taxes because they are exported with or without further processing. They also enjoy other benefits such as reduced local taxes, streamlined customs and administrative processes. All due tariffs and taxes have to be paid if products are sold in the domestic market.

The Customs Law allows for bonded warehouses, but to date, no license has been issued. However, Syria operates eight free zones. Companies in the free zones are exempted from import tariffs and taxes as well as domestic taxes if the products are exported. They also benefit from subsidized land and utilities. All taxes are paid if the products are sold in the domestic market. Despite substantial fiscal and financial incentives, free zones contribute little to local production, employment, and foreign exchange earnings, because companies in the zones are engaged in commercial as opposed to manufacturing activities. Only one-third of products going through free zones are exported. There are restrictions on the inputs purchased from the local market discouraging backward linkages.

The necessary reforms to improve Free Zones' contribution to the national economy would include: elimination of domestic tax exemptions while improving their infrastructure services, lifting of restrictions on purchases from local market, consolidation of some free zones to reduce the operating costs, and transfer of the management to private sector under management contracts.

- Export processing zones (EPZ). EPZs are industrial estates developed to attract local and foreign investment to manufacture products for exports. Incentives offered to the companies operating within the EPZs include: tariff and tax free imports, total or partial exemption from domestic taxes such as corporation and income tax, total or partial exemption from labor and foreign exchange regulations, better infrastructure services, subsidized rent and utilities, one-stop administrative arrangements, and streamlined customs procedures. To be eligible for operating in an EPZ (and, receive the available incentives), normally all of the output from the zone must be exported (an approach adopted by the East Asian countries). Some countries allow a percentage of sales in the local market. The EPZ incentives do not apply to the sales in the local market.

EPZs are normally fenced areas. However, factories do not have to locate within the designated zones to receive the EPZ incentives and privileges. Exporting companies, if they satisfy the requirements, can operate as single factory EPZs anywhere in the country. A key advantage of this option is that it can grant export incentives to exporting companies that had been established before the EPZs were set up and cannot relocate their factories in the EPZ territory. The single factory option has been successfully implemented in many countries.

The EPZ scheme should be included in Syrian export incentive system in an appropriate form that would fit best in the current institutional arrangements for manufacturing production. Developing new fenced area EPZs should not be a priority for Syria. They are costly to establish. Also, Syria already has Industrial Cities with excellent infrastructure facilities. The single-factory EPZs seem to be the most appropriate option for Syria. This would be an effective incentive to attract local and foreign investment in export-oriented subsectors in the Industrial Cities. Converting sections of Industrial Cities into EPZs (that is, making them hybrid EPZs) should also be considered. Embedded in a broader manufacturing environment, the EPZ companies would have a better opportunity



to establish strong backward linkages with other companies facilitating formation of economic clusters within Industrial Cities.

### **Capacity of the Financial Sector to Meet the Financial Needs of Diversification and Trade**

Syria has taken important steps to reform its financial sector, one of the priority areas in the 10<sup>th</sup> Five-Year Plan. The sector responded well to the reforms making significant progress in evolving from a state controlled closed system to a more liberal and open one where private sector has become a key player. The newly established banks, most of which are affiliates of the Syrian-owned financial entities abroad, have expanded their balance sheets and branch networks. The share of the private banks in both total banking sector assets and the number of branches has reached over 25 percent in just a few years.

Notwithstanding the progress, Syrian financial sector exhibits several weaknesses limiting its ability to meet the needs of an expanding non-oil sector in general and non-oil exports in particular. Financial sector is too small compared to countries with similar level of economic development. Financial instruments offered by the sector are limited: medium to long-term financing for investment is negligible; dedicated credit to priority sub-sectors (SME, exports, etc) and loan guarantee schemes do not exist. About 60 percent credit is used by the public sector while one-third of the deposits are public. About two-thirds of foreign exchange needs of trade is financed from off-shore sources (Syrian-owned entities abroad) at higher cost.

These weaknesses arise from several features of the Syrian economy and the financial system. They may be grouped under the following three headings.

Systemic issues: A large part of Syrian-owned financial entities are still located abroad. Syria is largely a cash-based economy with negligible use of checks, and credit and ATM cards. Under-invoicing and double book-keeping is wide-spread. These features are due largely to uneasiness of the private sector to disclose their financial information and assets to private or public institutions.

Demand side weaknesses: Financial statements of companies are not transparent and difficult to appraise for credit purposes. This is explained partly by the unfamiliarity with good accounting practices particularly in the case of SMEs. Reluctance on the part of the private companies to disclose their financial transactions is also an important factor as noted above.

Supply side weaknesses: Financial sector infrastructure (the payments system, accounting and auditing practices and standards, credit registry, disclosure requirements, regulatory system, etc.) is outdated. The dominant financial instrument is short-term credit to larger companies and public enterprises. The private banking sector is a relatively close community, in which a large share of the banking sector assets are owned by the established families working primarily with companies within the community.

Currently, the financial sector has substantial excess liquidity. The immediate priority is to facilitate efficient utilization of these resources preferably through strengthening the access of SMEs particularly the export companies to these funds. This would require addressing some of

the weaknesses both on the demand and supply side noted above, in particular: improving book-keeping and accounting practices in the private sector, credit information system and risk assessment skills in the banking sector, and increasing the range of financial instruments offered by the banks.

Two recent initiatives would be helpful to meet the short-term challenges. First, the EU's SME Support Program has a component to assist the SMEs to improve their accounting, book-keeping, and business management practices. Options should be explored to accelerate implementation of this program and expand its company coverage. Second, a Loan Guarantee Institute (LGI) is being established as a corporate entity with assistance from the EU's SME Support Program. The LGI will set up a guarantee fund with contribution from 10 public and private commercial banks. It will cover a range activities and companies with particular emphasis on SMEs. Setting up a loan guarantee scheme is a step in the right direction, but the ownership structure of the LGI may constrain its benefits. It will raise money from the banks that it intends to issue guarantee to. This would have limited added value and may potentially create conflict of interest and moral hazard if it is not managed well. Hence, the LGI should be carefully managed or an alternative ownership structure be considered.

The longer-term objective is to broaden and deepen the financial sector, improve its efficiency, and strengthen its private sector orientation. To achieve these objectives the necessary follow up measures would include: creating a better environment to mobilize domestic savings, attracting foreign banks with good reputation, encouraging Syrian financial institutions working abroad to relocate in Syria, improving treasury management, promoting better disclosure, governance and risk management systems, introducing a broad range of financial instruments, and improving financial sector infrastructure. It is essential that sustained efforts are made to build trust and confidence in the economic community to assure the private sector that their assets and financial information are secure.

The Government has recently increased the limit of foreign ownership in the banking sector up to 60 percent, and considering allowing 100 percent ownership in some cases with special permission based on bilateral negotiations with the home countries. Also, a Presidential Decree was issued in July 2010 to enable the establishment of investment banks in Syria. These are steps in the right direction to address the longer-term issues in the sector.

The financial sector issues in Syria are closely related to public sector management because public companies play an important role in the financial and some economic sectors. Their performance has significant implications for the efficiency of the financial sector and the access of private sector to credit. Therefore, complementary reforms are necessary in improving efficiency of public companies and carefully defining the roles and responsibilities of the public and private sectors.

### **Customs Administration**

Under the EU, UNCTAD and UNDP assistance, progress has been made to improve customs administration. Most custom posts are now computerized and ASYCUDA II is implemented. The key customs management concepts such as risk management, valuation,

transparency, skill development, etc have been introduced but not yet fully implemented. The system still has elements of inefficiency and is open to discretion resulting in corruption and delays in processing thereby raising the cost to businesses including exporters. This is reflected in Syria's low international ranking in customs administration.

The remaining shortcomings arise from lack of clarity in some legislation (noted earlier) as well as institutional, procedural, and skill related bottlenecks in the management. Reform efforts are ongoing under assistance from EU's Trade Enhancement Project (TEP). These efforts aim to (i) introduce modern clearance procedures, risk assessment, and one-stop shops at border crossings, (ii) streamline and automate processes, (iii) move away from physical control of most transactions and rely more on company audits, (iv) reinforce transparency and valuation, (v) adopt and enforce modern rules of origin and Sanitary and Phyto-Sanitary (SPS) management, etc. These initiatives are steps in the right direction. They should be pursued with diligence and completed as quickly as possible to reduce customs related costs to companies.

### **Health and Safety Standards**

Inability of Syrian products to meet the required health and safety standards in the major markets, particularly in the EU, is an important barrier for Syria to increase its share in these markets. Under the current standards system, the responsibility of standards setting, conformity assessment, accreditation, testing, and certification are disbursed (but, not well coordinated) between the Syrian Arab Standards and Metrology Organization (SASMO) and a few other institutions. The policy and regulatory framework under which these institutions operate, their administrative and skill capacity, and physical infrastructure need to be substantially improved to be able to offer internationally recognized standards services. Some reforms have been undertaken including opening the testing services to the private sector. Much more need to be done to remove this important barrier to export growth.

A restructuring program is ongoing under the EU's Quality Management Program. The program has the following objectives: (i) raising awareness of the importance of the health and safety standards and the standards requirements in various export markets, (ii) improving the policy and regulatory framework, and institutional arrangements, (iii) clearly defining the roles of the private and public sectors, and effectively managing the standards institutions, and (iv) identifying equipment and skill needs of the laboratories and providing technical assistance to meet these needs. This is another high priority program that should be completed in a timely manner to ensure that the ground is prepared for Syria to participate in international accreditation arrangements and provide timely internationally recognized certification services.

### **Promotional Activities**

The Syria Enterprise and Business Center (SEBC), created under EU assistance to support Government's SME program, has been implementing a number of export promotional activities. They include provision of export consultancy and diagnostic services, identification of regional and European markets for exporters, preparation of user-friendly manuals, organization of buyer-seller meetings, and so on.

In 2009, the Government set up the Export Development and Promotion Agency (EDPA) under the MoET to provide promotion services on a broader scale. Under a dynamic management, EDPA has shown rapid progress. It has started building its institutional and skill capacity, assisting exporters to participate in trade fairs, organizing training for exporters, setting up a website and an information center. The Government has recently issued the Syrian Export Development Strategy to define EDPA's work program for 2010 – 15. The Strategy has three components: The Export Fund, promotional activities, and Export Loan Guarantee Facility.

The Export Fund is a subsidy scheme to support exportation of five products: olive oil, garments, yarn, canned food, and citrus fruits. The subsidy will be composed of tariffs paid on imported inputs, 25 percent of the transportation cost, 20 percent of the energy cost, and 8 percent of the social security payments. The cost of the program is estimated at \$370 million for 2010 only. Export subsidies are inconsistent with WTO rules. Introduction of this scheme at a time when Syria is starting accession negotiations with the WTO may create doubts about Syria's intentions to be a member of the WTO. It is therefore advisable the Government to reconsider the implementation of the Export Fund.

The Strategy includes a number of promotional activities such as setting up an information center, publishing user-friendly booklets for exporters, organizing training courses, participating in trade fairs, etc. The cost of these activities is estimated at about \$7 million for five years. Further work would be needed to turn these broadly defined activities into detailed annual programs.

The Strategy also aims to set up an Export Loan Guarantee Facility for exporters to be managed by EDPA. This initiative is still at an early stage of development. To avoid overlapping efforts, this initiative should be reconsidered in view of a parallel loan guarantee project being implemented under the EU's SME Support Program, as noted above.

The Export Development Strategy would benefit from further thoughts and considerations. In its current form, it tasks EDPA to focus on activities that are normally implemented by other specialized institutions, and poorly defines the promotional services that EDPA should provide. It would be preferable for EDPA to use its limited resources for developing effective promotional and training services only.

Recently, consultants working with EDPA also prepared an Export Development Strategy for Syria under the EU's TEP Project. This Strategy proposes (i) an institutional structure for EDPA with details for departmental and staffing needs, and (b) an action plan for 2011-15 for a range of promotional instruments to attract buyers and support exporters with detailed description of activities, performance measures, implementation schedule, and an indicative budget. This work would serve as a very useful supplement to EDPA's work program. Enhancing of EDPA's institutional and skill capacity and preparation of its annual activity programs would significantly benefit from the recommendations of this report.

## **Policy Coordination**

The responsibility of formulation and implementation of trade policy is diffused among various ministries and departments. Each ministry or department's interest is different. The MoET focuses on expansion of trade. The interest of the Ministry of Finance is more on revenue generation. Other ministries take a more protective stance for the sectors they are responsible for.

The Government has taken important steps to ensure effective coordination of policies and reconciliation of the competing objectives. In particular, it set up the Higher Export Council and the Exporters Association in 2009. The Council will determine the overall direction of trade policy and monitor implementation in a coordinated way. Its board includes the Prime Minister, Deputy Prime Minister, 6 Ministers, Chambers of Industry and Commerce, EDPA, and Exporters Association. The Exporters Association will represent the exporters in policy forums, lobby for policy improvements, and assist its members. It already has 200 members. It works closely with EDPA on promotional and training activities.

These measures fill an important gap in formulation and implementation of trade policy. It is advisable to set up a secretariat for the Higher Export Council housed in EDPA to ensure that the Council has adequate data and information to carry out its responsibilities effectively.

## **Analytical capacity inside and outside government**

Capacity for policy analysis both inside and outside government is weak. The gap is usually filled by engaging short-term consultants and commissioning analytical work under donor programs, which meet the needs in the short-term. The EU and the UNDP are particularly active in this area. The medium-term answer to the problem lies in continued efforts to invest in the analytical capacity of the MoET staff, and creation of an independent unit outside government with the necessary expertise to conduct in-depth studies and play as an advisory role for both the Government and the business community.

The EU under its TEP provides technical assistance to establish a Trade Policy Analysis Center. The structure of the Center and where it is housed should be carefully selected because they are critically important for its effectiveness. Partnering the Center with a research institute in the developed countries would be very useful.

## **SECTOR SPECIFIC POLICIES**

The policy reforms in the core areas identified above would affect exports in all sectors. These economy-wide cross-cutting improvements are necessary but not sufficient for expanding and diversifying non-oil exports, particularly of new products. Sector-specific export and growth promotion programs would also be needed. This would require selection of a few export-oriented sectors (sub-sectors or products), identifying the key sector-specific barriers, developing programs to remove these barriers, and exploring export opportunities in the existing and new markets. Sector specific analysis would also provide useful inputs into Syria's regional and gender-based programs, and help identify growth drivers in the medium to long term.

A number of sectoral studies have been prepared in recent years by the NARC, SEBC, and the UNDP. A large part of these studies are descriptive, providing detailed information on the structure of production and trade. They also provide other useful information such as laws and legislation affecting the sector, leading companies, and the like, but do not include detailed analyses of sectoral policies and reforms needed to strengthen production and export performance. However, they provide a good basis for further in-depth policy analysis.

### **WTO ACCESSION AND TRADE AGREEMENTS**

Syria was given an observer status in WTO in May 2010 as the US objection was lifted to its membership, application for which was made in 2001. The WTO set up a Working Party to conduct the accession negotiations. The Government is finalizing its Memorandum of Foreign Trade Policy (MFTP), which provides a detailed description of Syria's current trade regime. It also includes a list of trade-related laws and regulations, which need to be amended to be consistent with WTO rules. The negotiations will start after the MFTP is submitted to the WTO. To conduct the negotiations, the Government also set up a National Negotiations Committee headed by the Minister, MoET.

These are all positive developments. WTO accession would provide a good opportunity for Syria to anchor its trade regime in WTO rules and ensure the credibility of its trade policies. This, in turn, would help encourage foreign investment particularly in export-oriented sectors. The recommendation made in this paper for deepening trade reforms should all be considered in the context of accession negotiations.

Substantial technical assistance is needed, including training of the MoET staff to prepare Syria for the negotiations particularly in conducting impact analysis of import liberalization offers Syria is going to make for both goods and services liberalization. The UNDP has programs to support Syria's WTO accession. Also, the EU's TEP includes technical assistance for training for negotiation skills.

Syria signed the Greater Arab Free Trade Area Agreement (GAFTA) with the Arab countries in 1997 to foster inter-Arab economic integration, improve competitiveness as a group, and better compete internationally. The tariff phase down under the Agreement was completed in 2005. A free trade agreement with Turkey went into force in 2007. Syria also initialed an Association Agreement (AA) with the EU in December 2008, under which Syria will reduce its tariffs over 12 years. The AA waits for ratification from the Syrian Parliament. In June 2010, Syria reached agreement with Turkey, Jordan, and Lebanon to set up a free trade zone with a visa-free travel regime for their citizens. Another recent initiative aims to sign a free trade agreement jointly with Russia, Belarus, and Kazakhstan.

These initiatives are a good indication of Syria's intention of integrating into the global economy to take advantage of growing international trade. No empirical work has been conducted to understand the full impact of these agreements on the Syrian economy including the revenue effect. It is necessary to carry out studies to estimate the impact and identify areas where improvement is possible (implementation of rules of origin, for example) in order to better harness the benefits of them for Syria.

## MACROECONOMIC CONCERNS

### **Fiscal Implications of Trade Reforms**

Policy measures discussed in this paper (streamlining import tariffs and taxes, drawback and exemption schemes, trade agreements, WTO accession, etc.) would have significant fiscal implications. They would affect the level and allocation of revenues between public entities. For example, elimination of the municipality tax (because it is not compatible with WTO rules) would reduce the revenues of the governorates, which should be offset by budgetary transfers. It is essential therefore that these measures are considered as a package taking account of their trade and fiscal effects together and complementing them with other fiscal measures to ensure the revenue neutrality of the reforms to maintain fiscal prudence (see footnote 4).

### **Impact of Exchange Rate Regime on Trade**

Syria's exchange rate regime has been significantly improved. The reforms include: unifying the exchange rate, eliminating the restrictions on access to foreign exchange to finance imports, opening the foreign exchange market to private sector, abolishing the repatriation rule for foreign exchange. Currently, the pound is pegged to a basket in which dollar has a very large share. Studies suggest that the pound may be overvalued 10-15 percent in real terms adversely affecting Syria's non-oil trade.

Exchange rate plays a pivotal role in determining competitiveness both in the domestic and foreign markets thereby significantly affecting trade flows and the size and structure of the tradables sector. An overvalued exchange can easily erase the competitiveness gained from hard-won productivity improvements. It reduces the profitability of export activities thereby causing a fall in exports. It also reduces the price of imports in the local currency in the local market undercutting the competitiveness of the domestically produced goods. With a sustained overvalued exchange rate it is unlikely that Syria could achieve its growth and diversification objective even with good trade and behind the border policies.

It is recommended that the competitiveness of the pound should be carefully monitored and overvaluation eliminated. It is advisable therefore to undertake an in-depth study to analyze the impact of the exchange rate on trade flows, assess the appropriateness of the current exchange rate arrangements, and suggest possible improvements in exchange rate policy. This is particularly important now and the coming years as the impact of the FTAs with Turkey and the EU is felt in the domestic market and import protection resulting from WTO accession be reduced. Syria will need a competitive (or slightly undervalued) exchange rate to cushion the impact of import liberalization on import-competing industries and maintain the profitability of exports.

## **THE WAY FORWARD**

Syria made promotion of non-oil exports one of the main objectives of its development strategy to counter the emerging twin balance of payments and fiscal deficits resulting from secular decline of oil production and exports. To realize this objective, the Government has implemented a number of trade policy reforms and took complementary measures in other policy areas during the 10<sup>th</sup> Five-Year Plan to improve competitiveness of Syrian products in international markets. Non-oil exports responded strongly to the policy improvements. There is now a wide recognition of the need for further reforms to maintain this momentum. This paper tried to assess the achievement so far, identify the remaining gaps in the trade regime, and recommend follow up measures for broadening and deepening the trade reforms. The principal recommendations are presented in the attached policy matrix.

### **The reform process**

The following points should be taken into consideration in implementation of these recommendations.

1. Broader reform agenda. The proposed reforms should be considered as part of a broader reform program because they would be more effective if they are supplemented with complementary actions in other policy areas such as infrastructure, private sector development, macro economy and exchange rate, fiscal management, sectoral development, etc. It is advisable therefore to incorporate these recommendations in the 11<sup>th</sup> Five-year Plan as one of its main pillars.
2. WTO accession process. The policy recommendations of the paper are consistent with WTO rules, and would also serve as a useful input in WTO accession negotiations. However, it is not advisable to wait for completion of the negotiations to implement these reforms because the recent accession experience shows that negotiations may take 8-10 years. Besides, early implementation of these reforms would accelerate the accession process.
3. Prioritization and sequencing. The proposed program cannot be implemented immediately with all of its components. Priorities need to be set and sequencing of actions be determined. Amendments in legislation should be introduced first to guide the institutional and administrative arrangements. In terms of policy actions, introduction of export incentives (drawback and single-factory EPZs in particular), easing trade finance, streamlining import regime and customs administration should be placed on top of the reform agenda. These reforms can be effectively implemented in 1-3 years.
4. Donor assistance. Most of the actions in the Policy Matrix are administration and skill – intensive. Putting in place effective administrative and institutional mechanisms and adequately training staff should be fully completed before implementation starts. This would require substantial technical assistance from the donor community. The EU, GTZ, and the UNDP are particularly active in a number of trade-related areas. Strengthening



cooperation with them to complete the ongoing programs in a timely manner and better donor coordination to avoid overlaps are essential. New commitments should also be sought particularly for setting up and implementing the proposed export incentive measures.

5. Consultative process. Trade policy has a wide audience. A large number of Ministries and Departments are involved in policy formulation and implementation. Also, trade policy affects a range of sub-sectors and businesses. It is essential therefore that the proposed reforms are widely disseminated and discussed in workshops and other meetings with all stakeholders and consensus reached before they are incorporated in government programs.
6. Political commitment. Political commitment to trade reforms is essential at all levels for timely formulation and sustained strong implementation. This is necessary for two reasons. First, enhancing export orientation of the economy will require a mind change, which needs to be guided by the political leadership. Second, formulation and implementation of trade reforms necessitate quick resolution of interagency differences, requiring timely intervention from the leadership.

#### **Possible follow up trade work by the World Bank**

The Bank stands ready to continue its productive cooperation with the MoET and other concerned agencies on trade issues. The priority areas for Bank involvement would include: sector-specific programs, impact analysis of tariff reforms, and review and assessment of Syria's trade agreements.

## Syria: Summary of the Trade Reforms and the Draft Policy Matrix

Main policy areas	Measures already taken and problems that remain	New measures/ Further work needed	Priority	Past and ongoing donor assistance	Further technical assistance
<b>Import regime</b>					
Tariffs	Tariffs, particularly on inputs, have been reduced in recent years. The maximum rate was brought down from 255 to 60%. The MFN tariffs include 11 non-zero bands (1, 3, 5, 7, 10, 15, 20, 30, 40, 50, 60) with a simple average of 14%. Too many tariff bands and nuisance rates (rates lower than 5%) complicate implementation and increase administrative costs.	Simplify the tariff system by reducing the number of bands to 3 or 4 and the maximum rate to 20-25 % with an excise tax on luxury goods. Eliminate nuisance tariffs. To ensure that these simplifications do not cause revenue loss to the Government, they should be coordinated closely with the reforms related to other taxes and charges and non-tariff barriers (see below). Also, these simplifications should be considered in conjunction with WTO accession negotiations.	Medium	Using TRIST - A model developed by the World Bank (WB) for analyzing the impact of tariff reforms - it was demonstrated that it is possible to collapse the number of bands to 3 or 4, reduce the maximum rate, and eliminate nuisance tariffs without revenue loss.  The WB team trained Syrian staff to use TRIST for further analysis.	
Other taxes and service fees	In addition to tariffs, four other taxes (municipal, consumption, import permission, and pre-income tax) and a larger number service fees (over 50) exist complicating the import regime and increasing costs. Some of these charges vary by product and customs posts introducing significant degree of discretion. As much as one half of total import revenue is due to these taxes and fees. Some of these taxes are not compatible with WTO rules.	Simplify the current system by replacing it with a VAT and an excise tax levied at the same rate on the imported and domestically produced goods, and a few fees for eligible services rendered by the customs administration that are consistent with WTO rules. Ensure that these measures do not cause revenue loss for the Government, particularly for the Governorates.	High	Using TRIST, the WB team has undertaken simulations to estimate the VAT rate needed to replace much of these charges in a revenue neutral way.  The trained Syrian staff will need to do further analysis to fully understand the fiscal implications and make the necessary adjustment in budgetary allocations to the Governorates.	
Non-tariff- barriers (NTB)	The number of NTBs has been reduced. There are still important NTBs, such as a long “negative list” (a list of prohibited imports), state monopoly on export of certain products (cotton, wheat grain, tobacco, maize, calcium phosphate), and licensing for each shipment. There is considerable uncertainty about the number of products on the negative list. When a 4-digit product is on the list, it is not clear whether all sub-products in that group are prohibited. Implementation of NTBs is often arbitrary, lacks transparency, and increases costs to importers.	Reduce the number of the products on the negative list. Define the remaining products on the list at 8-digit level. Lift the monopoly on exports. Provide import licenses for multiple shipments in a certain period of time.	Medium		
<b>Export incentives</b>					
Tariff and tax drawback and exemption	The Customs Law provides for tariff and tax drawback for a limited list of imports used in the production of exported products. It does not provide for tariff and tax exemption. Drawback scheme has not been implemented because an implementation	Amend the Customs Law to extend drawback to all imports used in production of exports and include tariff and tax exemption option in the Law. The drawback scheme should be applied in the case of new or occasional exporters, whereas exemption	High	In light of international experience, WB’s Export Incentives Paper suggested the main features these incentives	Substantial technical assistance is needed to design and implement this measure including

	mechanism has not yet been put in place. As a result, import tariffs and taxes paid by exporters are not reimbursed increasing the cost of exports, and adversely affecting competitiveness of Syrian products in international markets.	granted to well-established export companies with good track record and exporting all or a large share of their production. Put in place an effective implementation mechanism and ensure that refunds are paid in a timely manner.		measures should have.	the training of the exporters and the customs officers.
Manufacturing under bond scheme	This is a tariff and tax exemption scheme appropriate for regular and established exporters that have a high proportion of imported dutiable inputs used in production of exports. Under this scheme, imported materials go directly in locked premises in the factories or in a warehouse outside the factory controlled jointly by the customs and the manufacturer, and remain there locked up until they are removed jointly and used in production. This scheme does not exist in the Customs Law.	Include this scheme in the Customs Law. Prepare the necessary supporting policy directives and set up an effective implementation mechanism.	High		Substantial technical assistance is needed to implement this incentive measure including the training of the exporters and the customs officers.
Export processing zones (EPZ)	EPZs are fenced industrial estates established to attract foreign and domestic companies to produce for the export market. Incentives offered to the companies operating within the EPZs include: tariff and tax exemptions, reduced domestic taxes, better infrastructure services, subsidized rent, streamlined customs procedures, etc. Designed well and administered effectively, EPZs can contribute substantially to manufacturing exports, as international experience demonstrates. Factories do not have to locate within the designated fenced zones to receive the EPZ incentives. Individual exporting companies can be given EPZ status and can operate as single-factory EPZs anywhere in the country, if they satisfy the requirements. These important policy instruments do not included in the Customs Law.	Include EPZ and single-factory EPZ concepts in the Customs Law and prepare secondary legislation to define the forms and operational rules of the EPZ system. Developing new fenced area EPZs is not a priority for Syria at this stage because Syria already has industrial estates (Industrial Cities) with excellent infrastructure facilities. Emphasis should be on promotion of single-factory EPZs to attract local and foreign investment in export-oriented subsectors in Industrial Cities. Converting sections of Industrial Cities into EPZs should also be considered.	High	In light of international experience, WB's Export Incentives Paper recommends the features that the EPZs should have to be effective.	Substantial technical assistance is needed to design and implement this measure including the training of the exporters and the customs officers.
Free zones	Syria has 8 free zones. They are engaged in commercial activities (mainly importing and selling cars) as opposed to manufacturing activities. Their contribution to domestic economy, export growth and employment creation is very limited. Only one-third of the products going through free zones are exported. There are restrictions on the inputs purchased domestically discouraging backward linkages. Fiscal incentives to free zone companies are too generous. They are exempted from import tariffs and taxes as well as all domestic taxes if the products are exported causing large revenue losses to government.	Amend the free zone legislation to do the following: Eliminate domestic tax exemptions. Lift restriction on purchases from local market to strengthen backward linkages. Explore possibility of consolidating free zones to reduce operating costs. Transfer management of free zones to private sector under management contracts.	High	WB's Export Incentives Paper provides a review of the Free Zone System makes recommendations for reform.	

**Export support services**

Promotional services	Export Development and Promotion Agency (EDPA) was set up in 2009 to provide promotional services to exporters. EDPA has started building its	The subsidy program is not compatible with WTO rules. It is advisable to reconsider implementation of this program. Focus should be on WTO-compatible		EU, through SEBC, provides support for export companies	
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institutional and skill capacity, and providing promotional services to exporters. The Government also issued the Syrian Export Development Strategy to define EDPA's work program for 2010-15. In addition to promotional activities, the Strategy includes an Export Fund (an export subsidy program for five export products). Strategy also aims to set up an Export Loan Guarantee Facility to be managed by EDPA.

export incentives, discussed above, implemented by other specialized agencies (Customs Administration, Ministry of Finance).

Implementation of the Loan Guarantee Facility should also be reconsidered because a similar program is being developed under the EU's SME Support Program.

EDPA should utilize its limited resources for developing effective promotional and training services. Further work will be needed to turn the general list of promotional activities in the Strategy into detailed annual activity programs for EDPA.

under its SME Support Program.

Recently, consultants working with EDPA under EU's SME Support Program, also prepared an Export Development Strategy for Syria for 2011-15. It proposes an institutional structure for EDPA with details for departmental and staffing needs and an action plan for a range of promotional instruments. It is a very useful supplement to EDPA's work program.

### Trade facilitation

Customs administration

Under technical assistance, reforms have been prepared to improve customs administration. Most customs posts are now computerized and ASYCUDA II is implemented. The key customs management concepts such as risk management, valuation system, anti-corruption management, etc. have been introduced, but not yet fully implemented. The system still has elements of inefficiency and is open to discretion resulting in delays in processing and informal payments thereby raising the cost to businesses including exporters. This is reflected in Syria's low international ranking in customs administration.

Continue implementation of reforms. Emphasis should be given to implementation of modern risk management techniques, moving away from physical controls, automation of business processes to reduce the room for discretion, introduction of one-stop shops at the borders. full operationalization of the anti-corruption unit, and training of staff.

High

UNCTAD and UNDP provide support for implementing ASYCUDA training. EU supported customs reforms under its Modernization of Ministry of Finance Program.

Under its new Trade Enhancement Program (TEP), EU's assistance continues to deepen the customs reforms.

Trade Finance

Syria has taken important steps to reform its financial sector. The sector responded well to the reforms making significant progress in evolving from a state controlled closed system to a more liberal and open one where the private sector has become a dominant player.

Notwithstanding the progress, the financial sector cannot meet the needs of an expanding non-oil sector. In particular, inadequate access to credit for both investment and working capital is an important constraint for expansion and diversification of non-oil exports. This arises from a number of features of the Syrian economy and its financial sector. Financial sector is small partly because a large number of Syrian-owned financial entities are still located abroad and Syria is largely a cash-based economy. It is difficult to appraise companies for credit purposes because their financial statements are not transparent. Also, financial instruments offered by the sector are limited: medium to longer-term financing for investment is negligible;

Short-term measures should aim to ensure efficient utilization of substantial excess liquidity currently exists preferably through strengthening the access of SMEs particularly the export companies to these funds. These measures would include: improving book-keeping and accounting practices in the private sector for transparent financial statements to facilitate accurate risk assessment by the banks; enhancing credit information system and risk assessment skills in the banking sector; and increasing the range of financial instruments offered by the financial sector.

Longer-term measures should aim to broaden and deepen the financial sector, improve its efficiency and improve its private sector orientation with actions such as: creating a better environment to mobilize domestic savings, encouraging Syrian-owned financial entities abroad to relocate in Syria, attracting foreign banks, encouraging better disclosure and governance, promoting better disclosure, improving treasury management, and

High

A Financial Sector Report was completed by the WB and IMF with proposals for improving the financial system, but it does not cover export credit issues.

WB initiated work on trade finance.

A Loan Guarantee Institute (LGI) is being established as a corporate entity with assistance from the EU's SME Support Program. The LGI will set up a guarantee fund with contribution from 10 private and public banks.

WB will continue work on trade finance issues.

	dedicated credit to priority sub-sectors (SME, exports, etc.) and loan guarantee schemes do not exist. Financial sector infrastructure is outdated.	improving financial infrastructure.		
Health and safety standards	The responsibility of conformity assessment, testing and certification in Syria is disbursed between SASMO and a few other institutions. They are unable provide internationally recognized standard services to Syrian companies because of their administrative and skill capacity and physical infrastructure are outdated. This limits Syria's access to the major markets such as the EU.	The required reform program would include: improving the policy and regulatory framework and institutional arrangements clearly defining the roles of the private and public sectors, upgrading laboratories, launching campaigns to raise awareness among producers and exporters about the standards requirements in target export markets, and training producers to meet these requirements.	Medium	Under the EU financial assistance the SEBC is implementing a Quality Management Program to restructure the standards infrastructure on the lines suggested in the previous column. This program should be implemented in a timely manner.  The German Government also provides assistance to improve the technical and institutional capacity of a number of laboratories.

**Policy coordination and capacity building**

Policy coordination among agencies	The responsibility of trade policy formulation and implementation is diffused among various ministries and departments. Coordination among them is weak. The Higher Export Council chaired by the Prime Minister was recently instituted for better coordination. Private sector and EDPA are represented in its Board. The Council will determine the overall direction of the trade policies and monitor implementation in a coordinated way.	Set up a secretariat for the Higher Export Council housed in EDPA to ensure that the Council has adequate data and information to carry out its responsibilities effectively.	High	
Analytical capacity	Capacity for policy analysis both inside and outside government is weak. The gap is filled by engaging short-term consultants and commissioning analytical work under donor programs. The EU and UNDP are particularly active to provide support.	Conduct a needs assessment to identify the skill gaps and institutional needs and develop a program to improve analytical capacity in the MoET and to create an independent research unit outside of government with the necessary expertise to conduct in-depth studies and play an advisory role for the government and the business.	Medium	The EU under its TEP provides technical assistance to establish a Trade Policy Analysis Center. The structure of the Center and where it is housed should be selected carefully because they are critically important for its effectiveness. Partnering the Center with a research institute in the developed country would be very helpful.

**Sector/product specific export programs**

Policy environment affecting sub-sectors or products	Improving trade policies is necessary but not sufficient to promote non-oil exports. Sector specific policies need also be strengthened.	Select a few sub-sectors/products with high export potential, identify the sector-specific barriers to production and exports (infrastructure, policy, skill, etc), develop programs to remove these barriers, and explore export opportunities in the existing and new markets.	High	NAPC, SEBC, EU (under SME Support Program), and UNDP have supported a number of sector/product specific studies. They provide very useful information about these sectors, but do not include detailed	WB would undertake policy oriented sub-sectoral studies.
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analyses of sectoral policies and reforms needed to strengthen production and exports.

**Trade agreements**

WTO accession	Syria was given an observer status in WTO as the US objection was lifted to its membership. The WTO set up a Working Party to conduct the accession negotiations. The Government is finalizing its Memorandum of Foreign Trade Policy (MFTP), which provides a detailed description of Syria's current trade regime. Negotiations will start after the MFTP is submitted to WTO. The Government also established a National Negotiations Committee chaired by the Minister, MoET.	<p>Conduct impact analysis for Syria's offers for import liberalization in goods and services sectors as an important input for negotiation.</p> <p>Some of the recommendations made in this matrix (particularly market access, legal framework, and export subsidies) should be considered in the context of accession negotiations</p>		UNDP and the EU (under TEP) provide some assistance for negotiations and training for negotiation skills.	
Likely impact of trade agreements	Syria signed GAFTA with Arab Countries and a bilateral free trade agreement (FTA) with Turkey. It also negotiated an Association Agreement with the EU, which is ready for signing by the Government. Possible impact of these agreements on the Syrian economy has not been analyzed.	Conduct studies to analyze the implementation results and possible impact of these agreements on the Syrian economy. Suggest actions to maximize the benefit of these agreements to Syria. These studies would be helpful for negotiation of future agreements.	Medium	Using TRIST, the WB team conducted revenue analysis of the Association Agreement.	WB can provide a review of these agreements.

**Macroeconomic aspects of trade policy**

Fiscal implications of trade reforms	Policy actions suggested in this paper (streamlining import duties and taxes, duty drawback and exemption, trade agreements, WTO accession, etc) would have significant affects on the level and allocation of public revenue. These affects have not been fully analyzed.	Consider these actions as a package and estimate their fiscal impact. Design these policies in such a way that they are revenue-neutral. If necessary supplement them with other fiscal measures to ensure fiscal prudence.	Medium	IMF has issued reports on fiscal sustainability.	IMF under Article IV monitoring.
Impact of the exchange rate regime on trade	Exchange rate plays a pivotal role in determining competitiveness both in the domestic and foreign markets thereby significantly affecting trade flows and the size and structure of the tradables sector. An overvalued exchange rate can easily erase competitiveness gained from hard-won productivity improvements.	<p>Carefully monitor the competitiveness of the Syrian pound.</p> <p>Analyze the impact of the exchange rate on trade flows in Syria, assess the appropriateness of the current regime, and suggest possible policy improvements to avoid overvaluation of the pound.</p>	High	IMF has issued reports on real exchange rate valuation.	IMF under its Article IV monitoring.