

(Economic Liberalization in the Arab World: The Case of Syria)

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Abstract

Economic reform, Structural adjustment and transformation to the market economy are considered to be focal issues in the Arab countries. This paper explains to us the economic reform in national economies and transformation to the market economy in Arab countries; how this will raise economic growth rates and improve quality standards in the production of commodities and services, and will it lead to scaling back the budget deficit? Consequently will tax burdens imposed on citizens be reduced, will the adverse impact of inflation be overcome? Will this lead to increased savings and consequently to increased investments? Will affording shares to small savers and investors lead to more justice and better economic performance?

The question is: Is it possible to implement the concept of the neo-classical market in Arab countries respectively? Is it possible to implement this concept in the Arab nation as a whole? It is a controversial question. It is worthy to note that the efficiency of the operation of market instruments depends on the nature of this market, its specificities, size and development of its institutions.

We will have Syria's Economic Reforms as a case study.

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Economic reform, Structural adjustment and transformation to the market economy are considered to be focal issues in the Arab World; How this will rise economic growth rates and improve quality standards in the production of commodities and services, and will it lead to scaling back the budget deficit? Consequently will tax burdens imposed on citizens be reduced, will the adverse impact of inflation be overcome? Will this lead to increased savings and consequently to increased investments? Will affording shares to small savers and investors lead to more justice and better economic performance?

First - Market instruments and the possibility of their implementation in Arab countries: ¹

The market philosophy in political economy is based on a number of hypotheses, the most important are:

1 - The presence of an economy based on the private ownership of production means, on specialization and division of work, and on wide ranging exchange of currency commodity.

2 - This economy allows the freedom of ownership, work, production, transformation, movement and exchange by means of its existing institutions, systems, legislation's and laws in force.

3 - It also provides for the freedom of making decisions which enables the possibility and freedom of choice. ²

¹ - Dr. Moustafa El-Abdallah, Transformation to the Market Economy In Arab Countries, development and Socio-Economic Progress, No. 75 January/June 1999, P.74.

4 - In order to complement these assumptions, the concept of the market is based on the principle of a perfect market which implies the domination of the normal condition of the market, namely total competitiveness as a fundamental condition for the efficient performance of its instruments.

(These theoretic, economic and neo-classical hypotheses which were the bases for the structure of the functioning of market instruments indicated in a number of laws interpreting the attitude of the individual producer and consumer, which is the interaction of supply and demand forces for the attainment of balanced prices at the level of commodity and market. It also presented a perspective for social progress based on these partial laws. Moreover, it gave a generalized concept of efficiency in utilizing and employing resources and production elements and in the distribution of production revenues.)³

The neo-classical economic theory deems that the producers, in their quest to achieve the highest possible profit and consumers who seek the highest satisfaction within available capabilities, can achieve optimum utilization of resources and distribution of production revenues among those who contributed to this process. This is called acting covertly in the market economy. Is this correct?

The evaluation of the historic model of capitalist growth in accordance with market instruments indicates two fundamental phenomena:⁴

- 1 - Waste of available resources.
- 2 - Destruction of the environment as a result of unethical utilization.

Both are the natural results of working according to the concept of achieving maximum profit, which is a principal requirement within the market economy.

² - See, Samuelson's "The Basis of Economic Analysis" 1947. And, Mice Economic Theory (1985), by Quant. And Moustafa El-Abdallah alkafry, Political Economy, Damascus University, Damascus 2000.

³ - Dr. Saad Hafez. "Adjustment Policies and Market Instruments" Page 6.

⁴ - Ibid page 17,18.

Moreover, the quest for attaining maximum profit has played and is continuously playing a major role in shaping the art of production in compliance with this law, and not for the protection of the environment, or social requirements and sustainability.

If we accept the validity of the neo-classical market concept and its instruments in the centre countries, and advanced capitalist countries (matters that often require evidence), then to what extent will it be possible to accept and implement the same concept and same instruments in Arab countries? The implementation and acceptance of market instruments in Arab countries are linked to several factors, most important are: ⁵

- 1 - The realistic extent of market conditions.
- 2 - The social and economic framework of this market.
- 3 - Division of international action and organization of international markets.
- 4 - System of managing the national economy.
- 5 - Actual economic and social structure of every Arab country, and all Arab countries together.

The question is: Is it possible to implement the concept of the neo-classical market in Arab countries respectively? Is it possible to implement this concept in the Arab nation as a whole? It is a controversial question. It is worthy to note that the efficiency of the operation of market instruments depends on the nature of this market, its specificities, size and development of its institutions.

Market economy does not imply that management of economic activity or most of it is left to the private sector. In fact, it is an integrated system with economic, social and political dimensions, and presupposes the availability of information, and its rapid and free dissemination, that markets are free and accessible to all. The

⁵ - Dr. Moustafa El-Abdallah, Transformation to the Market Economy In Arab Countries, development and Socio-Economic Progress, No. 75 January/June 1999, P.75.

system should also provide for competitiveness, a factor that does not exist in developing and Arab countries.

Second - Structural Imbalances that obstruct the establishment at the market in Arab countries.

As we have noted that there are general factors for the establishment of the market, we can discern the existence of structural imbalances that could hamper this establishment in terms of the economic context presented in an Arab country or at the level of the Arab nation. These imbalances are foremost as such: ⁶

1 - Local production is not sufficient enough to cover the needs of society specially it we observe the population density in the Arab world as well as distortion of consumption trends due to blindly copying the West.

2 - The dominant impression in the markets of Arab countries takes various forms:

- The public sector monopolizes most products and imports.
- Some private economic institutions monopolize foreign imports agencies particularly food commodities.
- The public and private sectors have respectively divided the monopoly of basic intermediary goods, especially energy sources and agricultural production requirements.
- Foreign trade in Arab countries is linked with market monopolies at the international level. (Grain-petroleum-cotton).

3 - The institutions of the market suffer from immaturity or distortion such as relative weakness in the stock market. Moreover, the currency system is not capable of containing cash flow transactions. The existence of obscure laws governing the activity of the market and sometimes contradictory, particularly

⁶ - Ibid , P.76.

trade and tax laws, organization of banks and prices and even sometimes the form of ownership of production means, in addition to the economic hegemony parallel to certain market elements, the overwhelming increase of parasitical activities at the expense of real activities and investing revenues outside Arab countries (flight of capital).

4 - The release of market instruments was accompanied with the spread of corruption that usually occurs with the existence of economic and financial imbalances, inefficient and weak market institutions due to lack of supervision and regression of the State's role within the activity of the market economy.

5 - Prices in most Arab economies are exposed to distortion owing to the difference between actual and real prices that should have prevailed under the conditions of a natural market. Such as the different prices of industrial products and actual components of actual prices due to protectionism, exaggerated evaluation of the prices of foodstuffs, certain industrial products and energy in the local market at a price lower than its value due to subsidization and the State's monopoly of internal trade. Furthermore, the imbalances of currency rates due to administrative determination (official rate) as well as distorted prices culminating from the centralized decision by the State regarding salaries and interest structure. The major source affecting prices continues to be the interference of the State in fixing prices either through public ownership of certain production means and direct control over them or by means of monopolizing activities such as marketing and distribution, compulsory supplies, labour employment, bank ownership and through employing the tools of currency and financial policies.⁷

Professor Galal Amin indicates that there are two schools of thought in Egypt to interpret the imbalances of the '80s and how to deal with them: the first subscribes

⁷ - Dr. Saad Hafez. Ibid page 7.

to liberal thought and advocates dependence on market forces in the reform and development process. The second tends to support government interference and adhering to a developmental policy that sanctions self-reliance and internal trends. He believes that the interpretation of imbalances and proposed solutions by both schools stem from a ideological position, and that both schools should not be considered. Two factors should be available for a sound economic policy: ⁸

First - (that it should be in harmony with internal and international conditions. For example, liberalization of external trade is a sound policy if undertaken at a time when international economy is at its peak and that there were low flows of foreign investments, along with internal political stability. On the other hand, resort to a high degree of protectionism is sound if a country was faced with recession in international economy, shrinking foreign investments and political disturbance at the internal level.

Second - There should be minimum limit of accommodation between the basic elements of economic policies. He said that the worst policies are those that seek to achieve conflicting objectives simultaneously).

- With respect to restructuring and economic reform we can differentiate between three groups of Arab countries: ⁹

The first group includes Arab oil exporting countries such as Kuwait, Libya, Oman, Qatar, Saudi Arabia and the Emirates. These countries have to face the fluctuations of oil prices. Therefore reform is necessary at two levels:

a) To maintain a policy of diversifying the productive base carried out since the mid '70s and which reduces their great reliance on oil.

⁸ - Ibid.

⁹ - Seminar on Reform and Development in Arab countries. Said El Nagger- Arab Monetary Fund, Abu Dhabi 1987 Page 20-22.

b) To undertake necessary measures to confront the change from one situation where oil revenues reached two hundred billion dollars to one where such revenues dropped to 60 billion dollars.

Due to such a situation, the countries in this group suffer from a tangible deficit in their governmental budgets and in the balance of their current transactions. Therefore they should reduce this deficit in both cases to a tolerable level.

The second group: medium income Arab countries such as Algeria, Egypt, Jordan, Lebanon, Morocco, Syria and Tunisia. These countries are not totally homogenous because they differ from one to the other, in terms of population, oil revenues and per capita income. The number of the population varies from 4 million to more than 50 million. Also the average per capita income ranges from less than 800 dollars annually to more than 1500 dollars annually. Yet these countries have certain specificity's in common that justify their grouping. For they enjoy a relatively diverse productive base and possess advanced financial and economic institutions.

These countries are confronting adverse economic conditions particularly the negative effects of low oil prices and reduced remittances transferred by their nationals working in oil countries. Also problems caused by circumstances prevailing in world economy particularly recession in raw material markets and deteriorated trade exchange conditions. This led to an increase of external debts and the burden of their servicing. It was also accompanied by deficit in government budgets, which caused governments to finance this deficit by borrowing from banks. Consequently, the amount of cash flows increased thus raising inflation rates and exaggerated currency prices. Moreover, the countries of this group suffer from structural imbalances such as distorted prices, low

productivity and capital and inefficient performance of the public sector that dominates a large percentage of economic activity.

The third group comprises low-income Arab countries such as Mauritania, Somalia, Sudan and Yemen. The question of restructuring and reform in these countries is more complex than the preceding group. For they largely depend on one or a certain limited number of commodities and are therefore more susceptible to external debts and the amount of the burden of servicing these debts is not compatible with their economic capabilities. Moreover, the endemic deficits in the government budget, balance of trade, and balance of payment and inflation rates are very high. Also these countries have poor infrastructure and weak financial and economic institutions and a low per capita income.

The number of Arab countries who are convinced of the importance of reform and restructured policies and their sustainability has increased.

(In this context, Algeria joined Arab countries implementing comprehensive reform programs and adopted a reform programs with the assistance of international and Arab institutions. Furthermore, within this framework and for the first time, Algeria rescheduled its external debts.¹⁰

Sudan is also implementing an economic reform program with a view to eliminating the imbalances adversely affecting the Sudanese economy. Other countries continued in their efforts to restructure and reform such as Egypt, Morocco, Tunisia and Jordan who announced the possibility of transferring their currencies for the purposes of current accounts in the balance of payments. Arab Gulf Cooperation Council countries continue to implement policies, which they have adopted for several years in order to adapt to low revenues of oil exports and the possibility of diversifying their sources of income.

¹⁰ - Arab Economic Report 1995, Arab Monetary Fund, Abu Dhabi 1987.

Much of Jordan's recent economic success can be attributed to the implementation of its economic reform and structural adjustment package with the International Monetary Fund (IMF), first signed in April 1989 and subsequently renegotiated in October 1991 for a seven-year period. (The package -- which forms the basis of Jordan's Economic and Social Development Plan for the 1993-1997 period -- aims at restoring economic growth, stabilizing the exchange rate of the dinar, curbing inflation, reducing the debt burden along with the balance of payments deficit. These changes in the macro-economic environment in Jordan were expected in turn to result in better employment opportunities and improved quality of social services for the low-income segments of the population.

Many of these objectives have gradually been achieved. The budget deficit of the Government has been reduced in 1996 to a modest 4.1 percent. The country's long-standing trade deficit has been narrowed significantly: exports grew by 293 percent between 1985 and 1995, while imports increased by only 141 percent. In 1994, Jordan's trade gap narrowed by seven percent; while in 1995 it shrank by another 1.1 percent, as exports skyrocketed by 24.7 percent and imports grew by only 9.8 percent. At the same time, there was a gradual shift away from consumption to savings -- to the point where Jordanians, in 1995, devoted 15 percent of their GDP to savings and investment. To encourage foreign investment, Jordan has passed legislation providing tax incentives, expanded its free-zone system, and streamlined its investment procedures.)¹¹

Third - The International Monetary Fund's (IMF) prescription for restructuring programs and the alternative program.

The globalisation of the economy is a tangible fact. International financial institutions such as the World Bank, IMF, and W T O have launched their reform

¹¹ - U N D P, Advisory note for Jordan, strategy, projects Amman 2001.

policies and transformation to the market economy promoting the role of the private sector, and limiting the public sector and the role of the State in economic activity. (With focus on the financial-monetary aspect considered being the core of the problem, after having witnessed the complex crises of development in developing countries.¹²

Hence, this impulsive trend towards privatisation from outside does not necessarily express a rational requirement. That is, it was not the result of sound evaluation of the public sector's performance and indication of its shortcomings that called for transferring its ownership to the private sector, assuming that the latter is more capable of achieving development.

The issue requires to be studied in depth in order to learn the need for privatisation at the national level in different Arab countries.¹³

According to the IMF, the imbalances in the economies of Arab countries are basically the result of inappropriate economic and social policies because these policies restricted private initiative and narrowed opportunities before the private sector. These policies furthered foreign investment away from national economy, they gave a free hand to the public sector which stepped into incompatible areas, they isolated national economy from international capitalist economy by interfering in fixing prices and wages, raising protectionist measures in favour of domestic industries in the face of foreign competition, spreading the umbrella of social protection over a wide sector of the people by subsidization, social insurance, profit sharing, thus undermining the incentive to work and produce.¹⁴

¹² - Dr. Magid Mosud-"Privatization from a Development Concept in National Reality" Research presented to the seminar on privatization in Qatar 6-7 April 1996.

¹³ - Al Nahj magazine-Socialist Research and Study Centre in the Arab world edition No. 44, 1996 Damascus p274.

¹⁴ - Dr. Ibrahim Essawi, Egyptian Economic Course and Policies of Reform. Research presented to (Reform policies and development in the Arab World) Arab Planning Centre, Kuwait 1982 p226.

Hence the remedy proposed by the IMF by means of reform and restricting programs which aim at liberating the economy, in that it functions according to the free market economy and is structurally incorporated in the international capitalist system. The required task is to modify the overall demand standard in national economy and to reduce it in compliance with the overall supply standard. The more direct objective of the reform programs proposed by the IMF is to improve the situation of the balance of payments. The remedy is a prescription written by the IMF namely, to liberalize, the economy, reduce exchange rates, decrease public expenditures, and sell the public sector to the private sector and end subsidization.

Fourth - Economic reforms in Syrian Arab Republic, (Case study):

The experts have stressed that economic reforms in Syria confirm that the country is moving towards modernization and market economy. “President Bashar Assad’s economic reforms will help Syria attract investment from Syrian expatriates and Arab investors in addition to foreign investments. This will provide new work opportunities,” Amalia Azouri said in a report about Syrian economy published in Beirut on February 2001. “Europeans are interested in investing in Syria. European Investment Bank resumed its activities in Syria last year”. Official records show that more than \$ 47 million have been invested in Syria in 1999. The report revealed that the new laws that have allowed setting up private banks have encouraged investment in the country. ¹⁵

¹⁵ - Amalia Azouri, Chief of economic research in Beirut and Arab Countries Bank, Beirut, Feb. 27 2001 SANA, internet.

Syria's new President Bashar Al-Assad who took office on July 2000 has promised large-scale economic and administrative reforms" .We will encourage the individuals, the national and foreign companies to set up agricultural, industrial and tourist companies in Syria especially after the recent amendment of the investment law to give more incentives to investors." Syria's Minister of economy and foreign trade said that more effort would also be made to encourage and improve the marketing and exports to world markets and to concentrate on the non-oil exports .¹⁶

(Syria's predominantly state economy is on a shaky footing because of Damascus's failure to implement extensive economic reform. The main factor influencing economic policy in the near future is the new president's, Bashar Assad, success or failure in carving out a more solid power-base for himself and his supporters.)¹⁷

Syria has been greatly helped by soaring oil-prices over the last year, and has thus avoided an economic crisis. However, the need for a fundamental reworking of the political economy is imminent, and it is hoped that Syria will undergo structural economic and political reform under its new and reform-minded president. Given the success of President Assad's reforms, most areas in the country's economy have good potential for growth and development.

1 - Gross Domestic Product:

¹⁶ - Economy and Foreign Trade Minister Mohammed Imadi said in a speech at the opening of the Damascus International Trade Fair, August 29, 2000.

¹⁷ - Written by CountryWatch.com. Sources: CountryWire; International Monetary Fund; Economist Intelligence Unit; United States Department of State Country Commercial Guide Fiscal Year 2001: Syria, internet.

Three broad economic sectors contribute to a nation's gross domestic product (GDP): the primary, secondary, and tertiary sectors. The primary sector includes the agricultural and mining industries; the secondary sector includes manufacturing, construction, and public utilities; and the tertiary sector includes transportation and communications, trade, financial services, government, and other services.¹⁸

In terms of GDP, the largest sector in Syria is the services sector, which contributes 49.0 percent of GDP. Furthermore, the services sector and agriculture sector employ respectively 45.7 percent and 26.3 percent of the labor force. The dominant agricultural sector remains underdeveloped and vulnerable, with roughly 80 percent of agricultural land still dependent on rain-fed sources. Although Syria has sufficient water supplies in the aggregate at normal levels of precipitation, the great distance between major water supplies and population centers poses serious distribution problems. The water problem is exacerbated by rapid population growth, industrial expansion, and increased water pollution. Private investment is critical to the modernization of the agricultural, energy, and export sectors.

In terms of key economic indicators, Syria in 1999 had: Gross Domestic Product (GDP) of \$US 39.7 billion (in 1995 \$US), GDP per capita of 2,499 US\$. Real GDP in Syria increased by 8.7 percent between 1995 and 1999, while the population increased by 11percent; over the same period, real GDP per capita decreased from \$2,554 to \$2,499. This was mainly due to an economic recession in 1997 and 1998 caused by low oil-prices.¹⁹

¹⁸ - See, Dr. Moustafa El-Abdallah alkafry, Political Economy, Damascus University, Damascus 2000.

¹⁹ - See, Arab Economic Report 2000, Arab Monetary Fund, Abu Dhabi 2000.

Table No.1 Syria Macroeconomic Activity Real GDP Per Capita

	1995	1996	1997	1998	1999
Real GDP (Millions of 1995\$US)	36,542	37,200	37,635	39,683	39,703
Total Population (Millions-Mid Year Average)	14.310	14.691	15.081	15.481	15.889
Real GDP Per Capita (1995\$US Per Capita)	2,554	2,532	2,496	2,563	2,499

Sources: US CIA World Fact book, IMF World Outlook, US Census Bureau International Data Base, UN Statistical Yearbook, CountryWatch.com Calculations

In terms of global rankings, this placed Syria 68 out of 191 countries in terms of GDP, 55 out of 191 countries in terms of population and 114 out of 191 countries in terms of GDP per capita. International institutional estimates indicate that GDP growth rates have been positive over the past four years. Mainly due to high oil prices, some analysts estimate a 2.5 percent growth for 2000 - 2001. Inflation has continued a downward trend from 15.4 percent in 1994 to a negative .8 percent growth rate in 1998, but went up again to 2.5 percent in 1999. ²⁰

Table No.2 Global Ranking Syria in ESCWA Region 1999

²⁰ - Ibid. Teshreen newspaper, Damascus 17 July 2001, p.12.

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GROSS DOMESTIC PRODUCT (MILLIONS OF 1995\$)			POPULATION (MILLIONS)		GDP PER CAPITA (1995\$)	
Country	Rank	GDP	Rank	Population	Rank	GDP Per Capita
Syria	68	39,703	55	15.889	114	2,499

Sources: US CIA World Fact book, IMF World Outlook, US Census Bureau International Data Base, UN Statistical Yearbook, CountryWatch.com Calculations

Recently, Syria tried to increase and develop its local industry and made remarkable strides, in this respect, at all levels. However, as a country seeking to develop its economy, Syria enjoys large amounts of ores and raw materials. And here is the production of the most important mining and quarrying industries in Syria in 1999:

Table No.3 Syria Main Mining & Quarrying Production 1994-1999

INDUSTRIES	UNIT	1994	1995	1996	1997	1998	1999
Crude petroleum	M3 000	32432	34277	33791	33177	33140	33320
Phosphate	Ton 000	1202	1598	2188	2471	2494	2127
Salt	Ton 000	100	111	72	119	178	104
Natural asphalt	Ton 000	82	108	116	1115	154	114
Sand & gravel	M3 000	23636	20636	21558	16277	18549	28040
Gypsum	Ton 000	304	336	358	330	325	395
Stone	M3 000	982	1358	1156	279	151	153
Marble blocks	Ton	223930	226201	343019	341749	385575	455946
Marble panel & pieces	M2 000	581	633	654	650	612	566

Resource: Statistical Abstract 2000, Central Bureau of Statistics, Damascus 2000 p. 176.

2 - The famous encourage Investment Law No. 10:

In order to encourage expatriate Syrians and other Arabs or Foreign to invest in Syria, the 1991 Investment Law No. 10 offered tax breaks, customs duty

concession and increased freedom of capital movement. Initially the law attracted funding particularly in the tourism and transport sector.²¹

(Out of the desire to direct the surplus of funds towards development and production, and within the framework of making use of all potentials available to the private and joint sectors and encouraging them to build up the economic and development foundation of the country, and in harmony with the attitudes adopted by many countries in the world to create a convenient investment atmosphere that helps attract local and foreign capitals and invest them in channels of production that are bound to yield good and prosperity to the country, the unified law of investment was issued. It aims at encouraging Syrian Arab citizens, both residents and expatriates, and Arab and foreign nationals to invest their funds in development projects in the country, thus contributing to push ahead the economic development march of the country)²²

Benefiting from Investment Law shall be projects of economic and social development that are to be approved by the Council and which are established with local or foreign capital, or both, by natural or juristic persons identified as follows:²³

1. Syrian Arab citizens residing in the Syrian Arab Republic and those who are treated as such.
2. Expatriate Syrian Arab citizens whether they retain their original nationality or have obtained the nationality of the host country.

²¹ - see, Teshreen newspaper, Damascus, 18 July 2001, p 8.

²² - Introduction of Law No. (10) of 4 May 1991, issued in this regard Law No. (10) President of the Republic, Recalling the rules of the Constitution and Approval by the People's Assembly in its session held on 25.4.1991.

²³ - The Implementation of Investment Law No.10/1991.

3. Nationals of Arab and foreign states.
4. Juristic persons who will be licensed by the Council to launch enterprises under the rules of investment law.

Economic and social development projects mentioned in Article 3 of Investment Law shall mean those enterprises, which are created under its rules in the following areas:

1. Agricultural enterprises in both plant and animal production areas and all other activities and works related, connected or complementary thereto such as the construction of greenhouses, refrigerated storage facilities and facilities for the sorting, packing and packaging of fruits and vegetables whether those are the produce of the same enterprise or other enterprises.
2. Enterprises for the processing of agricultural (plant or animal) products.
3. Industrial enterprises that may be created by the private or joint sector.
4. Transport enterprises.
5. Projects that may be approved by the Council in areas other than the above-mentioned.

Foreign investment in Syria in 1999 totalled only 47.6 million dollars; France headed the list of foreign investors with 36.4 percent of the total value, followed by Germany, Britain, the Netherlands and Japan. The projects cover processing industries (32.8 percent), agriculture (27.6 percent), transport (22.7 percent) and construction (16.9 percent). The projects approved by the state investment bureau represented only 17 percent of the total value during the year 1999, and only 0.77 percent of the 6.2 billion dollars of foreign investment in all Arab countries .²⁴

David Wightman, director of the EU-funded Syrian-European Business Centre side: Businessmen are optimistic, but they are really looking forward to seeing an

²⁴ - Syrian State Planning Minister Issam Zaim Arabia OnLine Ltd. September 19, 2000.

acceleration of change in Syria," He cautioned, though, that reforms should not be carried out in a way that upset the country's social structure, for instance by increasing income gaps . We are not calling for a random and quick reform that might affect the social structure in the country... and that is a very important point,".

"Businesses should have the opportunity to react quickly and in this country it is rather difficult because of bureaucracy . It is also difficult for entrepreneurs to get into the market because they can't go to a bank and borrow money, for example. The government tightly controls Syria's banking sector. The Central Bank supports only industrial investment loans to private businesses and there are also tight restrictions on the Syrian pound . Recently the government allowed foreign banks to open branches in the Syria's free trade zone around Damascus to support and service local businesses in a move seen as a prelude to other promised reforms .)²⁵ Syria's economy is open to foreign investment.

3 - The banking reform:

Banks in Syria, which were nationalized when the ruling Arab Socialist Baath Party took power in 1963, are all owned, operated and managed by the government. There has been no law on banking secrecy in the country . "We will take the necessary action to issue a law on the banking secrecy soon and continue to work to improve the investment climate in Syria," The government in Syria would continue its measures to establish the country's first ever-stock market and to continue to facilitate local and foreign private investment "We will continue to

²⁵ - David Wightman, director of the EU-funded Syrian-European Business Centre (SEBC), DAMASCUS (Reuters), August 08, 2000

take more actions to welcome the investors and provide them with the services they require,".²⁶

Syria's primitive, state-owned banking system offers only basic services, is highly ineffective, and offers loans almost exclusively to the public sector. As a part of the government reform plans and as an attempt to increase funding for local companies, foreign banks were for the first time allowed to operate with restricted licenses in limited free zones in April 2000. So far, only three banks—all Lebanese—were issued restricted licenses, which only allows banks to lend money to businesses operating in the free zones. In August 2000, the World Bank was for the first time welcomed by the Syrian government to advice and consult on how to attract investments to the country.

(The banking system was no exception to the severe economic situation in the late 1980s. Political changes after the Second Gulf War, the opening of the peace process in Madrid, and the establishment of the uni-polar World New Order after the collapse of the Soviet Union, all urged the government to embark on economic reform. The argument was that Syria must modernize and develop its economy so that it will be able to compete with Israel whenever peace is achieved in the Middle East. The first time in years that the private sector backed by certain governmental departments started to talk about the need of private banking and a stock market in Syria was in 1991, after late President Hafez al-Assad issued the famous Investment Law No. 10. To many investors, the law included several minor economic measures clearing some bureaucratic complexities and giving more incentives to local and foreign capitals, but that was a part of what they

²⁶ - Economy and Foreign Trade Minister Mohammed Imadi said in a speech at the opening of the Damascus International Trade Fair, August 29, 2000 .

hoped for. They asked for banks with more financial and commercial services, better efficiency, lower commissions, extensive credit capabilities and flexible interest rates. They also wanted financial institutions to finance their projects, especially that international banks refused on many occasions to finance Syrian projects due to the lack of familiarity and distrust of the Syrian regulations. It was clear that the existing state-banks would not be able to meet the needs and expectations of local and foreign capital. The government tolerated the harsh criticism of its banking system, giving a signal that eventually joint venture or private banks would be allowed in the country.) ²⁷

Parliament on March 2001 approved a bill that allows joint venture banks between the government and private sector, ending 40 years of government domination in the banking sector, the official Syrian Arab News Agency reported. According to the bill tabled by the Ministry of Economy, Syrians must own at least 51 percent of shares in the private banks. Foreigners can hold the remainder. State-run banks would continue operating after the law takes effect. ²⁸

President Bashar Assad issued Law 28, Stipulating the permitting of creating private banks in which Syria's banking system, the Syrian Insurance Company and other saving institutions have a share of 25 percent of capital. The law, earlier approved by the Syrian Parliament, stipulates that would be created banks should operate under the supervision, and regulations of the Central Syrian Bank. The law

²⁷ - Abdul-Salam HAYKAL, A Senior political science student at the American University of Beirut. Concept mafhoum.com 2000-2001, Internet.

²⁸ - The Associated Press 29 March 2001 SANA. See, Alsharqalawsat newspaper, London Marsh 2001.

provided that all the banks shares have to be under circulation and owned by Syrian Citizens or Syrian institutions.²⁹

The Central Bank of Syria is to grant the necessary permissions for those interested in establishing the banks within a three-month period after their application for this purpose; the authorization to create the banks is cancelled if they weren't to operate within a year. Would be created private banks could open branches in other Syrian governorates provided the Central Bank of Syria would have agreed.

The banks capital should be no less than 1500 million Syrian Pounds, where the Syrians residing inside Syria would pay in Syrian Pounds while for those outside it would be in foreign currency.

President Assad also issued Law 29 subjugating all Syrian Banks to secrecy opening banking accounts known only for their owners.

President Assad's taken measures and issued decrees have so far motivated and boosted financial transactions, dealings not to mention their huge impact on the ongoing reform and modernization process.³⁰

The Syrian government follows a multi-tier exchange-rate regime, where an official rate of S£11.225:US\$1 is maintained for favored importers; an S£23:US\$1 for customs; and a 'neighboring countries' rate at S£46:US\$1. The black market rate has remained suspiciously close to the "neighboring rate" at an S£46-47:US\$1, and points to intervention. The 'neighboring countries' and the black market rates are expected to stay close to each other. Plans for a governmental

²⁹ - Damascus 16-4- 2001 SANA, by Internet.

³⁰ - Ibid.

exchange company is under way, and the exchange of money within Syria at rates other than the official S£11.225:US\$1 is no longer prohibited.

4 - External debt:

Syria had a foreign debt/GDP ratio of 129 percent in 1999, and is classified by the World Bank as a severely indebted lower-income country. External debt in 1999 was \$22.7 billion, and the paid debt-service ratio 9.4 percent. Foreign debt remains a serious problem for Syria as its heavy debt burden has limited the country's ability to secure fresh credit, particularly from European credit agencies, although Arab countries continue to provide aid.

Through two decades of heavy military spending and expansion of the public sector, Syria accumulated an external debt to the former Soviet Union and East Germany, Iran, and the World Bank among others. Syria manages its debt by indefinite deferment, and it is badly in arrears on payments to the World Bank. Syria has suspended clearinghouse arrangements to draw down debt with its largest creditor, Russia, and is locked in a serious dispute with Russia and Germany, claiming that it does not have to answer for debt acquired during regimes and countries that do no longer exist (Soviet Union and East Germany.) Any programmed multilateral debt rescheduling, which usually depends on a structural adjustment program with the IMF, seems unlikely in the near future. See (Table No.5).

5 - Human resources:

Planning Minister of Syria, noted that the government was preparing a 5-year plan as to develop human resources and technology, find work opportunities, and

as to increase buying power. The minister declared that the plan would also consider the reformation of standing structures and the boosting of capabilities and economic pluralism cooperation and coordination.³¹

The Syrian cabinet endorsed on March 2000 setting up an institution to solve unemployment. 'The General Board for the National Program for Eliminating Unemployment' aims at finding out and financing productive and services activities that assist in finding new job opportunities. It will also detect new domains for work and restructuring economic sector to absorb the new workforce entering the market. Program's activities include several projects mainly in countryside and remote areas. It encourages agricultural and industrial small and medium-sized undertaking in addition to handicrafts and tourism-related projects. The plans take into consideration those projects that find work opportunities for women and young peoples.³²

The largest percentage of Syria's economically active population was employed in the services sector, while the smallest percentage was employed in the finance and real estate sector. For the region³³ as a whole, the largest percentage was estimated to be in the services sector, while the smallest percentage was estimated to be in the finance and real estate sector. Based on these estimates, the sector of Syria's labour force that differed the most from the regional labour force pattern was the unclassified "other" sector. In Syria 6.8 percent of the labour force

³¹ - Planning Minister, Dr. Issam Al-Zayem Damascus, The Syrian Arab News Agency, SANA, 3 - 3 - 2001, Internet. See, National Program for Eliminating Unemployment, Albaath Economic weekly, 10 April 2001 p. 21.

³² - Damascus, The Syrian Arab News Agency, SANA, 1 - 3 - 2001, Internet.

³³ - ESCWA Region that mien: Bahrain, Egypt, Gaza Strip, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, West Bank, and Yemen

was in this category, while in ME the percent in this category was estimated to be 12 percent.

6 - Syrian-EU partnership:

The partnership between the EU and Syria dates back to 1977, with the signature of the Co-operation Agreement. This presented free access to EU markets and for financial assistance to Syria through Financial Protocols. EU commitment to Syrian economic reform was consolidated with the Syrian European Business Centre and the Banking Sector Support initiative, the objective of which was to facilitate the main elements of a favourable economic climate.

According to Syrian State Planning Minister, who leads the Syrian delegation to the EU partnership, the discussion will primarily concentrate on trade relations and economic collaboration, moving on to political concerns tomorrow. He said, "We want these negotiations to succeed and at the same time we are conscious of the extent of the challenges we must face in modernising the economy, ... We will start discussion of major and important issues at this session and we hope to get a positive European response," he said, adding "the partnership with the European Union is a strategic choice decided by Syria with a view to concluding a balanced accord ".³⁴

The national committee, which has been assigned to follow up the negotiations, has, already adopted a strategy for the association and prepared a working paper to be presented to the meeting. "We are entering this round of talks with a positive

³⁴ - Teshreen newspaper, Damascus, 18 July 2001, p. 11.

spirit and great hopes to achieve considerable progress on our efforts to reach a balanced deal,".³⁵

Syria has also accused the EU of agricultural protectionism, aiming to speed up economic reforms without taking into account the social and fiscal consequences. Syria would demand the inclusion of agricultural products in the goods that would be freed as a result of the association deal, and for no limits to be placed upon the removal of customs tariffs to industrial goods, as Europe was seeking.

The head of the EU delegation in Syria, Mark Pierini confirms that agriculture and food production is up for negotiation and will be part of the accord, but in order to benefit, Syria must increase its exports to world level and take steps towards commercialisation. In preparation for the latest round of talks, the EU has published a document to clarify the situation, stating that it was a Syrian decision to reform the economy and that the EU "is not trying to impose any kind of formula on it. Pierini believes these accusations to be misunderstandings, founded on the fact that the negotiations between the EU and Syria are already going ahead, while Syrian efforts at economic reform have only just begun."³⁶

The association accord, under negotiation between Syria and the EU since 1998, will give the EU preferential access to the still-closed Syrian market, leading to the establishment of a free trade zone by 2010.

Economy reformation policy couldn't be realized by aids and the helping projects but in line with Syrian sovereignty and the national institutions.

³⁵ - The Associated Press 29 March 2001 SANA.

³⁶ - The head of the EU delegation in Syria, Mark Pierini, April 23, 2001 Web posted, by Internet.

Syria now has a five-year economic plan, aimed primarily at creating jobs, expected to be approved by parliament soon. The first three years will focus on administrative reforms, and the final two years will be devoted to achieving an acceleration of economic growth. The economy has performed sluggishly since the mid-1990s, although higher oil prices contributed to a growth spurt in 2000 and helped the government to settle arrears on its external debt. Unemployment is put officially at 9.5 per cent, but economists' say the actual rate is probably at least double that figure.

The plan envisages total investment increasing from 18.2 per cent of gross domestic product (GDP) in 2000 to 26 per cent in 2003 and 27 per cent in 2005. The public sector would account for some 69 per cent of the total investment.³⁷ Much of the public sector investment will be in infrastructure, but there will also be a major effort to turn round state-owned enterprises. Syria do not intend to privatise, at least at the moment, but it will make sure that the public sector is market-oriented and profit-making, through changing its organisational structure and altering its relationship with the Finance Ministry.

(We want to move to having an independent, accountable public sector, governed by market prices and with management separated from ownership... We also want to invest in technology so as to make more productive use of the public sector labour force.)³⁸

The reform programme should be broadly based, with an emphasis on increasing levels of investment. (The Washington consensus is not good enough any more... There is no automatic link between liberalisation and growth.)³⁹

³⁷ - Syria,s Planning Minister Issam al-Zaim, conference, Syria: A New Dawn for Business, Trade & Investment, organised by Euromoney in London July 2001. MEED 13 July 2001

³⁸ - Ibid.

³⁹ - Nabil Sukkar, managing director of the Syrian Consulting Bureau, Damascus. He said, in reference to the standard IMF-backed stabilisation and structural adjustment programmes

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Wafic Saaid said (President Assad wants to innovate and sweep away constraints on investment...The scepticism expressed by some business people is understandable, but having heard the president speak several times, I am convinced that he understands that reforms are vital to get the economy moving, and that this needs large-scale private investment.)⁴⁰

Increased public sector investment, alongside continued encouragement to the private sector, will be the key to stimulating economic growth in Syria over the next five years, but Privatisation is not on the agenda.

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**Table No.4 Syria's Output Net Domestic Product In The Industrial Sector
At Factor Cost 1994-1998 Value In M. S. P ‘ At Current Prices**

INDUSTRIAL ACTIVITY	1995		1996		1997		1998	
	N.D.P.	Gross Output	N.D.P.	Gross Output	N.D.P.	Gross Output	N.D.P.	Gross Output
Manufacturing, food beverage and tobacco industry	15333	78465	16038	86609	16038	86609	19413	93705
Textiles, clothing & industry	12992	52096	15474	60805	15474	60805	17761	68255
Wood and furniture industry	3161	12669	3775	15063	3775	15063	4509	17323

⁴⁰ - Wafic Said, a UK-based businessman of Syrian origin, whose First Saudi Investment Corporation in early 2000 formed a holding company aiming to channel investment into the Syrian economy.

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Paper, printing & publishing industry....	760	3627	839	3925	839	3925	979	4421
Chemical Industries & production and Repetition Petroleum	111753	63157	6787	83322	6787	83322	4799	86146
Non – metallic industry...	8625	28475	9658	32271	9658	32271	10026	34590
Basic metal industry...	930	5578	1420	6632	1420	6632	1770	7583
Metal products industries...	8801	31826	10624	37824	10624	37824	12976	44585
Miscellaneous ...	308	1269	382	1568	382	1568	732	2140
Total of manufactured industries...	62663	277162	64997	328019	64997	328019	729965	358748
Mining and quarrying....	85984	102492	118967	140152	118967	140152	102089	120428
Electricity and water....	4449	25723	5087	28037	5087	28037	9272	33919
Total	153096	405377	189051	496208	189051	496208	184326	513095

Resource: Statistical Abstract 2000, Central Bureau of Statistics, Damascus 2000 p. 185.

**Table No.5 Syrian external debt
Joint BIS-IMF-OECD-World Bank statistics on external debt**

(IN MILLIONS OF US DOLLARS)	STOCKS (END OF PERIOD)						FLOWS (2)			
	1999 Dec.	2000				2001 Mar.	1999 Year	2000 Year	2000	
		Mar.	June	Sep.	Dec.				3rd Qtr.	4th Qtr.
External debt - all maturities										
A Bank loans (3)	533	529	706	495	498		-216	-10	-187	-12
B Debt securities issued abroad										
C Brady bonds										
D Non-bank trade credits (4)	337		214		148		4	-108		-54
E Multilateral claims	72	62	61	55	54	52	-23	-16	-5	-1
F Official bilateral loans (DAC creditors)	1,834						107			
Debt due within a year										
G Liabilities to banks (5)	402	270	569	209	229					
H Debt securities issued abroad (6)										

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I	Non-bank trade credits (4)	64		60		62					
Memorandum items:											
J	Total liabilities to banks (7) (locational)	533	529	706	495	498		-216	-10	-187	-12
K	Total liabilities to banks (6) (consolidated)	697	573	766	545	555					
L	Total trade credits	391		236		219		-5	-104		-6
M	Total claims on banks (8)	13,447	14,285	14,728	15,418	16,884		1,637	3,531	779	1,405
N	International reserve assets (excluding gold)										

Notes: (1) From creditor and market sources, except for data on Brady bonds, which are from debtor sources, all currencies included. (2) Flow data for items B, C, E and F; exchange rate adjusted changes for items A, D, J, L and M; no data available for items G, H, I, K and N. (3) From BIS locational banking statistics, which are based on the country of residence of reporting banks (4) Official and officially guaranteed. Break in series at end 1999 due to reallocation of rescheduled export credits from line F to line D. (5) From BIS consolidated banking statistics, which are based on the country of head office of reporting banks and which include banks' holdings of securities. (6) Including debt securities held by foreign banks, which are also included in line G. (7) From BIS locational banking statistics, which are based on the country of residence of reporting banks and which include banks' holdings of securities. (8) From BIS locational banking statistics, which are based on the country of residence of reporting banks

Table No.6 Social and Economic indicators in Arab countries 1997 - 1998

	Population (mn)	Life Expectancy at birth	HDI	GDP deflator	PPP (current \$)	ACGR* of population	
	1998	1997	1997	1990-98	1998	97-2015	90-98
Algeria	30	69	109	21.4	4,380	2	2.6
Bahrain	0.6	73	37	-	13,700	-	2.3
Comoros	0.5	59	139	-	1,480	-	2.8
Djibouti	0.7	50	157	-	-	-	4.3
Egypt	61	66	120	9.7	3,130	1.5	2.3
Iraq	22.3	62	125	-	-	-	2.7
Jordan	5.3	70	94	3.3	3,230	2.4	5.2
Kuwait	2	76	35	-	-	2.3	-1.8
Lebanon	4	70	69	24	6,150	1.3	2.1
Libya	5.3	70	65	-	-	2.2	3.3
Mauritania	3	53	149	5.9	1,660	2.4	3.2
Morocco	28	67	126	3.8	3,120	1.5	2.1
Oman	2.3	71	89	-	-	2.4	3.9
Qatar	0.7	72	41	-	-	-	4.3
Saudi Arabia	21	71	78	1	-	3.1	3.9

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Somalia	9.31	47	-	-	-	-	1
Sudan	28.3	55	142	-	-	2.1	1.8
Syria	15	69	111	8.9	-	2.2	3.3
Tunisia	9	70	102	4.8	5,160	1.3	2
UAE	2.7	75	43	-	19,720	²	5.2
W. Bank & Gaza	2.7	-	-	-	-	3.5	3.2
Yemen	16	58	148	24.2	740	2.6	4.7
MENA	285	67	-	-	4,220	1.9	2.6
World	5,897.00	67	-	-	6,200	1.1	0.7

Notes: * ACGR: is the Annual Compound Growth Rate;

Sources: World Development Indicators, 1999; World Development Report, 2000; World Economic Outlook, October 1999, IMF; International Financial Statistics, 1997; Unified Arab Economic Report, 1997; several Economic Intelligence Unit Country Reports, *Human Development Report, 1999; International Financial Statistics, 1999; Unified Arab Economic Report.*