

TECHNICAL UNIVERSITY OF LIBEREC
FACULTY OF ECONOMICS



DIPLOMA PROJECT

MOHAMAD KINAN SALKINI

TECHNICAL UNIVERSITY OF LIBEREC
FACULTY OF ECONOMICS

Study discipline: 6208 - Economics and Management
Specialisation: Business Administration

THE ECONOMIC DEVELOPMENT OF SYRIA

Vývoj Ekonomiky v Sýrii

BP-PE-KPE- 200412

UNIVERZITNÍ KNIHOVNA
TECHNICKÉ UNIVERZITY V LIBERCI



3146070551

MOHAMAD KINAN SALKINI

Supervisor: doc. Ing. Ivan Jáč, CSc., Department of Business Administration
Consultant: doc. Ing. Václav Urbánek, CSc.
Number of pages: 45
Appendix: 0

Delivery deadline: 21.5.2004

TECHNICKÁ UNIVERZITA V LIBERCI

Hospodářská fakulta

Katedra podnikové ekonomiky

Akademický rok: 2003/04

ZADÁNÍ BAKALÁŘSKÉ PRÁCE

pro **Mohamad Kinan Salkini**

program č. B 6208 Ekonomika a management
obor č. 6208R085 Podniková ekonomika

Vedoucí katedry Vám ve smyslu zákona č. 111 / 1998 Sb. o vysokých školách a navazujících předpisech určuje tuto bakalářskou práci:

Název tématu: **The Economic Development of Syria**

Pokyny pro vypracování:

1. Introduction
2. Socio-economic profile
3. General economic overview
 - The Syrian economy
 - Foreign trade
 - Oil and Gas
4. How to do Business
 - Banking and currency
 - Foreign trade regulations
 - Contracts and contractual disputes
 - Taxation
 - Labour law
5. The economics development planing

Rozsah grafických prací:

25 - 30 stran textu + nutné přílohy

Rozsah průvodní zprávy:

Seznam odborné literatury:

KRUGMAN, P. R.: *International Economics Second Edition*. USA: Addison Wesley Longman Publishing, 1997. ISBN 0-673-52186-9

BUTLER, D.: *Business Studies*. Oxford: Oxford University Press, 1998. ISBN 0-19-832743-9
<http://www.cia.gov/cia/publications/factbook/geos/sy.html>

Syrian daily newspapers

- Teshreen www.teshreen.com
- Albaath
- Thawra www.thawra.com

www.google.com/search

Collected information from the Syrian magazines. 2003

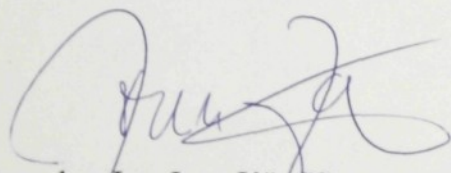
Vedoucí bakalářské práce: doc. Ing. Ivan Jáč, CSc.

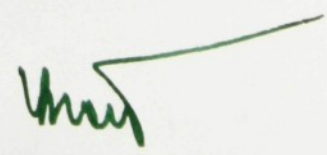
Konzultant: doc. Ing. Václav Urbánek, CSc.

Termín zadání bakalářské práce: 31.10.2003

Termín odevzdání bakalářské práce: 21.5.2004




doc. Ing. Ivan Jáč, CSc.
vedoucí katedry


prof. Ing. Jiří Kraft, CSc.
děkan Hospodářské fakulty

Acknowledgement

I would like to express my thanks to every single person who gave me the help and the time to complete this project especially to doc. Ing. Ivan Jáč, CSc., Business administration Head Department in the Technical University of Liberec for being very helpful and for his guidance toward the completing of this project.

Thanks to go to my family for providing me with the comfortable atmosphere to work on this project, for their support and patience.



*I declare that this Bachelor work has been done independent with using
some literatures and Knowledge of Supervisor and Consultation.*

In Liberec

.....







CONTENS

1 INTRODUCTION..... 1

2 SOCIO-ECONOMIC PROFILE..... 3

2.1 GEOGRAPHICALLY SYRIA MAY BE DIVIDED INTO FOUR REGIONS:..... 3

2.2 POPULATION 3

2.3 RELIGION 4

2.4 LANGUAGE..... 4

2.5 EDUCATION..... 4

2.6 LABOUR FORCE..... 4

2.7 GOVERNMENT AND ADMINISTRATION 5

3 GENERAL ECONOMIC OVERVIEW..... 7

3.1 THE SYRIAN ECONOMY 7

3.2 GROSS DOMESTIC PRODUCT GDP 9

3.3 GROWTH 10

3.4 INFLATION..... 10

3.5 TRADE BALANCE 10

3.6 THE PUBLIC SECTOR 11

3.7 THE PRIVATE SECTOR 12

3.8 INVESTMENT LAW NO 10 13

3.9 CURRENCY 14

3.10 AGRICULTURE..... 15

3.11 FOREIGN TRADE 17

3.12 MANUFACTURING..... 19

3.13 OIL AND GAS..... 22

3.14 GAS..... 24

4 HOW TO DO BUSINESS 25

4.1 BANKING..... 25

4.2 BANKING..... 27

4.3 FOREIGN TRADE REGULATIONS 28

4.4 CONTRACTS AND CONTRACTUAL DISPUTES 30

4.5 TAXATION 32

4.6 CORPORATE INCOME TAX..... 35

4.7 PERSONAL INCOME TAX..... 37

4.8 LABOUR LAW..... 39

5 THE ECONOMIC DEVELOPMENT 42

6 CONCLUSION 45



Symbols:

- US\$_US dollar .
 - est._ estimate.
 - US\$ bn. _US billion Dollars.
 - S£_ Syrian pound.
 - NCR_Neighbouring Countries Rate .
 - Ha_ hectare.
 - b/day_barrels per day .
 - SPC_Syrian Petroleum Company .
 - Scot_The Syrian Company for Oil Transport.
 - AFPC_AI-Furat Petroleum Company.
 - DEPC_Deir Ezzor Petroleum Company.
 - CBS_Commercial Bank of Syria.
 - IVL_Individual Validity License.
 - GAIT_Grampian Accessible Information Taskforce.
-



1 Introduction

In the course of the last four years, Syria has developed into one of the Middle East's most dynamic markets for foreign goods, services and investment. Economic liberalisation and greatly increased oil revenues have sustained rapid economic growth. Since 1991 alone, local investors have pledged over US\$5bn in investments and the country has received an estimated US\$8bn in external aid.

For foreign firms, these developments have provided a wide range of business opportunities. The expansion of the oil and gas industry, a massive infrastructure development programme and the unsatisfied demand for modern consumer goods have attracted a host of European, American and Japanese firms. Access to Syria's 17.5 million consumers is becoming a much coveted prize.

While great opportunities exist, navigating through the local business environment is not always easy and requires both preparation and patience. For outsiders, the intricacies of Syrian business, including a multiple exchange rate system, complex trading procedures and inadequate banking facilities, can be bewildering.

In both sectors of the economy, sales are complicated by a local propensity to negotiate until the last possible minute. Western approaches of straightforward price quotations are unlikely to succeed in an environment where repeated price reductions are both customary and expected. In tenders, practices and regulations that are unusual in the West but common throughout the region can prolong negotiations and lead to unexpected results.

Contracts, especially for larger projects, can be restrictive, causing problems for inexperienced firms' or those without efficient local representation. Questions of warranty and liability are a frequent source of tension and in contractual disputes, the position of foreign firms remains weak. Legal procedures are slow and consequently expensive for outsiders.

On a day-to-day level, communication and information deficiencies can complicate and delay business transactions. Accurate data on local companies is often difficult to obtain, and as a result, choosing a local partner requires particular care. Because of widespread silent participation, the size and liquidity of individual firms or businessmen is hard to estimate by outsiders. While some are keen to appear "on the move", others, often with more substance behind them, prefer to remain quiet about their business activities. Decisions take time and are hampered by an excessive dependence on owners or general managers. In their absence, even smaller deals are unlikely to proceed.



In all kinds of business situations, personal relations and contacts continue to play a fundamental role. Decisions are made over endless cups of Arabic coffee, and Western notions of time constraints not always appreciated on a local level. Where others might do with a single meeting, a series of these is likely to be required in Syria.

For all foreign firms, the services of a local agent, representative or lawyer are an essential ingredient for business success. While one-off sales agreements are quite possible without local advisors, their importance cannot be exaggerated in larger deals. Newcomers are therefore recommended to consult extensively before entering the Syrian market.



2 Socio-Economic Profile

The Syrian Arab Republic lies on the eastern coast of the Mediterranean Sea bounded by Turkey to the north, Iraq to the east, Palestine & Jordan from the south and by Lebanon & the Mediterranean Sea to the West.

The Total area of the Syrian Arab Republic is 18.517.971 hectares of which 6 million hectares are cultivated land & the remained is desert & Rocky Mountains. The Syrian Desert is suitable for grass growing & is used as pastures during sufficient rainfall.

2.1 Geographically Syria may be divided into four regions:

- The coastal region: It lies between the mountains & the sea
- The mountainous regions: runs from the north down to the south of the country & includes all mountains & hills which are parallel to the Mediterranean Sea.
- The interior region or the plains region: It comprises the plains of Damascus, Homs, Hama, Aleppo .Hassakeh & Dar'a it is situated to the east of the mountainous region.
- The desert region: it is consisting of the desert plains situated in the southeastern part of the country of Jordanian & Iraqi borders.

Less than half of Syria's total land area is suitable for agricultural cultivation. Large areas, particularly in the South-East of the country are arid and sparsely populated

2.2 Population

Syria's population reached 17,585,540 (July 2002 est.). With an annual growth rate of 2.45% (2003 est.). Syria's has one of fastest growing population in the world. Today, around 60% of its population is under the age of twenty.

Over 51% of the population live in cities and urban migration has been rapid in recent years.

Government programs to limit the expansion of cities aver the last ten years do, however, appear to be having an effect, Damascus and Aleppo ate the country's largest cities, with one and a half million and one million inhabitants respectively.



2.3 Religion

Muslims account for almost 85% of the population. The remaining 15% are predominately Christians of many denominations, including Greek Orthodox, Syrian Orthodox, Armenian Orthodox, Protestant and Catholic. A small Jewish community remains in Damascus

2.4 Language

Syria's official language is Arabic. Armenians is used widely in Aleppo, and Kurdish in the northern regions. Aramaic and Circassian are a lot spoken in some areas. As for foreign languages, the older generation, particularly in the cities, often speaks some French, whilst English is widely understood amongst the younger and middle-aged groups.

2.5 Education

Almost all children between five and fourteen now receive some form of full-time primary education, underlining the progress made over the last twenty years. Secondary education is provided through the country's 2,354 secondary and intermediary schools. Teacher pupil ratios are relatively high, averaging around 1 to 20. A parallel rise in university enrolment occurred over the same period, and in 1994 over 130,000 students were studying at Syria's four universities and numerous technical colleges. Although large numbers of students graduate with technical degrees, very few university courses offer vocational training and graduates usually require additional training in their specialized fields. Fluent difficult to find. Western firms in Syria attribute much of their success to intensive company training courses, often carried out abroad.

Improvements in education have had a knock-on effect on the literacy rate, which is now estimated to be 64%. This figure is markedly higher amongst the young

2.6 Labour Force

Around 25% of Syrian's total populations are estimated to be economically active, creating a labour force of roughly three and half million people in 1995. Although official estimates of unemployment lie at around 6.8 % widespread masked unemployment and underemployment is a problem in all sectors of the economy. In total 51% of the total workforce are estimated to work in urban areas. Only 11% of the urban workforce are women, compared to around 22% in Syria's smaller towns and villages.

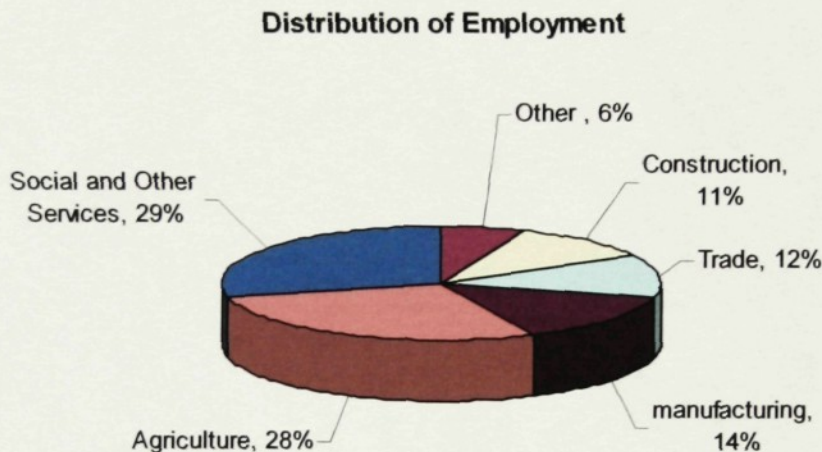
As employment opportunities tend to be concentrated in the large cities, rural unemployment is considerably higher than the average. A large proportion of rural employment is seasonal and



unemployment tends to rise in the winter.

Currently, no specific regional industrial policy exists to encourage the establishment of plants in Syria's provinces and most manufacturing employment is concentrated in Damascus and Aleppo.

Imported labour Plays an important role only in highly specialized sections of the oil and energy sectors. At the same time, large wage differentials between Syria and other Arab countries continue to cause the migration of the country's most qualified personnel. The Gulf countries in particular are a large market for expatriate Syrian's labour.



Picture 1

2.7 Government and administration

Syria's legal and political system is based on the constitution of 1973 which declares the country a socialist republic.

Head of state is the President who appoints three vice presidents, the prime minister's suggestions, he also chooses individual minister. He is the commander-in-chief of the armed force and secretary-general of the Ba'ath Party.

The executive branch of the government consists of the Council of Ministers, headed by the prime minister. The vast majority of ministers are drawn from among the members of the Ba'ath party.

Draft legislation is drawn up by the executive and passed for approval to a directly elected unicameral parliament , the people's assembly or MAJLIS AL SHA'AB, with currently 250



deputies. Parliamentary elections take place every four years and Syria has universal suffrage for all citizens above the age of 18. On a local level, regular elections are held for town and regional councils.



3 **General economic overview**

3.1 ***The Syrian economy***

Over the last ten years, the Syrian economic has been in the process of a Gradual transformation from a planned, state- sector oriented system to a market economy. Unlike in Eastern Europe, great efforts have been made to avoid fundamental social and structural disruptions and as a result, progress, though steady, has been relatively slow.

Gradual reform began in the mid-1980 against the background of severe economic constraint. Foreign aid levels were low and the local currency overvalued. Syria's important agricultural sector was hit by a series of droughts and as a result of import restrictions and electricity shortages, output of manufacturing industry was low.

In an economy characterised by government control, few incentives existed for Syria's private firms and for many, the thriving black market for raw materials and inputs was the only available lifeline. Those with connections outside the country kept their money abroad. Within the government stated policy of "economic pluralism" that envisaged economic development through the encouragement of the public, mixed and private sectors, a new emphasis was clearly required. Increasingly, it became obvious that only Syria's private firms would be able to muster the energy and funds required to resuscitate the economy.

A number of steps to relax trade and currency regulations laid the basis for future liberalization, but in an atmosphere of recession private firms remained cautious towards new investments.

By the beginning of the 1990's, the economy was in its way to recovery: between 1988 and 1994, oil production doubled and more plentiful rains greatly benefited local farmers. Syria's part in the anti-Iraq coalition mended links with the Gulf. AID from Saudi Arabia and Kuwait resumed at unprecedented levels.

Steps towards liberalization continued with the introduction of a new investment law in 1991 which became the cornerstone of the government's turn towards the private sector. With an equivalent of US\$ 5.3bn in pledged investments so far, the law has been visibly successful in persuading Syria's private firms to expand their role in the local economy.

The relaxation of foreign trade regulation has allowed the private sector to resume large-scale imports. With a partial lifting of hard currency restriction and a devaluation of some of the



exchange rate used, funds that had previously been either dormant or directed through unofficial channels have found their way back into the official economy.

In the public sector, the renewed influx of foreign aid allowed the long –overdue replacement of capital and enabled the government to embark on a massive infrastructure development program. Electricity, telecommunications, water and sewage have been the focus of particular. Although existing public sector firms are being upgraded and individual plants replaced, no horizontal expansion of state industry has taken place since the mid-1980.

General policy is the encouragement of private enterprise. Efforts to stimulate private business activity have been visible throughout the economy: the list of industries open to private firms has been greatly expanded, trading procedures simplified and state intervention reduced. In areas such as tourism and agriculture, joint-ventures between the state and private sector have become more common in recent years. In principle, the government had declared that it is open to private projects in all areas of the economy and even mainstays of state industry like cement, electricity and petrochemicals have seen proposals for private sector schemes.

Since 1990, the local economy has experienced real growth which, at an average of 7-8% per annum, compares favourably to other countries in the region.

While the positive results of economic change are clearly evident, the process of liberalization in certain fields has been slow. Outside the channels of the investment law, foreign exchange restrictions remain in place and hamper local and foreign business alike. The banking system has failed to keep up with economic developments and is today of little assistance to Syrian private firms. Loans for business expansion are virtually unavailable and investors are forced to finance projects in cash. For smaller investors in particular, there are no official channels for productive investment outside the state-owned banks.

Careful steps to tackle outstanding obstacles have been visible for some time. Proposals for banking reform and a stock exchange have been debated in both the parliament and local press. With a gradual devaluation and abolition of some of the many exchange rates used, the government is preparing for an eventual unification of the Syrian pound, in the public sector, legislation has been passed to encourage greater managerial freedom, but privatization remains a taboo in view of the danger of widespread unemployment. Consult MANUFACTURING for further details.

Development in coming years will depend on Syria's ability to accelerate the pace of ongoing reforms and to solve a series of outstanding problems. On the economic fronts, these include pressure created by one of the world's highest rates of population growth and large debts

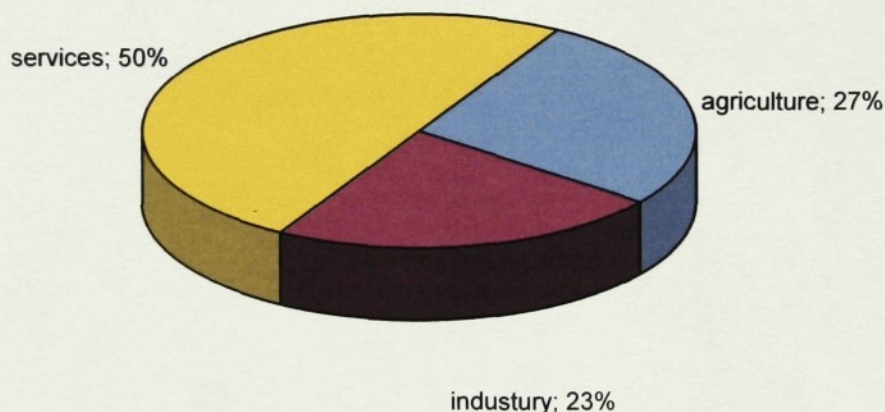


with both western and former communist states.

Much rates on the outcome of the peace negotiations. Although direct economic relation between Syria and Israel remain unlikely in the short term, the political and economic benefits of a peace deal are set to be substantial: debt relief, additional aid and the abolition of sanctions by the U.S. would boost both investment and trade. In a post-peace environment, Syria would be able to resume its traditional role as a center for local industry and the commercial cross-roads between Europe and the Arab world.

3.2 GROSS DOMESTIC PRODUCT GDP

Syria is classified as a medium-income developing country. In 2002, its G.D.P. amounted to US\$63.48 billion (2002 est.)



Picture 2

The local economy relies heavily on seasonally fluctuating Agricultural output which accounts for around 30% of G.D.P. Its industrial base is diversified and predominantly centred on the conversion of agricultural raw materials and high manufacturing industry. A buoyant oil sector accounts for 59% of exports and is the country's top foreign currency earner.

In spite of efforts to stimulate the industry, tourism has not until now acquired the importance it has in some neighboring countries. In coming years, it is, however, expected to become one of the major growth areas of the local economy.

Particularly in recent years, foreign donations, estimated at around US\$8bn since 1991, and



remittances from Syrians working abroad have played an important role in the local economy.

3.3 Growth

After stagnation in the 1980's, economic growth accelerated from 1990 onwards. Underlying factors were recovery in the agricultural sector, large government expenditure, increasing oil revenues and the positive affects of economic liberalization.

Growth levels were highest in the period 1990-92, averaging 8.7%. In 1993, growth witnessed a marked decline to 3.9%, primary due to a stagnation of agricultural output, energy shortage and a slight decrease in oil exports. Last year, growth picked up at 3.6% on the back of a recovery in manufacturing, an expanding construction sector and continued high levels of private investment.

Private investments will continue at slightly decreased levels as local industry is entering a consolidation phase after three years of record spending. Further liberalization measures, in particular the introduction of a stock exchange, could, on the other hand, provide a fresh impetus.

3.4 INFLATION

Since the beginning of economic reform, inflationary pressures have generally been high. They can be attributed to a gradual lifting of subsidies on basic consumer goods, correspondent public sector wage rises, and exchange rate devaluation. In the absence of an efficient banking system and institutionalized investment opportunities, liquidity throughout the economy remains high.

Unless plans for an adjustment of currently negative real interest rates and the introduction of a stock exchange are carried out.

Inflation rate (consumer prices): 0.9% (2002 est.)

3.5 Trade BALANCE

Syrian exports in the first quarters of this year reached 47.3 billion Syrian pounds against 44.8 billion Syrian pounds for imports for the same period of last year and therefore the Syria trade has achieved a positive balance estimated at 2.5 billion Syrian pounds for the first time since ten years.



3.6 *The Public Sector*

Until the recent turn towards private industry, Syria pursued a policy of industrial development through the state sector. Although the government's policy of so-called economic pluralism foresaw clear roles for all three sectors, public, private and mixed, it was the public sector that received particular attention.

The state began to dominate the economy in the early 1960's when all privately owned banks and finance companies, as well as the country's largest industrial firms were nationalised and put under the management of public officials.

In the 1970's, the public sector underwent considerable expansion that led to the diversification of domestic industrial output. Much of the expansion was financed by aid from other Arab countries. With a few exceptions, large-scale prestige projects in heavy industry were avoided.

State enterprises came to dominate the conversion of basic agricultural materials, natural resources like oil, gas and phosphates, as well as heavy industry. Financial services became the exclusive domain of the state banks.

Throughout the period, the private sector was effectively restricted to agriculture, labour-intensive, traditional manufacturing, services and trade. A basic legal framework for private sector involvement in tourism was laid towards the end of the decade, but in view of pervading government controls elsewhere in the economy, businessmen remained reluctant to commit large capital investments.

By the mid-1980's, many state enterprises began to show signs of inefficiency, overstaffing and lack of maintenance that are common to public sectors throughout the developing world. Administered prices prevented an efficient use of existing resources and hard currency shortages restricted imports of essential raw materials. Production capacity became under-utilised and certain plants had to temporarily cease production. While the sector remained the sole provider of many industrial and consumer goods, it became increasingly difficult to sustain.

This changed after the Gulf War with the resumption of foreign aid. Worn-out capital could now be replaced and imports resumed. New plants for the production of textiles, cement, tobacco and sugar were commissioned. Plans exist for a large steel complex, new petrochemical plants, a fertiliser factory and additional port facilities.

While investments continue to be made, a further expansion of the sector is unlikely. For the last seven years, the list of industries reserved for state establishments has shrunk considerably and



a number of private projects have been licensed in areas previously reserved for state firms.

Efforts are being made to place firms on a sounder economic base. Exports are encouraged, inefficiency addressed and links to private firms increasingly promoted. A series of decrees have attempted to encourage efficiency and greater managerial freedom.

Increasingly, both sectors of the economy are seen to co-exist: private firms have begun to dominate modern consumer products while state establishments are providing co-exist: private firms necessities and raw materials. Joint-ventures between the two sectors are actively promoted.

In the short to medium term, public sector dominance in heavy industry, certain agricultural fields, such as staple crops, petrochemicals and utilities is set to persist. A serious rationalisation of inefficient plants is hindered by fears of growing unemployment and the desire to maintain the provision of basic goods at subsidised prices. Privatisation has so far been ruled out and it remains unlikely that private buyers could be found outside the utilities, petrochemical and cotton sectors.

3.7 *The Private Sector*

Private sector contribution to G.D.P. varies considerably between different areas of the economy. In agriculture, small private farmers have traditionally dominated cultivation and control 62% of all land holdings. Trade, transport and smaller construction projects are also controlled by private firms. In manufacturing, heavy industries such as basic metals and chemicals are predominantly found in the public sector but most light manufacturing is run by private businessmen. Overall, private firms are estimated to account for 62% of total manufacturing output.

Since the end of the 1980's, Syria's private sector has benefited from a range of liberalisation measures.

In foreign trade, companies were permitted to retain hard currency earned from sales abroad, and to use it for the import of raw materials and certain other products. Up to 100% of hard currency earnings can now be retained, depending on the type of export made.

Changes in the foreign exchange regime encouraged firms to utilise official channels, stimulated exports and promoted the repatriation of funds held abroad.

The list of permissible private sector imports has been expanded and now includes goods such as rice, sugar and tea that were previously the exclusive domain of state trading agencies.

A new investment law has promoted private enterprise in all fields of the economy and private sector reaction has been positive.



As a result, the sector has expanded its role in the local economy and by the end of 1994, accounted for 62% of total imports and 65% of non-oil exports. Of a total work force of 3.5m, around 2.8m are reckoned to work in private firms.

3.8 Investment Law No 10

Investment Law No 10, passed in May 1991, is the most visible sign of the government's turn towards the private sector. Investors under the law are granted wide-ranging tax holidays, exemptions from import restrictions and are permitted to import capital duty free. Profits can be Repatriated on an annual basis and capital re-transferred after five years. For details of the legal provisions, consult INVESTMENT LEGISLATION below.

By the beginning of 1995, a total of 1,200 projects had been approved under the law, with a total capital of S£216.5bn (around US\$5.3bn).

Most projects are capital-intensive by Syrian standards, with a total average workforce of 69 per project, or a capital investment of US\$61,900 per worker. More labour-intensive production is found in textiles and non-metallic industry, where the average workforce per project is 150 and 141 respectively.

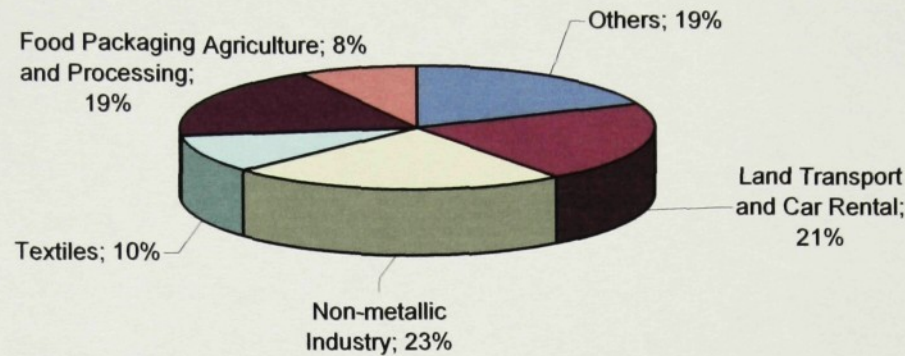
Imports tend to constitute a large proportion of capital invested. In total, over 56% of pledged capital, or S£123.3bn (around US\$2.93), has been designated for imported machinery, equipment or raw materials. Car rental and land transport companies are particularly import-dependent, with over 77% of capital spent on foreign transport equipment.

Official implementation figures for projects approved under the law are not available, but local observers estimate that only around 40% of projects approved have actually been carried out since 1991. Under the law, licenses are cancelled if investors fail to initiate serious steps towards setting up a project within one year of obtaining approval.

Around 76% of all funds pledged come from outside Syria. Direct Western investment remains limited to a handful of projects in the light manufacturing Sector. Arab investments have been more forthcoming and are often carried out in conjunction with a local partner. The vast majority of foreign funds consist of repatriations by local residents or investments by expatriate Syrians.



Investments Approved Under Law 10 (Capital)



Picture 3

3.9 Currency

An inconvertible currency remains one of the major obstacles in the path to a more market-oriented economy. At the moment, Syria maintains a multiple fixed exchange rate system that is pegged to the dollar. All official rates, including an Official and a Promotional rate, overvalue the Syrian pound to varying degrees.

Since the late 1980's, efforts have been made to establish a more realistic exchange rate for the Syrian pound. The official exchange rate was devalued in 1988 from S£3.925: US\$ to S£11.2: US\$.

With the introduction of a so-called "Neighbouring Countries' Rate" (NCR) in 1990, the government for the first time offered an official rate close to the free market rate. Its value has since settled at about 80% of the latter.

Over the last four years, several transactions that were previously carried out at the Official, or one of the other inflated exchange rates, have been transferred to the NCR. In the space of the next two years, the government is hoping to thus gradually unify all rates.



3.10 Agriculture

3.10.1 Overview

Agriculture continues to be an important pillar of Syria's economy: in 2002, the sector accounted for 27 % of G.D.P. and employed around 35% of the country's labour force. Large segments of local industry are dependent on agricultural raw materials and especially in regional trade, exports of agricultural produce have traditionally played an important role.

In terms of output, Syria's main crops are wheat, barley, cotton, legumes, citrus fruit and sugar beet. The production of fruit and vegetables has gained in importance in recent years, and tobacco is used in cigarette production for the local market. Cotton is Syria's main cash crop.

Most agricultural activity is in the hands of small private farmers who are estimated to control around 62% of all land holdings. Around 37% are cultivated by farmers grouped in co-operatives, with small areas of state-controlled land accounting for the rest. Large mixed-sector agro-industrial enterprises were first established in 1987, but the few companies that have been formed so far do not currently account for a significant proportion of either land-holdings or output.

Animal exports, such as sheep and poultry, are an important component of Syria's agricultural trade, particularly with the Gulf countries Land Use.

Less than half of Syria's land area is suitable for agricultural production and large regions especially in the East of the country, are arid and cannot be used for agricultural purposes. In the South, rocky terrain has traditionally posed great obstacles to modern farming. With the help of foreign finance, a rock-clearing programme has been under-way for a number of years and is expected to increase the land areas available for cultivation.

The United Nation's Food and Agricultural Organisation estimates the current size of cultivable areas to be around 5.95m hectares of which a total of 5.5m ha are actually under regular cultivation.

3.10.2 Rainfall and Irrigation

Due to an uneven geographical distribution of rainfall, the quality of agricultural land varies considerably between different regions. Syria's prime agricultural land is its 200 km coastline on the Mediterranean Sea where average annual rainfall of over 600 mm allows agricultural activity without irrigation. Other fertile areas include the mountainous northern region and the narrow zone of medium-dry land stretching from Suwayda in the South through Damascus up to Aleppo. In the



Euphrates area to the North-East, large areas are used for the cultivation of barley and other cereals.

With the exception of the coastal strip and irrigated areas, large parts of Syria are heavily reliant on seasonally changing rainfall. As a result, harvests have traditionally been erratic.

In recent years, considerable efforts have been put into expanding irrigation throughout the country, and between 1988 and 1994, the size of cultivated areas under irrigation is estimated to have grown by over 80%. While these efforts are set to continue in coming years, around 79% of agricultural land currently remain dependent on rainfall.

3.10.3 Government Role

From 1987 onwards, the government has been gradually removing its traditionally strong control over the agricultural production process. Farmers were permitted to import a wide range of agricultural and transport machinery, chemicals and seeds. Subsidies on basic Inputs were cut and the pricing and marketing of many crops was largely left to market forces. Only in the field of staple crops does the state maintain a monopoly on setting prices and marketing produce. Even here, farmers are regularly permitted to sell a proportion of their. Harvest on the free market. Industrial crops like sugar beet and tobacco remain tightly controlled.

3.10.4 Output

In the last three years, Syria has experienced a series of outstanding harvests in most areas of agriculture. Output of cereals and cotton in particular has reached record heights, and fruit and vegetable production has increased substantially.

Due to a greater use of greenhouses, the import of which has been encouraged by the government, local farmers have been able to extend the natural seasons and to diversify output. Artificial fertilisers are becoming an ever more important ingredient of local farming.

High output has put great pressures on agricultural infrastructure. Due to the large volumes involved, wheat storage and milling has been a particular problem. While several new silos have been constructed and part of the harvest been sent to Lebanon for milling, inadequate local facilities continue to undermine the benefits of good harvests. To address the problem, the government has allowed farmers to sell parts of their production on the free market. Similar constraints have slowed down the ginning of the cotton harvest which reached record levels in 1992-3.

While good cereal and cotton harvests have largely been the result of positive weather conditions, the surge in fruit and vegetable output in general, and citrus fruit in particular, is a direct



outcome of market liberalisation. In view of current excess production, considerable export potential exists.

3.11 Foreign trade

3.11.1 Overview

Since the end of the 1980's, Syria's foreign trade has experienced a marked expansion, fundamental changes in its composition and a reorientation towards new trading partners. Starting from a low base, exports more than doubled between 1988 and 1991. Due to large oil exports, they have since remained at high levels. Non-oil exports have, however, plummeted.

Imports have been rising steadily over the last seven years and as a result, Syria's trade balance has been in deficit since 1993,

3.11.2 Imports

After years of decline in the early to mid-1980, imports began to rise from 1987 onwards, primarily as a result of more relaxed hard currency restrictions. In the 1990's, the growth in imports accelerated as Investment Law No 10 encouraged the private sector to import machinery and equipment needed for investment projects. By 1994, the sector accounted for 62% of total imports, compared to only 30% in 1988.

In the public sector, a record number of tenders have been issued since 1991. These have focused on imported heavy industrial goods in the electricity and oil sectors, but smaller machinery and equipment have also been imported in an effort to upgrade state industry.

Reflecting Syria's industrial expansion, imports since 1990 have been dominated by machinery and other capital equipment. In 1993, for instance, machinery, metal products and transport equipment alone accounted for over 45% of total imports. Other major imports include oil products, cars, certain fabrics and foodstuffs such as sugar.

3.11.3 Exports

While imports have grown steadily, exports have experienced a more bumpy ride in recent years: between 1989 and 1991, sales of Syrian goods abroad soared as local producers made use of a clearing account established for the repayment of Syria's military debt to the USSR.

Many of the products exported were either repackaged imports or inferior quality local goods, such as certain textiles and consumer products. When the account was, in effect, closed in



1991, the unsustainable nature of these sales became apparent and exports of textiles and other industrial goods fell by 80%. Economic change elsewhere in Eastern Europe aggravated the problems facing Syrian exporters. In a free market, Syrian products experienced difficulties competing with firms from other developing nations for price, and Western firms for quality.

While industry suffered, exports of agricultural goods remained unaffected and, indeed, benefited from liberalisation measures implemented at the end of the.

1980's: exports of fruit and vegetables, for instance, jumped five fold between 1988-92.

Since 1988, a more serious deterioration of overall export levels has been prevented. a large rise in crude oil exports which have increased nearly four-fold from US\$0.59bn to US\$2.1bn in 1994. With a current share of nearly 60% of total Syrian exports, they have become the country's most important source of foreign income and explain why in 1993, the public sector accounted for 73% of all Syrian sales abroad.

Since the loss of its Eastern European markets, local industry has struggled to adapt products to suit Western markets. Packaging and design in particular were in need of major adaptation and for many local firms, transition has not been easy. Increased non-oil exports in 1994 do, however, indicate that quality is improving and that firms are gradually finding new trading partners abroad, particularly in Europe.

After a few years of readjustment, local exports appear to be recovering slowly. The private sector in particular is beginning to realise the role played by quality, price and marketing in sales success abroad. Packaging and bottling have improved greatly, and many producers are importing raw materials to reach Western standards of production. Where designs were previously imitated, producers are attempting to find indigenous solutions.

While large segments of local industry remain unprepared for the pressures of international competition, the number of companies successfully selling outside the country is growing. As before, producers of textile or food products are most likely to find markets abroad.

Currently, Syria is not a member of the GAIT. Pressures to open the domestic market are therefore limited and over the last five years, local industry has relied heavily on protection offered by high tariffs, customs duties and import restrictions. Whilst trade levels in general would benefit greatly from membership in such organisations, and tentative discussions about joining them have begun, Syria remains wary of the threat an entry could pose to domestic industry.

Many fear that a further lifting of import restrictions combined with reduced customs duties could



precipitate an onslaught of foreign competition, which would undermine the stability of Syria's industrial base. Despite calls to join, Syria is therefore unlikely to apply for full membership of the GATT in the short term unless a number of protective guarantees can be agreed upon.

3.12 MANUFACTURING

3.12.1 Overview

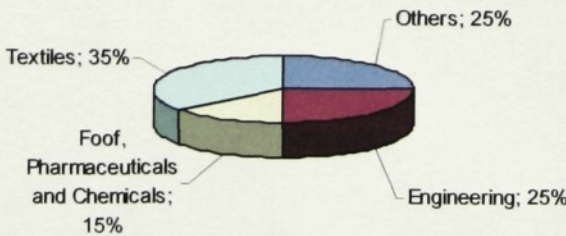
Syria's industrial base is relatively diversified and concentrated in traditional areas such as textiles, food processing, chemicals and basic machinery. While the country's private sector has historically been oriented towards light manufacturing, heavy industry, and capital intensive production are predominantly found in the public sector. With the advent of liberalisation, this previously clear distinction between the two sectors is, however, being gradually eroded as private business enters areas previously reserved for the state.

Production is focused on the conversion of locally available raw materials and the manufacture of more advanced technology products, such as microwaves, televisions and refrigerators, remains restricted to final-stage assembly. A number of modern products, such as cars and computers, are not currently produced in the country.

Most local firms are small. Local chambers of commerce and industry estimate that in 1994 only around 30,000 factories employed in excess of ten people and few plants in Syria have more than 200 employees. Many of the largest plants are found in the textile sector. In total, the labour force in manufacturing is estimated to be around 500,000.

Syrian industry is predominantly focused on the domestic market where tariffs offer local firms protection from international competition. Efforts to find markets abroad have intensified in recent years, but have not always been successful.

Breakdown of Syrian Industry



Picture 4



3.12.2 Government Policy

Over the last four years, the government has pursued a two-pronged approach to the manufacturing sector. While Investment Law No 10 has provided private business with a range of investment incentives, the public sector is being modernised and gradually restructured. Foreign aid has been instrumental in the latter process.

3.12.3 Foreign Involvement

Until now, the position of Western firms towards Syria's industrial sector has been one of caution. Whilst many have been willing to sign franchise agreements requiring little capital commitment, direct investment projects by international companies remain rare. Firms are conscious of restrictive currency rules and unsure of market developments. A handful of firms including Switzerland's Nestle and the UK's Glaxo, have, however, recently committed capital to local joint-venture projects.

3.12.4 Private Sector

In the 1990's, Syrian private manufacturing has emerged as one of the most dynamic sectors of the economy. It has entered new industries, improved existing products and attempted to adjust to a more liberalised environment.

A range of goods that were previously imported through official or unofficial channels are now produced.

In Syria. These include toiletries, certain processed foods and pharmaceuticals. Traditional goods such as textiles have witnessed marked improvements in terms of both quality and design.

Developments in the pharmaceutical sector illustrate the advances made over the last three years. While only around 30% of domestic consumption were made locally in 1989, this figure had risen to 70% by 1994.

Across Syrian industry, co-operation with Western firms has been instrumental in providing local producers with the necessary expertise, marketing advice and brand labels to establish themselves in the market. In a number of Important areas, such as the production of chemicals and packaging materials like aluminium cans, glasses, boxes and tubes, local private sector output is currently insufficient to supply the domestic market. Imports therefore continue to account for a large proportion of raw materials used in local production.



3.12.5 Public Sector

Syria's public sector accounts for around 40% of manufacturing output, but its position is increasingly being threatened by private sector firms.

Since the beginning of the decade, the sector has recovered from problems experienced in the late 1980's, including a lack of raw materials and other imported inputs. While the improved hard currency situation of the government has been important in this development, greater co-operation with Syria's private firms has also been fundamental. Increasingly, local private sector plants are using state establishments for the supply of basic raw materials, including cement, steel and pipes. Payment for the majority of such transactions is now made in hard currency.

Joint-ventures between the two sectors have also become more common. Particularly in areas traditionally controlled by state industry, the government has been eager to promote such links. Examples include projects in the cement and basic metal sectors.

As administered prices have proved one of the fundamental constraints in the country's public sector, pricing methods have been the particular focus of government attention in recent years. Although efforts have been made to equate prices to actual production costs, social considerations continue to set limits to reforms.

Changes in pricing policy have gone hand in hand with attempts to devolve decision-making processes onto individual firms. Law No 20 of 1994 was in a series of steps to increase managerial freedom. Whilst it is too early to judge the extent of its effects, gains in efficiency are unlikely to be dramatic.

In terms of labour force, traditional state sector problems such as overstaffing, responsibility flight and lack of motivation continue to undermine efficiency. Local observers estimate that current production could be maintained with as little as 55% of the present labour force. Due to fears of large-scale unemployment, a serious rationalisation of state industry is not expected in the near future and privatisation has largely been ruled out.

In the short-term, it appears that Syria's state industry will continue to play a dual role. In consumer goods and necessities, it has become a provider of inferior, but cheaper, products for Syria's lower income groups. For local industry, it remains the only supplier of certain raw materials, although its position will be increasingly marginalised by new private sector projects.



3.13 OIL AND GAS

3.13.1 Overview

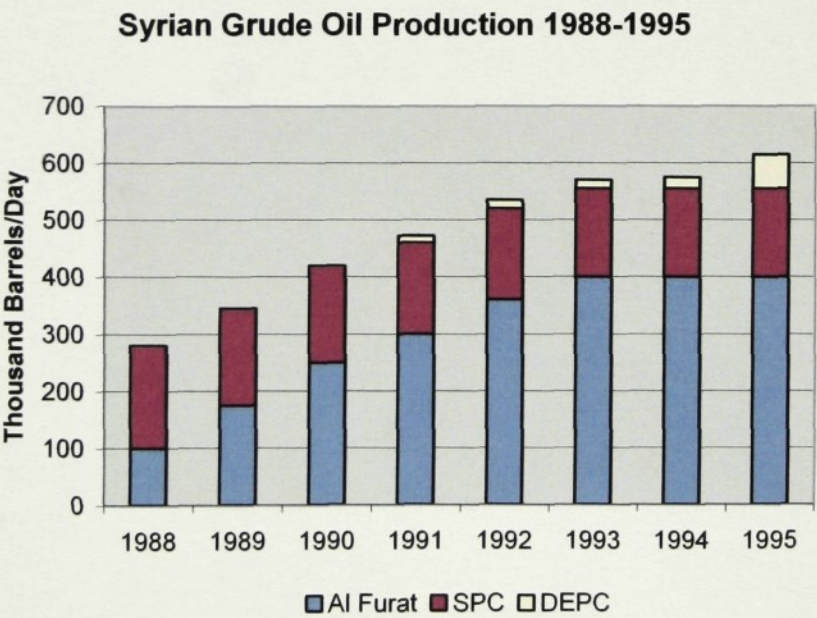
It was not until the discovery of large light crude fields in the mid-1980's that oil began to play a major role in the Syrian economy. Since then, output has expanded rapidly, and now stands at around 600,000 barrels per day (b/day). Exports of US\$2.06bn in 1994 accounted for almost 59% of Syria's total exports and underline the importance of the industry for the local economy.

3.13.2 Structure

The oil industry in Syria is co-ordinated by a number of public establishments. Overall responsibility for oil exploration and production lies with the state-owned Syrian Petroleum Company (SPC). The company operates both independently, and in joint-ventures with Western oil firms. Mahruqat, the Syrian Company for Storage and Distribution of Petroleum Products controls domestic marketing and distribution. The Syrian Company for Oil Transport, Scot, is responsible for domestic transportation. Sytrol controls the sale of Syrian oil in the international oil market.

3.13.3 Development

Oil was first discovered in the 1950's by a German firm working in partnership with Syria's newly established state oil company. A number of political and economic.



Picture 5



factors did, however, restrict development of the industry throughout the following decade. Although SPC continued exploration, production levels remained negligible. This changed in the late 1960s when SPC, with assistance from various Eastern European oil firms, began production of heavy crude from fields in the North East. Output from the fields peaked at around 200,000 b/day in 1977 and has flattened at around 150,000 b/day since the mid-1980's.

In 1975, the government once again opened the country to Western oil firms. Of those who responded to the opening, a consortium of Shell, Pecten and

Deminex was by far the most successful: in 1984, it discovered large light crude fields around Deir Ezzor.

The discovery attracted worldwide interest in the Syrian market and by 1990, a total of fourteen firms were exploring for oil, including BP, Tricentrol, Occidental, Repsol and Unocal. Although some made minor discoveries, the majority failed to find commercial quantities of oil. France's Total produced around 3,500 b/day between 1991-2, but abandoned its concession in 1993.

As a result, only the Shell consortium, Elf Aquitaine and an Irish-British-Malaysian consortium operated by Tullow remained active in Syria at the beginning of 1995.

Of these, the Shell consortiums' operations are by far the largest. Al-Furat Petroleum Company (AFPC), the joint-venture production company formed by the Shell consortium and SPC in 1985, currently produces around 400,000 b/day from around 200 wells, accounting for two thirds of Syria's total output. Since its foundation, the joint company has invested over US\$2,5 billion in production facilities and infrastructure.

Following commercial discoveries, Elf Aquitaine formed the Deir Ezzor Petroleum Company (DEPC) with SPC in 1990. Between 1990-4, output remained restricted to around 15-20,000 b/day, as the joint-venture relied on AFPC's processing facilities. Following the completion of DEPC's own central processing unit in late 1994, output jumped to 60,000 b/day.

3.13.4 Oil in Syria

The majority of Syria's oil is produced from wells situated on the Euphrates Graben, running across the Northeastern region of Syria. Around 460,000 b/day of light crude is produced there by AFPC and DEPC. Tullow's concession is in the same region, directly south of AFPC. The remaining 155,000 b/day is heavy crude produced by SPC, predominantly in the northern region of Suwaidiyeh.



3.13.5 Infrastructure

SPC, AFPC and DEPC maintain a network of central processing plants and pipelines which transport oil from the fields to the central "Scotline", a 663 km pipeline which runs across Syria to the ports of Baniyas and Tartous in the West. Output from SPC's Suwaidiyeh fields is transported through the northern "Scotraco Line" to Homs. Around 220,000 b/day of oil is refined at refineries in Homs and Baniyas. Plans to upgrade one or both of the refineries have been on the table for some time, but as yet nothing concrete has emerged.

3.14 Gas

While gas has not until now been of major importance, efforts to develop Syria's considerable reserves, particularly in the central areas of the country, have been under way for a number of years. independent observers currently estimate reserves to be around 220bn cu metres.

Associated gas is predominantly found in the Suwaidiyeh and Omar fields operated by SPC and AI Furat respectively. Reserves are set at nearly 37bn cu metres, with current output estimated to be averaging 6.4m cu metres/day. Cap gas reserves are put at 60.3b cu metres, and are found in areas operated by Elf and spc.

Recoverable reserves of non-associated gas are put at 128bn cu metres. Over 96.5bn cu metres of these are situated in the central fields of the Palmyra region, operated by spc. With the completion of new infrastructure, expected in late 1995, output from these fields is predicted to reach around 5.8m cu metres/day.

For the last five years, the US Company Marathon Petroleum has been sitting on reserves, estimated at 31bn cu metres, in the AI Shaer and Sharifeh areas west of Palmyra. Due to contractual problems, however, production from the wells had not begun by early 2003.

Since the beginning of the decade, the government has aimed to make greater use of existing output. To preserve oil for export, power stations in particular are being converted to run on gas. All stations constructed since 1991 have been gas powered or combined-cycle. Plans exist for a national central supply grid.

Government policy is for gas to supply a third of domestic energy by the turn of the century and investments in gas production are therefore set to continue and even accelerate.



4 How to do Business

4.1 Banking

4.1.1 Currency Overview

The local currency is the Syrian pound (S£). Banks notes exist in denominations of 5£500, 100, 50, 25, 10 and 5. S£1000 and S£200

The pound has not been freely convertible with other international currencies since the early 1980's. Since then, the government has maintained a multiple fixed exchange rate system that pegs the Syrian pound to the dollar. The state-owned Commercial Bank of Syria (CBS) maintains a monopoly on the conversion of foreign currency.

For outsiders, the official exchange rate system can be bewildering as four different rates are currently in use. These range from the Official Rate of S£11.2:US\$ to a "Neighbouring Countries' Rate" (NCR) of S£42:US\$. All of these rates overvalue the Syrian pound, which over the last few years has been hovering at around S£50:US\$ in the free "offshore" market. As over 90% of local transactions are now carried out at the NCR, the majority of ex. change rates are, however, of no great practical importance to foreign businessmen.

Cash conversions at the CBS or in Syria's five star hotels are made at the NCR. In Beirut and Amman, banks will convert dollars at the higher "offshore" rate.

Unofficial conversions inside Syria remain outlawed under Decree 24 of 1986.

Re-conversions of local currency are difficult for outsiders, and if at all possible, can only be made with amounts officially changed at the CBS. In Lebanon and Jordan, re-conversion is considerably easier, albeit at extremely uncompetitive rates.

4.1.2 Development

Syria's multiple exchange rates, including the "offshore" . rate, have remained broadly stable over the last few years.

Since the early 1990's, an increasing number of transactions previously calculated at other official rates have been switched to the more realistic NCR. In effect, the government is therefore gradually devaluing the Syrian pound.

Through such gradual steps, the administration is hoping to avoid exchange rate instability



once all rates are unified. Observers expect exchange rate unification at the NCR to be completed soon..

The general trend towards the NCR was confirmed as recently as January 1995, when the rate used as the basis of calculating certain government accounts, including most fees and taxes, was moved from the Official Rate to the NCR. In 1994,

4.1.3 Hard Currency

Legislative Decree No 24 of 1986 and its amendments prohibit the exchange of hard currency by private individuals or companies. Contravention of Decree No 24 remains punishable by up to 25 years in prison, although prosecutions under the law have been less frequent in the last four years.

Syrian private sector exporters are allowed to retain a proportion of export earnings in hard currency accounts at the CBS. The percentage of export receipts retainable depends on the type of export made: for most goods, it is currently set at 75%, but 100% of agricultural export receipts can be retained. The remainder must be changed into local currency at the NCR. Public sector establishments are permitted to retain 100% of all export proceeds.

Under Decree 2184 of 1990, export proceeds held in hard currency can be used to buy certain imports, or be sold to other private importers through the CBS at the NCR. In practice, export proceeds not used for imports are sold in the grey export dollar market. Here, importers whose export revenues are not sufficient to cover required imports have traditionally paid between \$56-59:US\$ for other firms' hard currency export earnings.

4.1.4 Loans

Syrian firms operating under Investment Law No 10 are allowed to take out hard currency loans from foreign banks. These foreign funds must be paid into a hard currency account at the CBS and be used to buy imports for the purposes of the project.



4.2 Banking

4.2.1 Accounts

Resident and non-resident Syrians, as well as foreigners, are permitted to open hard currency accounts with the Commercial Bank of Syria (CBS).

Hard currency can be credited to the account on a cash basis, or be transferred from abroad. Evidence of the source of foreign currency is generally no longer required and minimum conversions are not enforced. Local currency accounts are restricted to residents.

From hard currency accounts, depositors are allowed to re-transfer funds abroad, sell currency to a local bank at the "Neighbouring Countries' Rate", or use funds to buy certain imports,

Diplomatic and United Nations missions and their staff are required to exchange 50% of funds credited to a CBS hard currency account into local currency at the Official Rate, The remaining 50% _ be retained in hard currency or changed into Syrian pounds at the NCR

4.2.2 Interest Rates

Interest rates depend on the type of account held and the legal nature of the company holding it In general, public sector establishments are granted preferential rates.

Deposit rates on local currency accounts range from 4% p.a. on a current account to 8% p.a. on deposits held in excess of 12 months. Government investment bonds offer an annual interest rate of 9%. Interest payments on current accounts are subject to 7.5% tax and bank charges.

In view of inflation of around 18%, all interest rates are negative in real terms. For hard currency deposits, the CBS offers interest rates corresponding to the London Inter Bank Offered Rate.

Lending rates on local currency loans vary between 4% p.a. and 11% p.a., depending on the type of company taking out the loan, and the industry it is involved in. Over 70% of all loans by local banks are allocated to the public sector. Hard currency loans are not available to local private sector firms.

4.2.3 Credit Cards

A number of international credit and debit cards are accepted in Syria. At the moment, the use of such cards is restricted to a small number of hotels, shops, airlines and tourist establishments, most of which deal mainly with foreign clients.



The cards most widely accepted are American Express, Diners' Club, Visa and Master card. All of these are offered through foreign financial institutions and their use among Syrians is restricted to those with offshore accounts. Local banks do not currently issue their own credit or debit cards, but plans for such a step have been under evaluation for some time.

As payments made through credit cards are converted at the NCR, they are comparatively expensive. Due to complicated procedures, businesses are generally reluctant to accept cards except for larger payments.

Because of hard currency restrictions, the local representatives of card companies are currently unable to offer cheque encashment or cash dispensing facilities in hard or local currency.

4.3 Foreign Trade Regulations

4.3.1 Overview

Local demand for imports has grown considerably in recent years and across the economy, major opportunities exist for foreign suppliers. The expanding oil industry continues to require advanced foreign products and services, private industrial firms are looking for modern machinery and in both sectors of the economy, demand for high technology equipment is on the rise.

In terms of exports, developments have been less rapid. As local firms are upgrading equipment and adjusting products, Syrian goods are, however, set to improve their position in the international market. Particularly agricultural produce, processed or raw, and textiles are likely to attract increasing attention from buyers in Europe, the Gulf and elsewhere.

4.3.2 Imports

Sales to Syria continue to be complicated by a number of formal and informal trade barriers.

These include a complex, tightly controlled and constantly changing import licensing system that can be confusing to outsiders. High local tariffs on many modern consumer goods render foreign products expensive and the inadequate local financial system results in unnecessary administrative burdens and, frequently, delays. In sales transactions with the public sector, procedures are cumbersome, creative and likely to take time.

For Western firms, the absence of export guarantees by most major national insurance bodies raises the costs of selling to the Syrian market. While trade finance is available from private banks, these tend to perceive Syria as a high-risk country, and premiums are consequently high.



Sanctions imposed both by the West and Syria itself, including the Arab Boycott of Israel and US restrictions on the sale of certain advanced dual-use technology, further complicate matters for the foreign supplier. Delays can occur from both the Syrian and foreign side.

4.3.3 Exports

Exports have been widely liberalised since the end of the 1980's. Very few regulations currently exist and with the exception of "strategic goods" like oil, gas and phosphates that remain reserved for state firms, the local private sector is largely free to sell abroad.

4.3.4 US Sanctions

The existence of sanctions continues to stifle the expansion of Syria's trade with the United States, US trade sanctions fall into two categories:

- Restrictions on the export of all military goods and certain "dual use" items
- The "dual use" category covers a wide range of sophisticated commercial goods, including telecommunications, aviation and computer equipment. In cases where such equipment is intended for civilian use, the Export Administration Act requires an Individual Validity License (IVL), which can take weeks to be issued by the US Department of Commerce,
- Restrictions on exports to particular end-users
- The US government maintains a blanket restriction on the sale of US goods to the Syrian military, To enforce this, the US Department of Commerce requires end-user certificates which can cause further delays in delivery

4.3.5 EU Sanctions

The EU arms embargo against Syria was lifted in November 1994, The embargo had previously restricted the sale of sophisticated military equipment to the Syrian armed forces, Restraint is still being exercised in sales.

4.3.6 Syrian Sanctions

Syria continues to support the Arab boycott of Israel on all levels involved. The sanctions prohibit countries and companies to do the following:

- To enter into direct economic relations with Israel or Israeli companies



- To conduct business with black listed companies, i.e. foreign companies suspected to have commercial or financial relations with Israel
- To conduct business with foreign companies co-operating with black listed firms.

Whereas boycott compliance by the private sector has traditionally been weak, Syria's public sector continues to require confirmation that goods do not originate in Israel. To avoid the import of goods from Israel, goods also have to be imported directly from their country of origin.

Syrian adherence to the boycott poses a number of problems for US firms in particular which have found it difficult to issue the required certificates without violating US anti-boycott legislation. This is contained in the Export Administration Amendments of 1977 and the Export Administration Regulations.

With the progress of the peace negotiations, the importance of boycotts is set to decrease.

4.4 Contracts And Contractual Disputes

4.4.1 Overview

Contractual disputes between foreign and Syrian companies have been a feature of local business life for a number of years. Although unusual local practices are frequently cited as the cause of problems, fundamentally different perceptions of contracts and contractual obligations tend to be at the heart of most disputes. A surprisingly large number of foreign companies appear to display a certain lack of preparation for the intricacies of Syrian law and enter into agreements unaware of their own legal obligations.

Because of the larger sums involved, the majority of disputes have occurred between foreign suppliers and public sector establishments. Problems do, however, also sometimes occur in agreements with private firms.

According to local sources, the main areas of conflicts tend to be the following

- Bid and performance bonds, as well as delay penalties
- Non-payment of contracts or parts thereof
- The extent of the foreign suppliers' liability and the duration of guarantees offered by him
- Claims for consequential damage



- Re-export of equipment used for the purposes of a service or construction contract
- Clearance certificates from the tax and social security authorities
- Application, non-enforcement and the extent of arbitration clauses
- Restrictive local labour legislation
- Currency

4.4.2 Contractual Text

In all transactions with foreign firms, local companies tend to pay utmost attention to the contractual text. While this is partially the result of bad experiences made with Western suppliers in the past, it can also lead to cumbersome rigidity, particularly in construction projects.

Deviations from the contract, however insubstantial they might seem, can lead to non-payment even if the goods or services concerned are in no way substantially affected.

In the public sector, contractual stipulations must be completed according to laws and regulations which the executing party may not be aware of.

Changing technical specifications in foreign suppliers' products have been a frequent source of problems. Especially in lengthy public sector tenders for high-technology equipment, this can cause considerable inconvenience. Cases where offers to supply updated equipment without price increases have been refused are not uncommon, and once again based on unfortunate experiences of the past.

Descriptions of packaging and means of transport have been among the other major sources of discontent. Even minor changes in these should not be made unilaterally and must be agreed to by the Syrian side.

In the public sector, a certain desire to avoid accepting personal responsibility is an additional factor leading to rigidity.

4.4.3 Payment

While payment has occasionally posed problems in the past, the payments records of both sectors of the economy have improved considerably in recent years.

In the public sector, this is both the result of a realisation of the negative effects of non-payment and the nature of finance now used. Since 1991, most large infrastructure projects have



been paid for by foreign. mainly Arab, project finance where hard currency transfers are made directly from the donor country or agency to the contractor. No problems are known to have occurred with this method of payment.

In the private sector, problems are generally avoided by insisting on payment in advance or irrevocable letters of credit until a stable relationship has been established between the foreign supplier and local company. For details, consult EXPORTS TO THE PRIVATE SECTOR

Where disputes occur, they can lead to long delays in payment for a contract. The Syrian side is likely

4.4.4 Bid and Performance Bonds

In the eyes of many foreign suppliers, bid and performance bonds are one of the true sticking points in business with Syria. As elsewhere, disputes here are partially due to local procedures, but in most cases, close adherence to Syrian regulations, ideally backed up by a competent local representative, can lead to a speedy release of outstanding guarantees. Problems relating to the subject are discussed at greater length in the PUBLIC SECTOR TENDERS section.

4.4.5 Labour Law

Syrian labour legislation is a potential source of conflict if local staff is employed by the foreign company during its to withhold payment for the whole project, even if only certain aspects or stages are affected by the dispute. Suggestions for part-payment are generally refused and especially smaller suppliers should be aware of the considerable costs that can be incurred by the need to extend foreign bank guarantees for the project. activities in Syria. Confer LABOUR LAW for an overview of the legal provisions

4.5 *Taxation*

4.5.1 Overview

The principal forms of taxation in Syria are:

- Corporate Income Tax
- Personal Income Tax
- Tax on Income from Real Estate
- Tax on Income from Moveable Capital Assets



Additional taxes and surtaxes include the following:

- War Effort Tax
- Stamp Duty
- Property Registration Tax. Local Administration Tax
- Local Administration Tax
- Sales Tax

Syria maintains a territorial tax system in which taxes are generally levied on profits realised on Syrian soil. While foreign companies merely exporting to Syria are generally not subject to local taxes, firms with operations that go beyond straight trade may find themselves subject to some from of local taxation.

4.5.2 Legal Basis

Legislative Decree No 85 of 1949, as amended, contains the core of the Syrian tax law. Most common tax questions and other issues are treated at great length in letters and directives subsequently issued by the Ministry of Finance.

Against the background of Syria's increasingly complex involvement with foreign . companies, not all situations that foreign businesses might find themselves in are, however, always sufficiently explained. Often, there are simply no precedents, and much is left to the discretion of the tax authorities.

Not only as a result of this, taxation has traditionally been among the major sources of problems between the local authorities and foreign companies

Accounting Procedures

Shareholding and limited liability companies are required to prepare the following:

- A company balance sheet
- A profit and loss account
- An inventory of the company's assets and liabilities
- An annual report on the company's activities



In the case of shareholding companies, a financial statement must be submitted to the firms' auditors and the Ministry of Supply and Interior Trade at least thirty days before the annual general meeting is due to be held. Shareholding companies with a nominal capital in excess of S£.500,000 must publish financial details in at least two daily newspapers.

No special accounting practices are detailed in the tax law. In general, accounts should clearly indicate profits realised from a company's Syrian operations. Accounting books and financial statements must be kept in Arabic and stamped by the court. Unified accounting procedures are issued for all public and mixed sector companies.

4.5.3 Requirements

An independent auditor, licensed by the Ministry of Supply and Interior Trade, must be appointed by all Syrian shareholding and limited liability companies.

Since 1992, certain other firms are also required to have their financial statements audited by a Syrian certified accountant:

- Syrian companies affiliated to foreign firms
- Syrian firms with foreign affiliates
- Agencies representing foreign firms
- Wholesalers who import the majority of goods sold by them
- Companies with capital exceeding S£.1, 000, 000

4.5.4 Accounting Principles

No special accounting principles have been issued by the tax authority and in general, international accounting standards are accepted in Syria. The Syrian Association of Certified Accountants has issued ten basic accounting principles which are based on international standards.



4.6 Corporate income tax

4.6.1 Overview

Corporate income tax is payable on net profits of self-employed individuals and corporate entities arising from sources or activities in Syria. The tax is levied on a company's or individual's total income from all industrial, commercial and non-commercial activities, as well as income from those sources not covered by taxation on moveable capital assets, wages and salaries and the lump sum tax levied on the deemed profits of small businesses.

Taxable income therefore includes income from the sale of fixed assets, rental income (except from real estate) and agency profits. As shareholding companies' net profits are taxed before distribution, no corporate income tax is payable on dividends or on interest accruing from bank deposits.

4.6.2 Legal Basis

The legal basis for corporate taxation is the Income Tax Law contained in Legislative Decree No 85 of 1949, as amended. Rates were last adjusted in Legislative Decree No 20 of 1991. Despite regular alteration, the law remains vague, and much is left to the discretion of the appropriate tax authority.

4.6.3 Tax Rates

Corporate tax rates currently range from 10% to 45%. Flat rates are charged on certain types of companies:

- Industrial shareholding companies (32%)
- Other shareholding companies (40%)
- Limited liability companies (42%)

Confer OVERVIEW - THE SYRIAN TAXATION SYSTEM for details. Tax rates are subject to a War Effort Tax as well as a Local Administration Tax. Both are calculated as a percentage of the corporate tax to be paid. War Effort Tax is currently set at 30% of the total corporate income tax. The level of Local Administration Tax depends on the location of the company:

- Damascus City (5%)



- Damascus Suburbs (7%) .
- All other areas (10%)

4.6.4 Fiscal Year

Corporate income tax is chargeable on net profits derived in the previous financial year. In general, the Syrian financial year begins on January 1st and ends on December 31st. This can be altered by Ministerial Decree in cases where the nature of the company's operations requires it. Public sector companies rarely deviate from the official financial year,

4.6.5 Exemptions

- The following entities are exempted from corporate income tax:
- Industrial establishments for a period of three years from the date of their establishment
- Private hospitals licensed by the Ministry of Health
- Private educational institutions
- Companies engaged in air or sea transport
- International class hotels for a period of seven years
- Deluxe and first class hotels, as well as deluxe restaurants and other gastronomic establishments for a period of five years
- Agricultural companies engaged in the sale of products grown or bred on their own land
- Various types of agricultural and consumer co-operatives
- Reserves taken out of profits by industrial establishments intended for an enlargement of their operations. Such amounts should not exceed 10% of annual profits after deduction of general expenses and before the deduction of any other reserve amount. They should also be invested within two years as from the date of their being taken into the reserve. Amounts not spent within this period are taken as profits for the ongoing year and are subject to income tax.



4.6.6 Assessment

Unless the Tax authority rejects a company's tax return, the tax assessment will be based on the figures provided by the company.

Where the authority disagrees with a firm's assessment, it will make provisional adjustments as it sees fit. The company is then notified of the alterations, and the basis on which the new tax charge has been calculated. The authority's assessment remains provisional for a period of thirty days, during which the company has a right to appeal.

4.6.7 Penalties

Penalties are imposed on firms that fail to submit tax returns, financial statements or make accounting books available.

Companies are sent notification of the legal position by the authorities. If a firm fails to comply within ten days, the tax department will make its own assessment based on a minimum level of twice the highest profit level of the company over the previous five years. In addition, the authorities will impose a penalty of 20% of the tax charge. Firms can have the penalty reduced to 10% if they submit the required documents within a further ten days. If this submission is accepted, an annual interest of 10% is charged.

Strict penalties are imposed at this stage if the tax department rejects the submission. In this case, profits are judged arbitrarily and a large additional penalty is imposed.

Fines of between S£5,000 and S£50,000 and prison sentences can be imposed on parties found to be in contravention of the law.

4.7 *Personal Income Tax*

4.7.1 Overview

Like corporate tax, personal income tax is territorial. It therefore considers all income generated from services or employment rendered in Syria taxable, whether the person taxed is officially resident in Syria or not.

4.7.2 Taxable Income

In the calculation of gross taxable income, all salaries, wages, allowances, bonuses, gratuities and other benefits in cash or kind are taken into consideration. Taxable income therefore includes overtime compensation, food and housing allowances, as well as other fringe benefits.



Benefits provided on the premises of the employer, such as food and health-care, are, however, not considered taxable.

4.7.3 Exemptions

Diplomats and non-diplomatic foreign staff of embassies and consulates, as well as servants in private houses and members of the Syrian army and police are exempted from personal income tax.

4.7.4 Deductibles

All transport and other expenses incurred in the course of carrying out one's employment are generally deductible. Insurance premiums deducted by the employer are excluded from taxable income.

4.7.5 Exempt Amounts

The first S£100 of the taxpayer's monthly salary are exempt from taxation. Further minor exemptions are made for children beyond a family's second child.

4.7.6 Rates

Personal income tax rates range from 5% to 12.5%. The tax payment is subject to a 15% War Effort Surtax.

4.7.7 Foreign Currency

Income received in foreign currency is converted at the "Neighbouring Countries' Rate" of S£42:US\$.

4.7.8 Payment

Personal income tax is deducted from an employee's monthly gross taxable income by the employer. Payment to the tax authority is due every six months, i.e. in the case of a normal January to December fiscal year, by July 15th and January 15th.

Employers have to submit tax declarations on payment of their employees' income tax. From the latter, no documentation or payment is required.



4.8 Labour Law

4.8.1 Overview

Syrian labour legislation is highly protective and regulations are strictly enforced. Violations can subject companies to binding, long-term employment contracts that are difficult to terminate. All foreign companies wishing to employ local personnel are required to seek the approval of the Ministry of the Interior. Companies are strongly recommended to obtain legal advice before entering into any formal or informal employment agreements.

4.8.2 Wage Regulation

A minimum wage system is administered by the Ministry of Labour and Social Affairs. Applicable minimum wages depend on the type of work, the employee's qualifications and the position to be taken by him.

Dramatic wage rises by Presidential Decree are not uncommon. In spring of 1994, for instance, wages in both the public and private sectors were raised by 30%. Representatives of the Labour Board regularly inspect the execution of these and other provisions of the labour law.

Maximum wages are also set by the state, but foreign companies point to extensive fringe benefit packages, covering transport, food and other expenses, as a way to provide attractive working conditions for local staff.

4.8.3 Working Hours

Official working hours are a maximum of forty-eight per week or eight hours per day. Overtime is payable at 125% of basic pay during day-time, 150% at night, and 200% during holidays.

4.8.4 Indemnities

Employees are entitled to end-of-service indemnities. Payments are borne by the Social Security Establishment for larger companies and by the employer in firms with less than five employees. Indemnities amount to half a month's pay for each year during the first five years of employment, and a full month's pay for each year thereafter.

4.8.5 Temporary Employment

Temporary employment contracts can be concluded for all types of work by both local and foreign companies. The agreement's temporary nature is, however, only legally enforceable if-a



written contract clearly outlining both the type of work to be carried out and the termination date of the agreement is signed before the employee renders any services to the employer. For the first three months of the agreement, the employer is permitted to dismiss the employee without prior notice. Thereafter, a minimum of one month's notice is required before dismissal.

Renewals or extensions, whether formal or informal, render temporary contracts permanent and subject employers to the full provisions of the labour law

Construction companies in particular frequently rely on contracts that are "temporary due to the nature of the work carried out". In this type of temporary contract, employees are regarded as staff until a specific project is completed.

As a number of foreign companies have encountered problems with the labour law, many now chose to rely on local companies to provide temporary labour.

Although the foreign firm remains technically bound by the provisions of the law, local partners are often able to find alternative employment for temporary staff and can thus avoid potential legal complications.

The standard contract for service of a duration specified by its nature generally contains the following provisions:

- A reference to the project's limited nature, including an agreement that the employment contract expires on the completion of the project, or part of the project, for which the employee was hired.
- The employer is permitted to terminate the agreement prematurely at any time, particularly upon stoppage of the work. The employee waves any right to dispute such a dismissal.
- The first three months of the contract are considered a probation period, in accordance with the labour law.
- The temporary employment described in the contract may not be converted into permanent, employment, no matter how many times it is extended or renewed
- The employee shall not benefit from the family allowances mentioned in the labour law.



- Each party shall bear the taxes, duties and other financial obligations chargeable to it.
- Contracts are to be drawn up in two original copies signed and respectively retained by each party.

4.8.6 Permanent Employment

Permanent employment contracts are inflexible and can be terminated in only a small number of clearly defined circumstances, including bankruptcy, theft or long-term illness. In most other cases, employers are subject to payments of up to 80% of basic pay until the employee reaches the retirement age, currently set at 65.

4.8.7 Trade Unions

Although around 40% of Syria's labour force are officially estimated to belong to trade unions, the practical significance of unions is rather limited, even in large factories. Unlike elsewhere, unions do not play a major role in wage negotiations, choosing to concentrate on matters of health and safety. Syrian unions currently operate three hospitals and twenty five health centres.



5 The economic Development

Syria is a middle-income, developing country with a diversified economy based on agriculture, industry, and energy. During the 1960s, citing its state socialist ideology, the government nationalized most major enterprises and adopted economic policies designed to address regional and class disparities. This legacy of state intervention and price, trade, and foreign exchange controls still hampers economic growth, although the government has begun to revisit many of these policies, especially vis-à-vis the financial sector and the country's trade regime. Despite a number of significant reforms and ambitious development projects of the early 1990s, as well as more modest reform efforts currently underway, Syria's economy still is slowed by large numbers of poorly performing public sector firms, low investment levels, and relatively low industrial and agricultural productivity.

Despite the mitigation of the severe drought that plagued the region in the late 1990s and the recovery of energy export revenues, Syria's economy faces serious challenges. With almost 60% of its population under the age of 20, unemployment higher than the current estimated range of 20%-25% is a real possibility unless sustained and strong economic growth takes off. Oil production has leveled off, but recent agreements allowing increased foreign investment in the petroleum sector may boost production in two to three years.

Taken as a whole, Syrian economic reform thus far has been incremental and gradual, with privatization not even on the distant horizon. The government, however, has begun to address structural deficiencies in the economy such as the lack of a modern financial sector through changes to the legal and regulatory environment. In 2001, Syria legalized private banking and in 2003 licensed three private banks. One or more of these banks may begin operating in 2004, as may a nascent stock market. Beyond the financial sector, the Syrian Government has enacted major changes to rental laws, and is reportedly considering similar changes to the commercial code and to other laws, which impact property rights.

Commerce has always been important to the Syrian economy, which benefited from the country's location along major east-west trade routes. Syrian cities boast both traditional industries such as weaving and dried-fruit packing and modern heavy industry. Given the policies adopted from the 1960s through the late 1980s, Syria failed to join an increasingly interconnected global economy. In late 2001, however, Syria submitted a request to the World Trade Organization to begin the accession process. Syria had been an original contracting party of the former General Agreement on Tariffs and Trade but withdrew in 1951 because of Israel's joining. Major elements



of current Syrian trade rules would have to change in order to be consistent with the WTO. Syria is intent on signing an Association Agreement with the European Union that would entail significant trade liberalization.

The bulk of Syrian imports have been raw materials essential for industry, agriculture, equipment, and machinery. Major exports include crude oil, refined products, raw cotton, clothing, fruits, and grains. Earnings from oil exports are one of the government's most important sources of foreign exchange.

Of Syria's 72,000 square miles, roughly one-third is arable, with 80% of cultivated areas dependent on rainfall for water. In recent years, the agriculture sector has recovered from years of government inattentiveness and drought. Most farms are privately owned, but the government controls important elements of marketing and transportation.

The government has redirected its economic development priorities from industrial expansion into the agricultural sectors in order to achieve food self-sufficiency, enhance export earnings, and stem rural migration. Thanks to sustained capital investment, infrastructure development, subsidies of inputs, and price supports, Syria has gone from a net importer of many agricultural products to an exporter of cotton, fruits, vegetables, and other foodstuffs. One of the prime reasons for this turnaround has been the government's investment in huge irrigation systems in northern and northeastern Syria, part of a plan to increase irrigated farmland by 38% over the next decade.

Syria has produced heavy-grade oil from fields located in the northeast since the late 1960s. In the early 1980s, light-grade, low-sulphur oil was discovered near Dayr az Zawr in eastern Syria. This discovery relieved Syria of the need to import light oil to mix with domestic heavy crude in refineries. Recently, Syrian oil production has been about 530,000 barrels per day. Although its oil reserves are small compared to those of many other Arab states, Syria's petroleum industry accounts for a majority of the country's export income. The government has successfully begun to work with international energy companies to develop Syria's promising natural gas reserves, both for domestic use and export. U.S. energy firm, ConocoPhillips, completed a large natural gas gathering and production facility for Syria in late 2000, and will continue to serve as operator of the plant until December 2005. In 2003, Syria experienced some success in attracting U.S. Petroleum companies, signing an exploration deal with partners Devon Energy and Gulfsands and a seismic survey contract with Veritas.

Ad hoc economic liberalization continues to provide hope to Syria's private sector. In 1990,



the government established an official parallel exchange rate (neighboring country rate) to provide incentives for remittances and exports through official channels. This action improved the supply of basic commodities and contained inflation by removing risk premiums on smuggled commodities.

Over time, the government has increased the number of transactions to which the more favorable neighboring country exchange rate applies. The government also introduced a quasi-rate for noncommercial transactions in 2001 broadly in line with prevailing black market rates. Nonetheless, some government and certain public sector transactions are still conducted at the official rate of 11.2 Syrian pounds to the U.S. dollar or at other rates, and exchange-rate unification remains an elusive goal. Pressure is building for Syria to harmonize its exchange rate system.

Given the poor development of its own capital markets and Syria's lack of access to international money and capital markets, monetary policy remains captive to the need to cover the fiscal deficit. Although in 2003 Syria lowered interests rates for the first time in 22 years, rates remain fixed by law. In a positive move in 2003, Syria canceled an old and troublesome law governing foreign currency exchange; however, new regulations have yet to be implemented. Some basic commodities continue to be heavily subsidized, and social services are provided for nominal charges.

Syria has made progress in easing its heavy foreign debt burden through bilateral rescheduling deals with virtually all of its key creditors in Europe, although debt owed to the former Soviet Union remains an unsolved problem.



6 Conclusion

In Syria, and from the beginning of the new century, the government legislate a new laws to improve economy and at first the standard of living, It's Difficult to evaluate the economic development in Syria, there is a lot of problems around Syria, at first the war on Iraq, then the problems with Israel, and the situation of war and non-war.

It is appears that the Syrian economy is connected by political position in the Middle East, also, the prices of OIL and GAS play a big role in Syrian's economy.

Agriculture continues to be an important pillar of Syria's economy: in 2002, the sector accounted for 27 % of G.D.P. and employed around 35% of the country's labour force, and that mean a lot of risky to the economy, because the agriculture depend on the weather.

Syria now is looking forward to sign an agreement with the EU, and it's expecting that at the beginning of this year (2004)

New Corporate Income and Personal Income Tax already from 2004 existing.

A lot of new laws are now under study, maybe in the near future a decision will be taken to move Syrian economy to the right side.



BIBLIOGRAPHY:

1 -From Internet:

- <http://reference.allrefer.com/country-guide-study/syria/syria53.html>
- <http://www.cia.gov/cia/publications/factbook/geos/sy.html>
- <http://us.politinfo.com/Information/Country Profiles/country profile 125.html>
- <http://www.trade-india.com/exim/country focus/syria22062002.html?type=country>
- http://en.wikipedia.org/wiki/Economy_of_Syria
- <http://www.teshreen.com/news>
- <http://www.thawra.com>
- <http://www.google.com/search/SyrianEconomy>

2 -BOOKS:

- BUTLER, D.: Business Study. Oxford 1998. ISBN 0-19-832743-9
 - University Of Aleppo, Personal Management,
 - SYRIAN STATISTICAL ABSTRACT 2002, Central Bureau of Statistics, 18-1-100-2002
S/T
-