Policies for business in the Mediterranean Countries

The Syrian Arab Republic

Anna Galdo

C.A.I.MED.
Centre for Administrative Innovation in the Euro-Mediterranean Region
c/o Formez - Centro Formazione Studi
Viale Campi Flegrei, 34
80072 Arco Felice (NA)
Italy
Tel +39 081 525 0211
Fax +39 081 525 0312
e-mail gpennella@formez.it
nvolpe@formez.it

CONTENTS

1- The New Reform Trend: towards a market-oriented economy

Despite a number of significant reforms and ambitious development projects begun in the early 1990s and currently underway, Syria's economy is still slowed by large numbers of poorly performing public sector firms, low investment levels, and relatively low industrial and agricultural productivity.
After the 1996 monetary crisis and a sudden shortage in valuable foreign currency, economic growth slowed to 2.6% annually in the second half of the 1990s. Given the rapidly worsening economic situation since 1998 until his death in 2001, then-President Hafez al Assad once again launched a reform process , as he had already done in the 1980's. This trend was accelerated with the appointment of a new cabinet in March 2000 and coincided with the election of a new president in July of the same year.
President Bashar al Assad, made Syria's reform and integration into the world economy a priority for his government. The country embarked on a number of political, economic and administrative reforms ranging from press freedom and reduction of unemployment to creating a climate attractive to private investment. Underlying these reforms is the government's cautious attempts to move from a centralized economy. It introduced a series of far-reaching reforms and appointed several committees to look into other areas for improvement. New measures prioritised the strengthening of the financial sector and improvement of the regulatory environment in which it operates and the government is reportedly considering similar changes to the commercial code and to other laws, which impact on property rights. In 2001, Syria legalized private banking and in 2003 three private banks were licensed. Law No. 10 - issued in 1991 to encourage private investments - was amended to offer new investment incentives by giving generous tax breaks and custom duty concessions, while removing some of the shortcomings of the original legislation.

Taken as a whole, Syrian economic reform thus far has been incremental and gradual, with privatization not even on the distant horizon. The new globalization drive, regional competitions for access to global markets, and internal socio-economic challenges prompted the government to initiate drastic reforms. Given the growing awareness of the economy's structural inadequacies, consensus has also been emerging within Syrian society and the government that the country needs modernizing, although the western-style systems is not considered necessarily appropriate for Syria[1]. It is evident from the first years of this government that the obstacles to economic liberalization are mainly political. Free market reforms could not only undermine the regime's base of support, but could also cause social shocks and

[1]Kathy Lally, For Syria 'a long road' to reforms, May 14, 2004, www.baltimoresun.com.

unrest. The new President nevertheless made it clear that his objectives would be pursued on the basis of change within stability. Thus the pace of reform is foreseen to be slow.

2- The economy by sectors and ownership.

Syria's economy remains largely dependent on agriculture, which (including cotton) accounts for close to 30% of GDP and 25% of the labour force. The industrial sector – including the oil sector - accounts for just over 20% of GDP. The oil sector alone accounts for nearly 45% of total export earnings, and is the largest single contributor to budgetary revenue.

GDP – composition by sectors:	*agriculture:* 25.9% *industry:* 27% *services:* 47.1% (2001 est.)
Industrial sector-	*oil: 13%* *non-oil: 14%*
Public sector	*GDP contribution: 30%* *Labour force: 75%*

Source: EU

One third of non-oil industrial sector activities belong to the public sector and relates to heavy industry, chemicals and basic consumer goods; 85 % of production is generated by small and medium sized enterprises[2]. The service sector accounts for almost 50% of GDP. This high figure is largely due to the inclusion of retail trade of oil products, but also includes transport and communication (including tourism). Government services accounts for just under 10% of the total GDP. More than two thirds of the total labour force is working in the public sector, which only contributes 30% to the GDP. The private sector consists mainly of agriculture (almost entirely private) and some light industry, retail trade, transport and communication. The tourism sector is mixed with both public and private operators. Investment Law no. 10 has provided private businesses with a wide range of incentives that has led to a marked improvement in the quality of existing products and the emergence of new products previously imported. Since then the private industrial sector has begun to play a larger role in the textile, food, leather, paper, chemicals, cement and sugar processing industries, but the highly regulated business environment in terms of access to credit, import and export restrictions, access to hard currency, etc. hampers the necessary growth in this sector.

[2] www.delsyr.cec.eu.int.

2.1 The severe impact of the Iraqi War on GDP growth

Thanks to renewed reform process begun in the last years of Hafez's presidency, Syria was eager to leave the stagnation of the late 1990s behind. In July 2001, Syrian Prime Minister Mustapha Miro expressed an optimistic forecast of GDP growth in excess of 3.6% in 2003, or even in 2002[3]. The Syrian economy was effectively growing, exceeding 2.7% in 2000, reaching 3.6% in 2001 and 4.5% in 2002[4]. The World Bank data diverges considerably, and the European Commission and the International Monetary Found (IMF) expressed different rates as well:

GDP growth (annual %)	2000	2001	2002	2003
CIA World Factbook	2.7	3.6	4.5	0.9 (est.)
IMF		1.8	3.0	1.4
EU	2.5	3.5	2.5	
World Bank		7.2	2.7	

Nevertheless the crackdown of the Second Intifada - which began, in September 2000- and the outbreak of the Second Iraqi War – March 2003-, affected the course of economy and real annual GDP growth levels drove back below 1% in 2003. The latter was estimated to be 0.9% last year; too low, considering that - according to MEDA Country Strategy Paper [5]- a growth rate of 6% per year is required to absorb the 350,000 or more new entrants in the job market and to maintain acceptable living conditions.

Price controls avoided a quite low and stable inflation rate (1.5% in 2003) but at the same time slowed down the economy. In addition, Syria's external debts are huge relative to its GDP and still growing ($21.5 billion estimated in 2003). 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.

Until 2002, the Syrian economy has benefited from a number of positive developments, among those the rise in oil prices, and a rebound in agricultural output after the widespread drought in 1999. Syrian trade with Iraq also flourished in 2001 before the fall of the Saddam regime. These factors will now vanish and it will be difficult to maintain growth rates at the same level.

---

[3] Oxford Business Group, An Exclusive Interview with Mustapha Miro, Syria, January-1 Volume 11 07.01.2002

[4] CIA World Factbook, 2004, www.cia.gov.

[5] Meda-Euro-Med Partnership, Syria Country Strategy Paper 2002-2006, www.europa.eu.int.

3- Agriculture

Syria is primarily an agricultural country. The agriculture sector is a major source of income and labour in Syria; the sector also employs the largest share of the female work force. Only one-third of the country's surface is currently being cultivated (5.5 million hectares on 6 million hectares of land are potentially cultivable), mostly along the coast and on the central plateau; almost 20% of cultivated land is devoid of any irrigation systems. The dominance of rainfed agriculture and limited irrigation capacity to counter dry years, inevitably mean that production is highly vulnerable to climactic variations. Soil exhaustion due to over-use and the lack of fertilizers is also a problem. Furthermore, the huge distances between cities and the countryside lead to serious distribution and transportation problems.

Cotton was the major export crop until the oil boom in the mid-1970s and once accounted for more than half the country's export revenues. Cereal exports, which had been dropping until 1999, have begun to pick up again, along with cotton exports. Wheat and barley are also important crops. Others include olives, tobacco, citrus fruits, vegetables and sugar beet.

3.1- Policies and institutions

The agricultural sector has long been considered strategically important, and operates under a controlled price regime. Private and public ownership have always co-existed in this sector. Land ownership is almost entirely in private hands, but the state plays an important role in resource allocation, marketing, transports and in agricultural credit. Although Government intervention in the cotton and cereal markets remains strong, various measures have been introduced, following the 1998/99 severe drought, to encourage greater private sector involvement, including relaxation of import duties and authorization to import barley and soft wheat[6].

Syria's main rural finance institution is the Cooperative Agricultural Bank, a semi-autonomous institution linked to the Ministry of Economy and Foreign Trade. About 20% of the bank's clients are in rural areas, and many of them access loans through membership of cooperatives, which typically require that they own their land. This tends to exclude women, who represent only about 5% of cooperative members.

Agricultural production has significantly developed during recent years; the policies and procedures adopted by the government and the

---

[6] Special Report: FAO/WFP Crop And Food Supply Assessment Mission to the Syrian Arab Republic, 23 August 1999, available at www.fao.org.

Ministry of Agriculture and Agrarian Reform had greatly encouraged agricultural production and had redirected 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 being 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 north-eastern Syria, part of a plan to increase irrigated farmland by 38% over the next decade[7].
A Department of Forest Research has been newly founded to work towards the development and improvement of forests.

3.2- International cooperation for rural development

Working with the Government of Syria and other partners, the International Found for Agricultural Development (IFAD) has financed six agricultural development projects since 1982. This year it has committed a total of USD 96.7 million in loans and grants to support Syria investments in agriculture and to reduce poverty in rural areas, where more than half of the population lives[8]. One of IFAD’s priorities is to make financial services more available to rural poor people, including access to loans and the possibility to save. Discussions between IFAD and the government have led the Cooperative Agricultural Bank to relax a number of its normal terms and conditions, so that rural poor people may obtain loans even if they have no collateral. IFAD’s development objectives include strengthening the capacity of the Ministry of Agriculture, the Cooperative Agricultural Bank and local institutions so they can deliver and expand services to rural poor people, particularly women.

The Food and Agriculture Organization (FAO) is also active in the country with a vast number of projects. Italy is one of the major donors and partners of FAO’s projects in Syria. Among all, some recent projects, implemented by Italian government, can be mentioned:

- Assistance in Capacity Building through Enhancing Operation of the National Agricultural Policy Centre (NAPC) - October 2004: the project aims at enhancing the capacity of the National Agricultural Policy Centre in agricultural policy research and training, and supporting its

[7] Unit costs for irrigation development have increased considerably in the last two decades; under the latest development plans, between 60 and 70% of public investment in agriculture was allocated to irrigation development, in particular for the construction of the Taqba dam and the establishment of the Assad reservoir. US Department of State, *Bureau of Near Eastern Affairs*, October 2003

[8] IFAD: Syria is an active partner, Syria Times, 4-5-2004, www.teshreen.com

ability to promote the level of awareness in public and private institutions around agricultural development problems and related policy issues.

- Participatory and Integrated Forest Fires Management Plan - February 2007: the project has three main elements: institutional, administrative, and technical development, which includes capacity building and the involvement of local communities in finalizing a specific national plan for forest fire control[9].

An important area of cooperation among Italy, other EU Mediterranean countries and Syria is also foreseeable in olive oil production, with the potential for Syrian production.

4- Industry

Syria's industrial base is fairly diversified; areas such as food, sugar, textiles, chemicals, engineering, and cement and building materials are predominately state-run. However, the private sector has begun to play a larger role in the textile, food, leather, paper, chemicals, cement and sugar processing industries. The processing of natural gas and phosphates, textiles and foodstuff are central to this effort. However the bulk of industrial production still takes place in government controlled companies, which employs 73% of the work force but only contributes 33% to GDP[10]. The public sector is over-staffed; workers are underpaid and corruption widespread as a result. Syria's public factories are obsolete and often inefficient public industrial sector has lost millions of dollars over recent decades with thousands of tons of products stocked in warehouses.

The Syrian industrial sector is facing different challenges related to the developments in the world economy. The framework of its development has been affected to a great extent through the process of globalization of production, emergence of new technologies, trade liberalization and high competition. Therefore, industrial enterprises find themselves in a very disadvantaged situation where their competitive potential is very weak and vulnerable to competition even in their own domestic markets. Syria has accordingly been confronted with a need to formulate a new framework of industrialization[11].

4.1- Does reform mean privatization?

---

[9] GCP/SYR/006/ITA, GCP/SYR/010/ITA, www.fao.org.

[10]Euro-Med Partnership, Syria Country Strategy Paper 2002-2006, www.europa.eu.int.

[11] UNDP Second Country Cooperation Framework for Syria (2002-2006).

A discussion has started on how to modernise this sector on the ground of the economic reforms promised by the new President. In 2001 the Regional Command (RC), the Baath Party's highest policymaking body, ruled out the privatization of the public sector but sought to strengthen successful industries and shut down loss-making companies[12]. Following this direction, the government is seeking economic development by reorganizing public industries and integrating Syria's four economic sectors: public, mixed, private and cooperative[13]. In this respect some sectors will be opened for private competition; instead of privatisation, public companies will be transformed into joint public-private companies; separation of management (to be guided by market-based considerations) and ownership (to remain public), and management with budget autonomy (but without autonomy in labour shedding) will be implemented. The private sector would now also be able to invest in industries that were previously limited to the public sector, such as production and refining of sugar, generation and distribution of electricity, the oil and gas industries and the cement industry. Taxes on industrial production and customs duties could be cut or removed.

Moreover the Syrian government is envisaging a programme which includes the restructuring of the Ministry of Industry and the creation of an Industrial Modernisation Centre to achieve a comprehensive approach in line with the above policy directions. The Ministry of Industry would now oversee the activities of all publicly owned companies.

UNDP had recently implemented the project "Support for the Implementation of the Integrated Programme for Industrial Development Strategy and National Programme for Restructuring and Upgrading", in order to assist the Government of Syria in formulating a National Industrial Restructuring and Upgrading Programme[14].

5- Foreign Trade

Commerce has always been important to the Syrian economy, which benefited from the country's location along major east-west trade routes. Given the policies adopted from the 1960s through the late 1980s, Syria failed to join an increasingly interconnected global economy. However, since the 1990's the opening-up policy adopted by the government within gradual and deliberates steps had contributed to expanding the import base to meet the local needs whether for consumption or to build up new production capabilities. Within

---

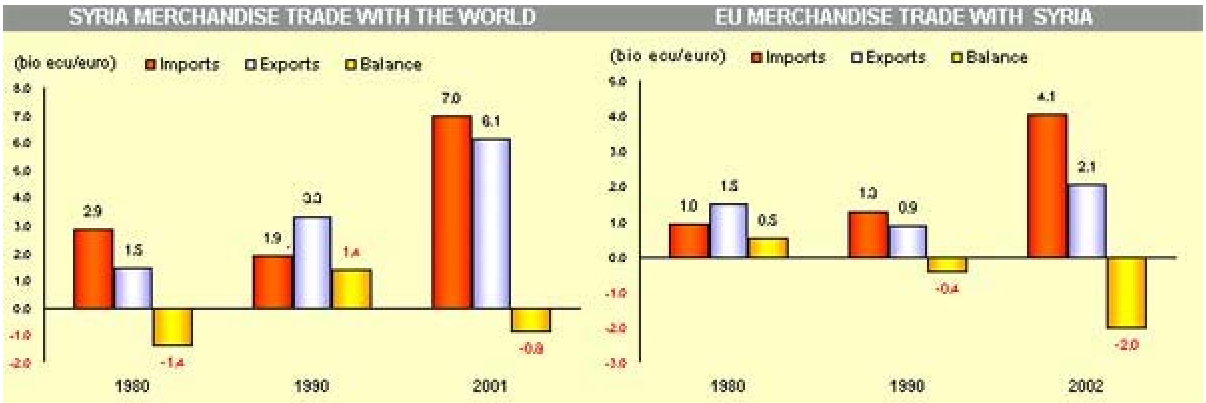
[12] Issam Hamza, Syria adopts measures to reform industrial sector, Reuters 2001, www3.estart.com

[13] An Exclusive Interview with Mustapha Miro, Oxford Business Group, 07.01.2002, www.oxfordbusinessgroup.com

[14] Project n°: SYR/02/006, August, 2002- December, 2003, Total Budget $ 412,950. www.undp.org.

this framework the government is also seeking to unify foreign currencies rates to reflect the real supply and demand operations. Then in the last decade the trade balance scored a surplus in the years 1989, 1990 and 1991 and again in 1999 and in 2000, even this is ascribable mainly to the increase in oil prices. Actually Syria's main exports are petroleum products (67,2%); other major exports are raw cotton, clothing, fruits, and grains. The bulk of Syrian imports have been raw materials essential for industry, agriculture, equipment, and machinery.

The European Union alone accounted for about 58% of Syrian exports and 31% of the total merchandise imports during the period 1994-2000. Arab countries are the second largest in this regard, accounting for about 22% of Syrian exports during the same period. Apart from Algeria, Syria is the only Mediterranean partner with which the EU regularly runs a bilateral trade deficit: in 2002, the trade surplus stood at close to 100%. This is due not so much to the limited EU imports (mainly energy and textiles), as to the comparatively small EU exports to the highly protected Syrian market (in 2002 the EU accounted for 27% of Syrian imports)[15].



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. In late 2001, however, Syria submitted a request to the World Trade Organization (WTO) to begin the accession process. Major elements of current

15 The principal EU exports to Syria are machinery, transport equipment and chemical products. The principal EU imports are energy products, (the EU buys 62% of all Syrian oil products), textiles and clothing, and agricultural products. Syrian cotton yarn exports to the EU increased tenfold from 1 % in 1997 to over 10% of total EU cotton yarn imports in 2000. As a result of this dramatic increase, the EU introduced a surveillance regime in 2001 (REG. (CE) N. 956/2001). The surveillance regime has been prolonged until May 2004.

Syrian trade rules would have to change in order to be consistent with the WTO.

5.1- Institutions and civil society

The Ministry of Economy and Foreign Trade was created by Legislative Decree No. 82 of 30.06.1947 - clarified and better defined through decree No. 2804, issued on 17.12.1969 – . It takes part in the drawing out of the state's economic policy and prepares legislation relevant to foreign trade and to the granting of necessary permits and licenses; it concludes trade and economic cooperation agreements with foreign states; draws out the country's monetary and banking policies as well as overseeing the banking system, the system of the insurance establishment as well as foreign trade establishments. The Ministry of Economy accomplishes the afore-said tasks in addition to various other tasks connected through a number of directorates and offices which form in their combination the backbone of the central administration, to which is linked a vast network of directorates existing in the 14 governorates, besides a number of establishments, general organizations and banks affiliated with the Ministry but having their financial and administrative independence supported by their own by-laws[16]. The present Minister Ghassan Al Rifai, had worked almost 30 years for the World Bank previously.

The Higher Council for Investment is a ten-man body[17] which meets at least once every two month to approve investment applications and property transfers. The Federation of the Syrian Chamber of Commerce was founded in Damascus in 1975, comprising 14 Chambers of Commerce and Industry in Syria. The Federation is a supervising authority for commercial, economic and trade activities and has relevant arbitration tasks. In recent times it has increasingly been requested to offer its views and proposals on laws and regulations.

5.2- Foreign trade regulation

Import policy in Syria is tightly regulated, based on minimizing the importation of commodities whose alternatives are available locally. Import operations are subject to prior licenses granted after the commercial registration in the Syrian chambers of commerce or industry; most of the imports are financed by the exports revenues. Luxury commodities for

[16] www.syrecon.com.

[17] Headed by the Prime Minister, it also includes the Deputy Prime Ministers for Economic Affairs and Social Services, the Ministers of Economy, Agriculture, Transportation, Supply, Industry, Planning, Finance, as well as the Director of Investment Bureau.

importation are rationalized and, when imported, are subject to higher customs dues.
The customs dollar rate is estimated at S.P 11.20, except luxury items which are estimated at S.P 22 per dollar. However there is a new trend by the government to unify the rate of the Dollar according to the neighbouring countries rate of S.P 43 per one Dollar, to be applied gradually.

On the other hand export policy in Syria is based on encouraging and supporting whatever exportable of local products and commodities since export licenses are needed only for certain materials. However all the export operations are subject to an undertaking by the exporter at the Commercial Bank of Syria to return the hard currencies generated. Exporters should also fill in a declaration to be presented to the general customs administration along with the documents which show the Syrian origin of goods. Export revenues can be endorsed in favour of other importers to finance imports.[18]

Recently export strategy has been prepared, and a tariff rebate regime has been introduced for the benefits of exporters of textiles and foodstuffs. In July 2001, a decree abolished taxes on agricultural and industrial export products (except on oil products and phosphates). In the latter months of 2002, several trade reform measures were introduced involving reducing restrictions on imports: tariffs on imported raw materials were reduced to 1%, and the ban on car importation removed. The new facilities, together with the ones still existing (Free Trade Zones) will contribute to intensify trade and to fill the shortage in foreign currency.

6- Free Trade Zones

The General Establishment of Free Zones was created in 1971[19] with the function of management and investment of the free zones, putting forward proposals for the creation, or for the cancellation of free zones and organizing their activities in harmony with national economy and international trade exchanges promotion.

The Free Trade Zones (FZ) have a status similar to a foreign territory as far as the laws of foreign trade exchange and customs barriers are concerned[20].

[18] The Commercial Bank of Syria buys the hard currencies generated from export operations on the basis of the rates of neighbouring countries. At present, it equals S.P 43 per Dollars. Exporters can maintain in whole the hard currencies generated from certain commodities like fruit, vegetables, animal products and others. Other commodities allow the exporter to maintain 75% of the export revenues in his favour and the remaining 25% to be sold at the neighbouring countries rates to the Commercial Bank of Syria. www.tawakkol.com .

[19] Legislative Decree No.18 of 1971. The regulations governing its investment were ratified by Decree No.84 of 1972. www.syrecon.com

[20] Yet, all laws and regulations governing security, public morals, public health, combatting smuggling are applied to those zones.

Goods and commodities are admitted into free zones quite freely, exempted from customs duties and taxes[21] and free from restrictions and economic regulations that are valid inside the country. But once such goods are to enter Syria, then all the laws and regulations in force in Syria are applicable[22]. There are many advantages in investing in Free Trade Zones, such the exemption of all kinds of taxes and duties, freedom of transforming the invested capital and the ensuing profits outside Syria and vice – versa, freedom of providing all materials, machines and equipment needed for the FZ projects from outside and to assign enterprises for another investor, or for a new prospective tenant, whenever wanted.
The bank licensed to operate within the free zone offers all the banking services to the depositors and investors in these zones, in particular it accepts deposits and opens the current accounts with foreign currencies, granting all kinds of loans and advances of long, short and medium terms with personal or non-monetary guarantees that exist only inside the free zone. It operates in accordance with the basis and rules of banking secrecy in force in the Syrian country.

7- New Investment Regulation: Law No. 7 of 2000.

Attempts during the 1990's to stimulate private sector development were half-hearted. Law no. 10 of 1991 brought some tax breaks for investments - above 10 million SP (about 0.25 million euro) - but in the absence of a more conducive economic and administrative environment, these failed to create a sustained improvement in performance. But since 2000, a certain change in the intellectual climate has taken place and it is now recognized that economic growth largely has to come from the private sector. A more concerted and forceful attempt to develop this sector seems evident, though an overall strategy is still lacking. The new Syrian cabinet issued a successive number of new laws, codes, and regulations aiming to push forward the much needed modernization and reform process in Syria. Of all these new statutes, the one which had a major impact was Presidential Decree no. 7 of 2000, amended to Law No. 10, bearing relevant changes, first of all giving permission for Arab

[21] The only levied fees are: tenancy fee (which is very low), deposit fee, re-export fee (specified at a small percentage of the value of goods manufactured, or stored or deposited in the free zones), fees against services (in return for services it provides at the request of the investor or depositor, such as crane charges, weigh-bridge charges, water, electricity, telephone, fees on documents requested, fees for administrative services, etc.).
[22] Syrian Free Zones are: Damascus Free Zone, Adra Free Zones, Aleppo Free Zones, Lattakia Free Zone, and Free Zones in the Ports and Airports (Damascus; Tartous; Lattakia). In addition many Free Trade Agreement were signed with Arab States (Jordan, Egypt, Lybia, Iraq, etc.).

and foreign investors to rent and buy real estate intended to be used as the site of the investment project.

The Law protects all investment projects from expropriation, nationalisation, and constraining orders, unless warranted by judicial ruling; moreover foreign investors can now repatriate capital five years after their initial investment, according to the market value of the investment at the time of capital liquidation. In order to promote private investments, Law No 7 determines larger tax exemptions:

1) exemption from all after profit taxes for all activities related to naval transport and freight, and allowance for the extension of the tax exemption period if the preparatory construction works exceeds three years;
2) The Higher Council of Investment has been given discretionary authority to grant additional income tax exemptions to a project if it is deemed to be of "special importance" or is located in a less-developed area, and in particular:
   - when the total exported products produced by the project exceed 50% of the total production volume;
   - for projects of particularly high strategic, economic, technical, or environmental importance;
   - for projects operating in the three remote counties in Syria: Al Raqua, Al Hassakeh, and Deir el-Zor;
3) exemption from levies imposed on shares released in the market (the so called stamp levy);
4) in addition, corporations in the private or mixed sectors that offer shares to the public are now subject to a flat 25% income tax. This rate includes the war effort tax and the local administration tax.

The amended law provides investors with flexibility in hard currency exchange. It allows holding companies with a minimum 25% of shares owned by the Syrian public (governmental) sector and projects incorporated as limited liability companies or corporations to prepare their company's Articles of Association as required by the nature of the project rather than in accordance with the provisions of the long-outdated 1949 Commercial Law. The new amendments are also extended (except for the tax exemption) to all investment projects existing prior to the implementation of this new law[23].

8- Latest initiatives for private sector development

In the framework of the Municipal Administration Modernisation Programme, local administrations had been given a crucial role in promoting economic development and creating employment, using different techniques such as public/private partnerships, incentive packages to investors and "one-

[23] *Ten Amendments to the Investment Law Number Ten*, www.syria-online.com

stop shop" for building licenses. The Programme was initiated in 2005 with financial aid from the EU and technical assistance from a consortium of EU companies led by WYG International[24].

An other EU initiative in Damascus and Aleppo established the Syrian-European Business Centre (SEBC) in 1996. As a direct result of the financing agreement based on the Barcelona Declaration of 1995, signed between the Syrian Government and the European Union, the SEBC has the overall objective of increasing the competitiveness of the Syrian business sector and its business support institutions, in view of the progressive transition towards a market economy, and to facilitate the successful integration of Syria into the Euro Mediterranean Free Trade Area, by the year 2010. Since the most urgent business skills which Syrian companies must adopt are knowledge of new markets and export development, the Centre provides technical assistance to Syrian enterprises by assisting in the upgrading and development of their performance. SEBC activities focus on these areas and on supporting improvements in the business environment and providing services in the field of institutional development and policy formulation[25].

9- Credit and monetary policy: a fundamental task.

Pressure is increasing for Syria to harmonize its monetary policy; the first point of advice from the World Bank to Syria is to adopt one single exchange rate for the Syrian Pound. In 1990, the government established an official parallel exchange rate (neighbouring 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 favourable neighbouring country exchange rate applies.

In 2001 a quasi-rate for non-commercial transactions - broadly in line with prevailing black market rates was also introduced. Moreover, the Central Bank of Syria can now buy foreign exchange from the public at the real market rate, and in 2003 a new law, replacing the old and troublesome Law No. 24 of 1986, places less severe penalties on violations of exchange control regulations. 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. Given the poor

[24] More specific information on the Programme can be found on the WYG International website: www.wyginternational.com. The consortium also includes two Dutch companies: Arcadis BMB and VNG International.
[25] EUROPEAN COMMISSION, Delegation To The Syrian Arab Republic, EU-Syrian Cooperation Annual Report 2003.

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.

9.1 The liberalization of the banking sector

For four decades the banking sector has consisted of five to six state-owned banks plus the Central Bank of Syria[26], which somehow monitored their liquidity and lending activities, holding a limited role in the monetary policy. The liberalisation of the banking sector through a new law in March 2001 –Law n. 28 on Banks[27],- put end to the state monopoly. The new law followed a decision in 2000 to allow private banks to operate in Syria’s free zones. A banking secrecy law and a new money and credit law were also passed[28]. The new banking law allows Syrian individuals and institutions to establish 100% privately-owned banks. The law also allows Arab and foreign individuals and institutions to set up banks with up to a 49% stake, in association with the Syrian private and public sector. A private bank’s capital should not be less than $30 million, and no single individual may own more than 5% of a banks shares. Finally, banking profits will be subject to a flat tax of 25%.

Thus far, however, the authorities have been slow to process applications for private banks while they ponder the fate of existing public sector banks and work to strengthen the capacity of the Central Bank in supervising the new institutions. In June 2003 three private banks were licensed to work in the country , in a step which is considered the first of its kind, 40 years after the privatization operation in Syria. The Syrian Cabinet approved applications provided to found the housing and finance bank.

The Syrian Real Estate Bank and the French- Lebanese bank announced the launching of Visa card and Master card credit cards, a decision which goes towards economic openness, an objective pursued by the Syrian government. However, economists do not expect the new banks to have an adverse impact on the activity of specialized banks in Syria. They stress that the Syrian specialized banks will continue to play their key role especially in the areas of

---

[26] The banking system in Syria is composed of the Syrian Central Bank and five specialized banks (Commercial Bank Of Syria, Real Estate Bank, Public Loaning Bank, Industrial Bank, Agricultural Bank), all owned by the government, in addition to two finance establishments (the General Establishment for Funding and the Syrian General Establishment for Insurance). The public sector’s loans constitute almost 69% of the total submitted banking loans, while private sector financing constitutes 31 %. The trade sector occupied 70% of the banks specialized investments while the other 30% goes to agriculture and to Real estate loans.

[27] Law No. 28 on Banks (March 2001), regulated by Licensing & Registration Procedures of Banks Established according to Law No. 28, dated 26.9.2001.

[28] Law No. 23 Relevant to the Formation of Credit & Monetary Council , 12/12/2001; Law No. 29 on Confidentiality of the Profession, 18/03/2001.

industrial financing and services. Moreover, specialized Syrian industrial and agricultural banks are involved in financing long-term loans.

9.2 Modernisation of state credit and monetary system

The approval of the private banks coincided with the first meeting held by the Credit and Monetary Council after President Bashar al-Assad decreed to nominate its members. The Council, created through Law No. 23 of 2001[29] has the tasks of drawing up monetary policies and orienting them in accordance with the State's general strategy and the needs of the national economy. These include policies pertinent to the stability of prices and the monetary purchase force, banking savings, exchange rate and organizing monetary and loans institutions in the country. Credit and Monetary Council is presided over by the Governor of the Central Bank of Syria and comprises members from Ministry of Economy and Foreign Trade, Finance, Agriculture and Agrarian Reform and Industry, Head of State Planning Authority and three experts in monetary, credit and banking affairs.

The government considers licensing of the new banks as a process which requires more intensive efforts and measures in accelerating the process of economic reforms, modernizing laws and regulations, and especially improving the performance of the State owned banks so as to cope with changes taking place all over the world in banking activities, services and applications. For the latter reason, for two years the Syrian government has started reforms in State banks with the objective of eliminating burocracy and qualifying cadres. A draft project between Syria and UNDP was signed in March-2004, with the aim of ensuring high level banking expertise and retraining bank staff in Syria. In the same year the Modernisation of the Ministry of Finance Programme, supported by EU will start. The Ministry of Finance requested EU assistance to introduce a new budget classification and a double-entry bookkeeping on an accrual basis and to realize a comprehensive reform of the taxation system[30], including the introduction of Value Added Tax (VAT)[31].

---

[29] Law No. 23 Relevant to the Formation of Credit & Monetary Council, 12 December 2001.

[30] A new Income Tax has already been in force since the beginning of 2004 and a new tax evasion law, including new enforcement powers, has been decreed in 2003. A new customs law has been drafted and is due to enter the Parliamentary process in 2004

[31] EUROPEAN COMMISSION, Delegation To The Syrian Arab Republic, EU-Syrian Cooperation Annual Report 2003.

BIBLIOGRAPHY

ANTOUN SAADEH, What Motivated me to Establish the Syrian Social Nationalist Party, www.ssnp.com.
BENJAMIN BARBER , No country can democratize another by forgetting its own history, Sunday June 29, 2003 Civility Foundation.
CURTIS F. JONES, Governing Syria after Asad, www.unc.edu.
GARY C. GAMBILL, "The Myth of Syria's Old Guard", by Middle East International Bulletin, vol. 6, n. 2/3 2004, wwww.meib.com.
ISSAM HAMZA, Syria adopts measures to reform industrial sector, Reuters 2001, www3.estart.com.
KANAAN AL-AHMAR , The legal impact on American companies of possible economic sanctions on Syria, May 2004.
KATHY LALLY, For Syria, 'a long road' to reforms, May 14, 2004, www.baltimoresun.com.
MOUAFFAQ NYRABIA, Will the need for politics revive party activities in Syria?, May 2004, www.syria-report.com.
NABIL SUKKAR on the need to reform now, The Oxford Business Group, Volume 33, 23.04.2003.
RONALD BRUCE ST JOHN, It's Time to Engage, Not Isolate, Syria, Foreign Policy in Focus, March 12, 2004, www.fpif.org.
SAKINA BOUKHAIMA, - "Recompositions du système de santé", Monde arabe Maghreb Machrek, n° 158, 1997/12, p. 38-46. www.resacoop.org.
SAMIR AITA, Great Business!, www.syria-report.com, May 2004.
STEVEN PLAUT, The Collapsing Syrian Economy, NATIV2000, www.acpr.org.il.
SYRIATIMES, Gas transporting and marketing project countries: agree to establish the ACTMNG and AGC, 24-5-2004, www.teshreen.com.
THE DAILY STAR A digital revolution: Syria enters the information age, International Herald Tribune, July 15, 2002, www.iht.com.
THE DAILY STAR, A digital revolution: Syria enters the information age, (International Herald Tribune), July 15, 2002.
THE OXFORD BUSINESS GROUP SYRIA: New Syrian Assembly Faces Tough Term, Volume 27 , 17.03.2003, www.syria-reports.com.
URBAN AHLIN, RONALD ASMUS, Steven Everts, Jana Hybaskova, Mark Leonard, Michael McFaul, Michael Mertes (IHT), A joint plan to help the Greater Middle East: A trans-Atlantic plan for democracy ,International Herald Tribune, March 15, 2004, www.iht.com.
ZIAD K. ABDELNOUR, The US-Syrian Crisis: Why Diplomacy Failed, Middle East Intelligence Bulletin, Vol.5 n.10, October 2003, www.meib.com

REPORTS and OFFICIAL PAPERS

CBS, Central Bureau of Statistic, Office of the Prime Minister, Statistical Abstract 2004.
CIVILTY PROGRAMME, European Policies For Middle East Reform; Western Strategies For Middle East, www.civilty.org
CIVILTY PROGRAMME, Western Strategies For Middle East, www.civilty.org.

ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA (ESCWA), Responding To Globalization: Skill Formation And Unemployment Reduction Policies, General, E/ESCWA/SDD/2003/5, New York, 11 March 2003.
EURO-MED PARTNERSHIP, SYRIA COUNTRY STRATEGY PAPER 2002-2006, www.europa.eu.int
EUROPEAN COMMISSION, Delegation To The Syrian Arab Republic, EU-Syrian Cooperation Annual Report 2003.
EUROPEAN TRAINING FOUNDATION (ETF), Structure and Mechanisms for Information and Needs Forecast on Training Qualification and Employment. The Observatory Function. Syria March 2002.
FUND FOR INTEGRATED RURAL DEVELOPMENT OF SYRIA (FIRDOS), AN OVERVIEW 2001-2003, www.globalinfo.org.
INTERNATIONAL CRISIS GROUP (ICG), Syria Under Bashar (II): Domestic Policy Challenges, 11 February 2004.
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD), Assessment of rural poverty in Near East and Northern Africa, Rome, February 2003.
NAJWA KASSAB HASSAN, Needs' Assessment of Governance & Public Administration in Syria, Consultative Meeting on Innovation In Public Administration In Euro-Mediterranean Region, 18-20 May 2004.
SPECIAL REPORT: FAO/WFP Crop And Food Supply Assessment Mission To The Syrian Arab Republic, 23 August 1999, available at www.fao.org
SYRIAN ARAB REPUBLIC STATE PLANNING COMMISSION (SPC), National Millennium Development Goals Of The Syrian Arab Republic, June 2003.
THE NATIONAL COMMITTEE FOR POST-BEIJING FOLLOW-UP OF WOMEN'S AFFAIRS, National Strategy For Woman In The Syrian Arab Republic, www.un.org/womenwatch.
UN DEVELOPMENT PROGRAMME (UNDP), Second Country Cooperation Framework For Syria (2002-2006).
UN POPULATION FUND (UNFPA), United Nations Population Fund Proposed Projects And Programmes, 15 August 2001.
WORLD BANK (WB) Jobs, Growth and Governance in the Middle East and North Africa, www.worldbank.com
YOUSSEF COURBAGE, New Demographic Scenarios In The Mediterranean Region, www.ined.fr.