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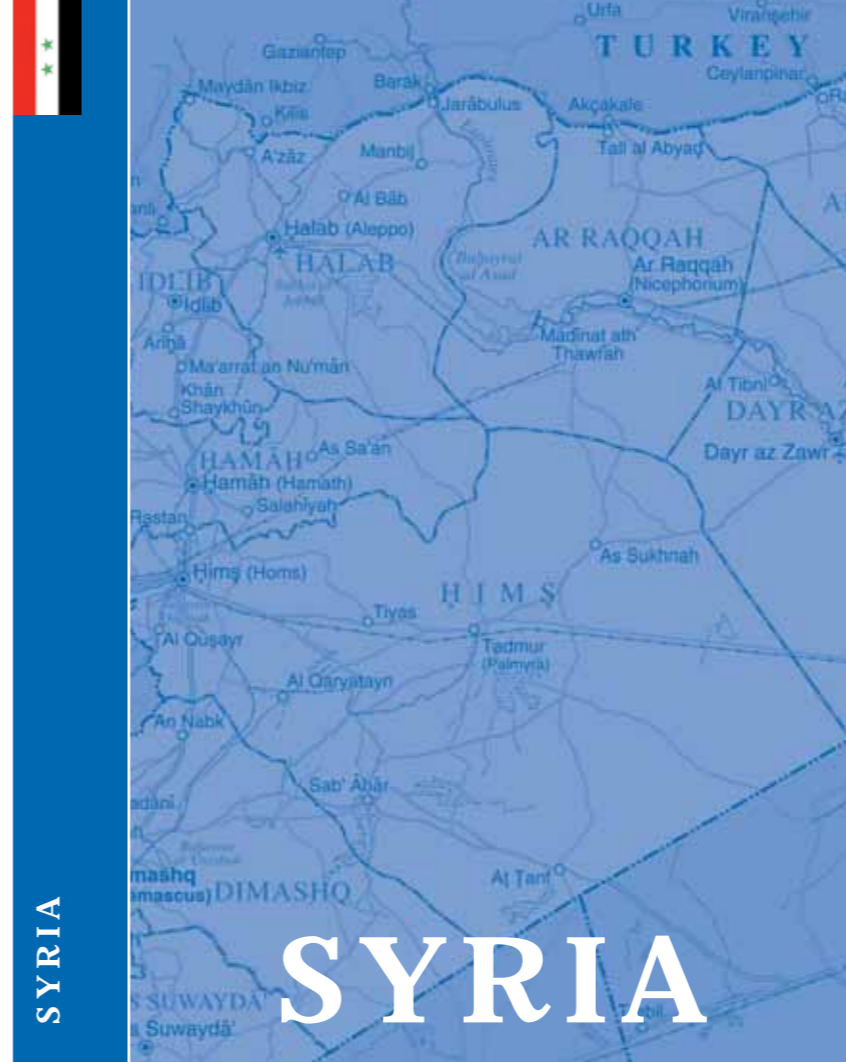


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COUNTRY PROFILE



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Introduction

As with the other successful publications we have produced in our series, this Country Profile – dealing with Syria – aims at giving a brief description of the main points of geography and natural resources; the country's most important social and legal features; the organization of the infrastructure and communications networks; the forms adopted by the institutions. Therefore, we provide the reader with a general yet extensive introduction to provide a person not familiar with the country with some basic information for getting to know it.

The document describes the historical and political events of thousands of years ago and continues down through the centuries to the present day. The birth of the Ba'ath party and the country's attainment of independence after the Second World War constituted a historic watershed. The picture of Syria drawn by the analysis of the country's contemporary dynamics shows its importance in the Middle East: a key player on the regional scene and an important link between the nations of the Mediterranean Levant and those of the Persian Gulf. A general evaluation of security and the armed forces concludes this investigation and useful hints and suggestions are given for people that would like to learn more about these subjects, interact with local actors and situations or visit the country in person.

The fourth part gives an overview of the general economic profile, an analysis of the economic situation and of the sector of investments and trade relations between Syria and its regional and global commercial partners. National laws on foreign investments are also analysed in this section.

It can be seen that the aim of this Profile is to provide a complete and flexible tool for the various users of the guide, whether they are interested in broadening their technical knowledge of the country, or are involved in the investment or international trade relations sector, which increasingly serves as a mode of interaction and an efficient vehicle of reciprocal interest, stimulating mutual awareness. The latter group of readers will be particularly interested in the sections prepared by the Institute's researchers, who have devoted a considerable amount of work to the examination of these aspects: possibilities for the insertion of Made in Italy products; on-the-spot support in terms of financial and business services; and trends in commercial exchange. The aim is to provide a broad range of information, enhancing the completeness of the volume and the satisfaction of our readers.

This text uses the criteria of simplified scientific transliteration, whereas common words are spelled in their most frequently used form.

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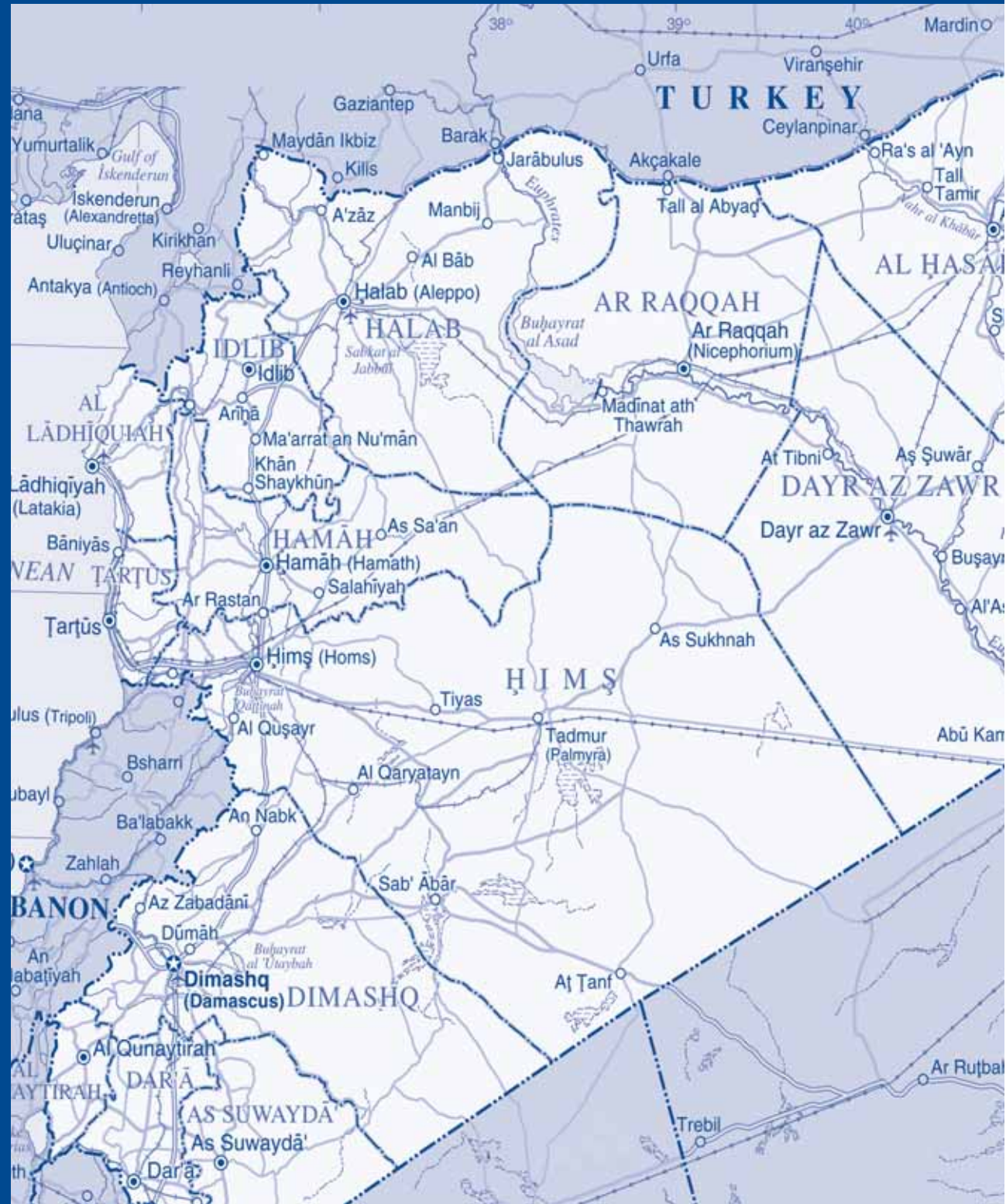
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GENERAL INFORMATION

CHAPTER 1 - TERRITORY, POPULATION AND INFRASTRUCTURE

(Vincenzo Palmieri)

Syria, officially *Al Jumhuriyah al Arabiyah as Suriyah* (the Arab Republic of Syria), is a state in the Middle East, whose capital city is Damascus, borders with Turkey to the north, Iraq to the east, Jordan to the south, Israel and Lebanon to the east; it faces the southeast quadrant of the Mediterranean Sea for about 200 km.

Geography and Landform

The plateau in this portion of maritime territory, stretching from the border with Turkey to that of Lebanon, is the most important region of the nation. Narrow in the north and wider in the coastal area facing Cyprus, the plain narrows again further south where the mountain ranges of Lebanon and Anti-Lebanon begin. The *Jabal an-Nusayriyah* mountain range is

located to the east of the plain and beyond it lies a semiarid plateau though which, in the northeast, the Euphrates River flows. Rivers flow from Turkey across Syria all the way into Iraqi territory. This plateau is surrounded by mountain chains like: the *gebel Saman*, *Hass*, *Zawiyah* in the north, and *gebel Bishri* and *Shaar* in the centre, overlooking the Palmyra plain. The third characteristic trait of the Syrian region is the central valley; it forms part of the Levantine-African rift valley, the Syrian part of which consists of the *Ghab* Valley of the Orontes River, geologically connected to the Bekaa, the valley of Jordan and the Dead Sea. The plateau stretches into the *Jazirah* area and across the border as far as the Tigris River and, together with the area stretching from the coast

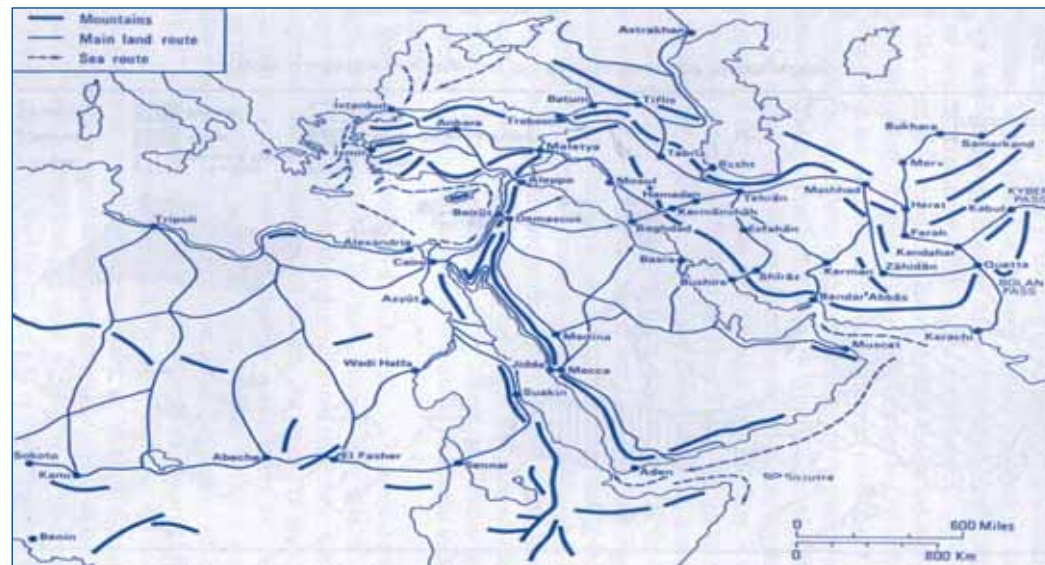


Figure 1: Ancient trade routes in the Middle East / Source: Beaumont, 1976

to the River Euphrates, forms part of the area known since time immemorial as the Fertile Crescent, cradle of the most ancient civilizations. In the more southern regions lies the *Hamad* Desert, bordered on the south by *gebel ash Shaikh*, or Mount Hermon, which reaches a height of 2,800 m, and on the north by *gebel ad-Duruz*, or Gebel Druze, 1,803 m. Many mountain passes, like *gebel Sabadani* and Homs, for example, were ancient routes of communication for the Mediterranean, Persian Gulf and Central Asia and have made Damascus and Syria natural crossroads down through the history of the Middle East.

Water Resources There are 16 major rivers in Syria, six of which are fed by international water basins. The Euphrates (*al-Furat*) is the main river and it provides Syria with eighty percent of its water resources, amounting to 15.75 cubic km of water. Under the agreements in force, only 680 km of the Euphrates'

length of 2,330 km are in Syria, while the waters rise and end outside of the borders of the country. The *Afrin* River and the tributaries to the left of the Euphrates, the *Balikh* and the *Khabur*, have similar characteristics, while the tributaries on the right are of a seasonal nature and have much lower flows. Another river is the *Barada*, rising in the Anti-Lebanon Mountains and supplying water to the capital (built around the ancient oasis of *Al Ghutah*) and then flowing out into the desert. To the northeast, the Orontes (*el-Ass*) provides life to the valley of the same name and flows between the range of mountains that separate it from the sea and the Central Syrian plateau. This river rises in Lebanon and ends in Turkey, bringing with it 0.43 cubic km of water. Other international rivers are the Yarmouk in the south, the El-Kebir in the West and the Tigris in the North (a total of

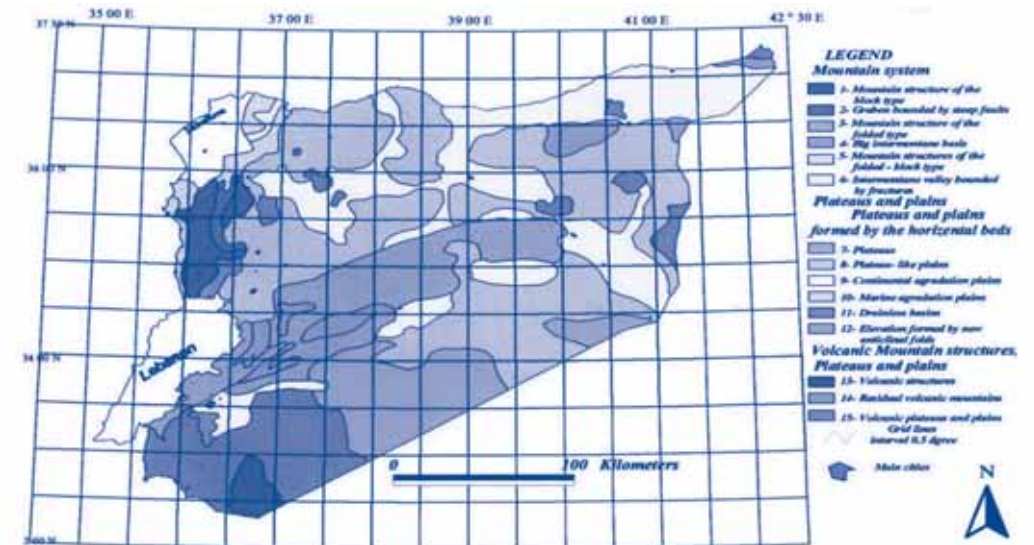


Figure 2: The Syrian terrain / Source: FAO, 2002

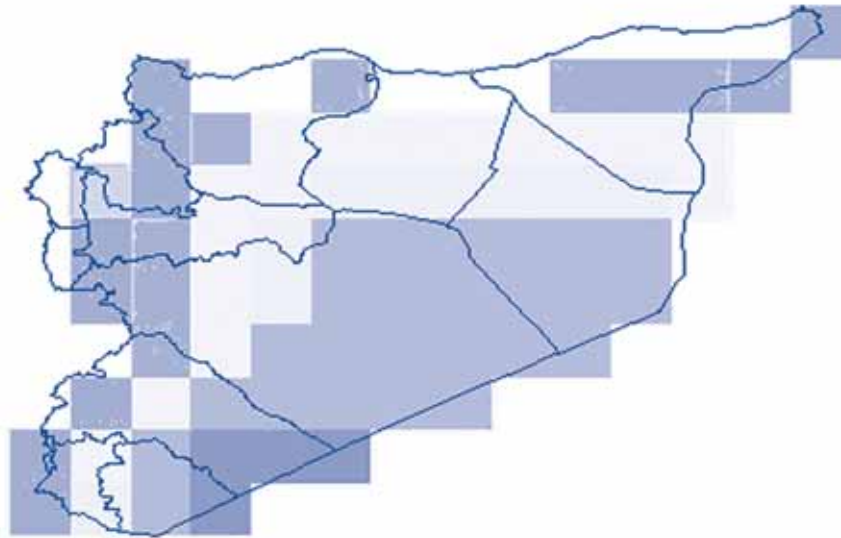


Figure 3: Rainfall in Syria / Source: FAO

18 cubic km). The last ones form part of the borders with Jordan, Lebanon and Turkey.

There are 141 dams in Syria, which are able to store approximately sixteen cubic km. One of the major dams is the *Al-Tabka* Dam, situated on the Euphrates and forming the Assad Lake, which alone provides 11 cubic km of water. Smaller structures such as *Al-Rastan* (255 million cubic meters), *Mouhardeh* (50 million cubic meters) and *Talco* (15.5 million cubic meters) are all located in the Homs and Hama provinces. Another 20 dams are considered “minor”. There are two natural lakes: *Jabboul* and *Quattineh*.

Climate and Natural Resources

Syria has three distinct climatic zones: the coastal area, the inland area, and the plateaus and desert. The first area has a humid and temperate climate, typical of the Mediterranean, with warm but mild summers and mild and rainy

winters. Average rainfall amounts to 750 mm per year, but exceeds 1,250 mm (as much as 1,400 mm in some highlands) in the mountainous areas off the coast. The flat areas, which occupy three-quarters of the country, have lower rainfalls (between 300 and 600 mm a year), limited almost exclusively to the winter and spring. Temperatures here are around 21°C with frequent periods of frost and often marked swings in temperature. The desert occupies the most eastern and southern regions, with very arid conditions. Average temperatures range from 5°C in January to 26°C in August. The mountain regions, however, differ in that temperatures are much lower, depending on the altitude, and winters are much colder. In the Anti-Lebanon Mountains, where rainfall is low and rarely exceeds 200 mm annually, temperature differences are more extreme and range from 4°C to 38°C.

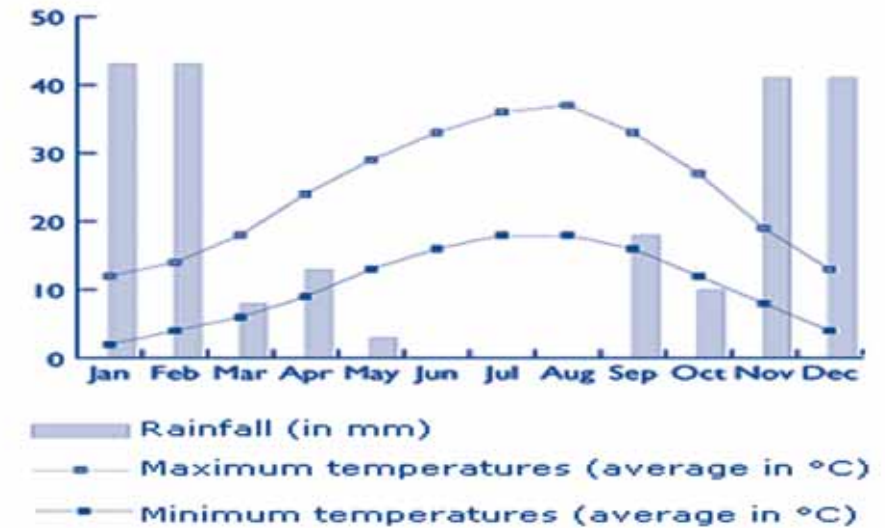


Figure 4: Rainfall and Average Temperatures in Damascus / Source: BBC

In Damascus, temperatures vary from 21° to 43°C in August to between -4° and 16°C in January, and it sometimes snows.

Natural Resources Syria possesses hydrocarbon deposits (petroleum and natural gas) and numerous deposits of phosphates, chromium, iron and magnesium. The first discovery of hydrocarbon deposits took place in 1956, in the regions bordering with Turkey and Iraq. Today the main camps are found in Suwaydiyah, Qaratshui and Rumayian, adjacent to the large deposits in Northern Iraq.

The abundance of hydrocarbon resources has made them Syria's main export (natural gas has been extracted from the Jbessa area since 1940). The water resources are very important as well since they provide hydroelectric power to the country, although nearly all of its rivers originate outside of its borders (in Turkey) and so are subject to prior water use.

Likewise, water impoundment in Syria reduces the flow to Iraq, further on.

Land use depends on the land quality: about one third of the surface of the country is fertile and 4.4 percent is actually used for agriculture, with permanent crops. Plans for irrigated farming are recent and successes are only now starting to appear as the extent of irrigated land increases. The stated aim of rural planning is the irrigation of one-third of agricultural land, also with a view to reducing deforestation and overuse of pastures and existing farmlands and to reducing desertification and soil erosion. The government is hampered in achieving this goal by the scarcity of water resources in absolute terms and their possible future decrease as population increases at a rate out of proportion to the development of available technology.

Population, Language, Minorities and Religion

The Syrian population is made up of about twenty million people, according to most recent estimates made in July 2008. The growth rate in the last five years (2003-2008) has been a little over 2%, positive but slower than in the previous decade (1990-2000), when the growth rate reached an average of above 2.6%, and was even over 3.8% in the Eighties. Comparing rural to urban population, the latter is a little higher. The cities show a tendency to grow: in 2002, the related annual growth rate reached 3.1%. Future projections show a tendency towards slower growth and an aging of the population, though the majority will be in the fifteen to thirty-four years of age bracket.

The population tends to concentrate increasingly in: the coastal areas of the north, the Euphrates River valley, the large inland cities and the capital. This explains why, notwithstanding the vast deserts and semiarid and steppe regions, in certain areas the country has a density of 363 inhabitants to one square kilometre, which is the highest value registered in the Middle East region. In addition to the Syrian citizens, there are over one million eight hundred thousand refugees, the majority of which are Palestinian and Iraqi (500,000 and 1,300,000 respectively) and fewer Somalis. There are also internal refugees who fled from the Golan Heights at the time of the war in 1967 and have still not gone back there. More

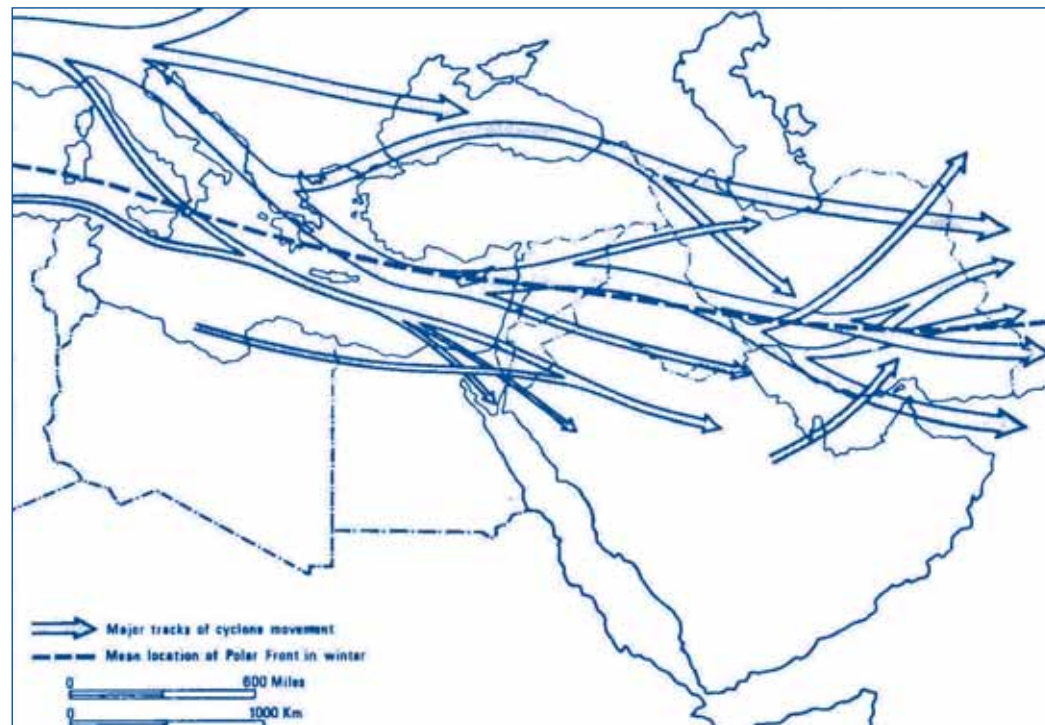


Figure 5: Map of the evolution of atmospheric disturbances / Source: Beaumont, 1976

SYRIA

alarming is the ratio between refugees and residents, which, in 2007, was one out of every twelve, the third highest value in the world after the Gaza Strip/West Bank and Jordan. At the request of its Iraqi counterpart, the Syrian government imposed limits on Iraqi refugees as from October 2007 and encouraged their return: consequently, in 2007, about 45,000 people returned to their homes outside the Syrian borders. These people are generally treated well. Refugees enjoy constitutional protection and the Ministries of Foreign Affairs and of the Interior are cooperating with the United Nations (through the office of the UN High Commissioner for Refugees – UNHCR) for assistance within the camps. The Palestinians

have been assimilated as Syrians from 1956, except for the right to vote, naturalize, own property, or hold public office.

Interestingly, the average age of the population is a little over twenty, slightly higher than recent figures which were lower. This is a result of the slight drop in the birth rate (estimated at 26.57 live births to every 1,000 people in 2008 compared the 28.9 recorded in 2004) rather than in the death rate, which remains basically unchanged (4.68% in 2008 while it was 5% in 2004).

A slight improvement is evident in the values for life expectancy at birth (estimated at 10.9 years in 2008, from 69.7 in 2004). The infant mortality rate has improved significantly: 136

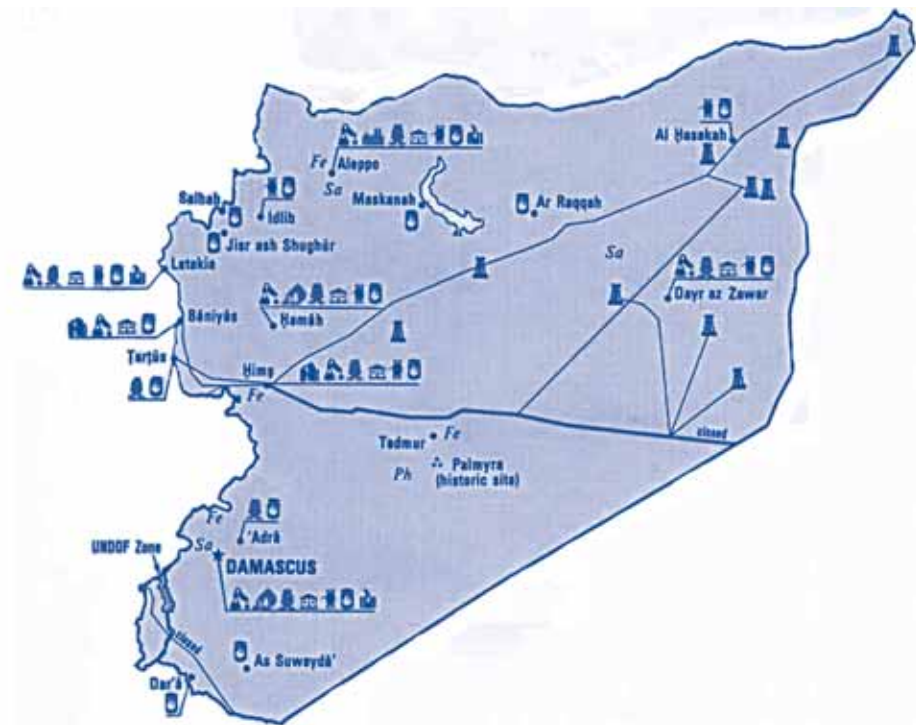


Figure 6: Natural resources and economic activity in Syria / Source: University of Texas

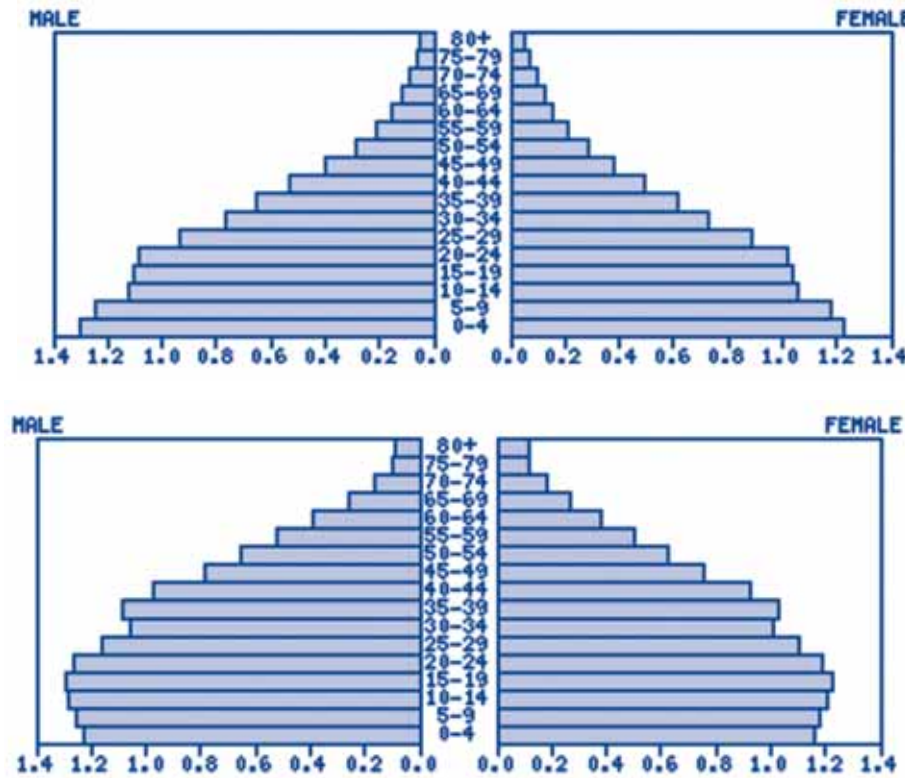


Figure 7: The Structure of the Syrian population and projections for 2025 / Source: US Census Bureau, International Data Base; the numbers are expressed in millions

in the sixties, it had dropped to 23 in 2002 while in 2008 it reached 26.78 of every 1,000 births.

Ethnic groups and languages A little more than 90% of the population are Arabs, while the rest of the population is made up of Kurds (9%); Armenians, Circassian and Turcoman (1%). Consequently, Arabic is the official language of the nation and represents the first language for nine out of ten Syrians. The other languages spoken in the State – mainly Kurdish – are used by ethnic minorities living in the country; English and French are foreign languages used quite frequently and spoken rather well by the urban upper class.

Religion is a more complex matter in Syria: most Syrians – approximately three out of four – are Sunni Muslims; then there are Alawites, who are Shiite Muslims (accounting for approximately 12% of population), and Christians (approximately one out of ten Syrians). Other smaller religious minorities are the Druze – who live mainly in the region of the *gebek ad-Duruz* and practise a religion that combines Shiite, Christian and traditional elements – the Jews (in small communities, especially in the cities of Damascus, Al Qamishli and Aleppo) and the Yazidis.

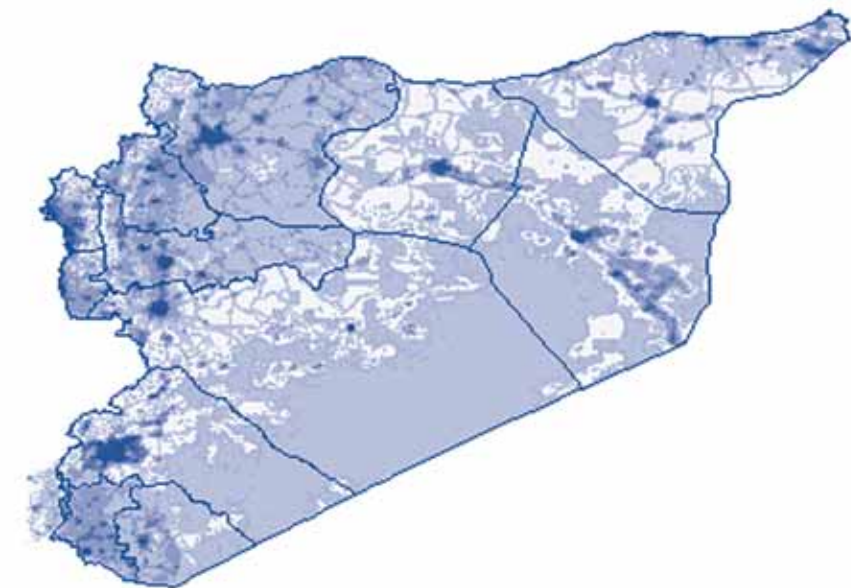
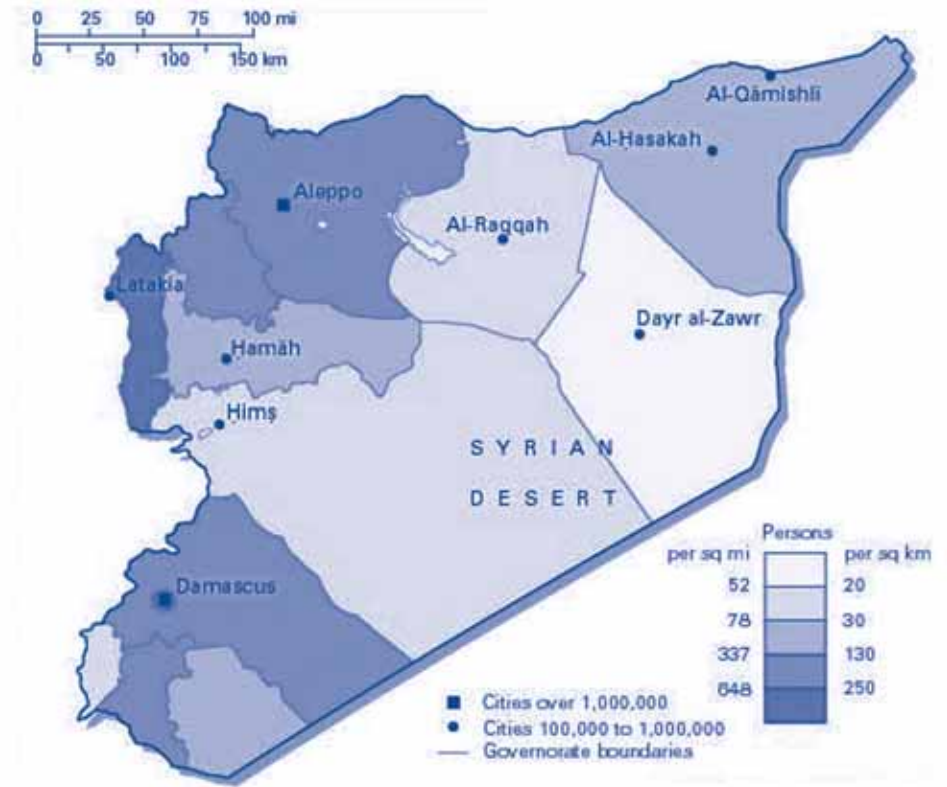


Figure 8: Population density and distribution / Source: Encyclopaedia Britannica, FAO

Table 1: Main demographic and social indicators

	VALUE	YEAR
Annual Demographic Growth Rate (%)	3.1	1975-2003
	2.3	2003-15*
Urban Population (% pop. Total)	52.4	2015*
Birth Rate (per 1,000 inhabitants)	3.2	2005
Death Rate (per 1,000 inhabitants)	13.5	2005
Life Expectancy (years)	73.8	2005
Population over 65 years old (%)	2.5	2003
	3.6	2015*
Education Rate (%)		
Primary Education (% enrolled)	124.2	2005
Secondary Education (% enrolled)	67.6	2005
Tertiary Education (% enrolled in science, mathematics and engineering)	ND	2005
Public Expenditure on Education (% GDP)	ND	2005
Public Expenditure Education (% GDP)	2.2	2004
Human Development Index**	0.716	2004

**Forecast

**Expresses the standard of living of people in a country.

Measure based on three criteria; life expectancy, level of education, standard of living in relation to income per capita and purchasing power.

Source: ICE processing of UNDP Human Development Report data

Administrative Divisions and Towns

Syria is divided into fourteen provinces (*muhafazat* – See Figure 10): Halab, Dimashq, Dar'a, Rif Dimashq, Dayr az Zawr, Hamah, Al Hasakah, Hims, Idlib, Al Ladhqiyyah, Al Qunaytirah (which includes the disputed territory of the Golan Heights), Ar Raqqa, As Suwayda and Tartus. They are known as “governorates” and are presided over by Governors – whose nomination is proposed by the Ministry of the Interior, approved by

the government and formalized through a ministerial decree. Governors are the administrative entity responsible – in consultation with the Ministry of Local Administrations – for assuring the operation of public health and social services, as well as education, public works and transportation, regulation of the sectors of agriculture, industry, tourism and services; maintaining security and public order and the fair operation of the justice system. In the performance of his/her tasks,

the Governor is assisted by a provincial council, three-quarters of the members of which are elected, while the rest are nominated by the Governor and the Ministry of the Interior. Every office has executive units, nominated by the Ministry of the Interior and under the orders of the Governor.

The provinces are further subdivided into sixty districts (*mintaqah*), which are composed of 206 sub-districts (*nahia*). These are made up of village groups that constitute the basic administrative unit. The administrative civil servants at the apex of the *mintaqah* and the *nahia*, if approved by the Minister of the Interior, are confirmed by the Governors. They carry out a function of compensation and mediation between the local and national level, to apply government directives and bring together the elders and village and clan leaders from whom they collect requests and petitions. The capital, Damascus, has a population of about 6.5 million inhabitants (2007), including the metropolitan areas; the other major cities are:

Aleppo with 4.5 million inhabitants, Homs with 1.8 million, Hamah with 1.6 million, Al Hasakah with 1.3 million, Idlib with 1.2 million and Latakia with 1 million.

Damascus, commonly known as *ash-Sham*, is at an altitude of 680 m and is 80 km from the sea, beyond the Anti-Lebanon Mountains. The city was founded on the banks of the *Barada* and gradually took in the surrounding settlements: Midan, Sarouja and Imara. The growth of the city, more marked when Damascus was an imperial centre, slowed down during the Ottoman period and picked up again during the nineteenth century, thanks to the flow of immigrants from the Balkans and the Caucasus during the period, which turned Damascus into an important administrative and trade centre once again, in particular around the *al-Marjeh* quarter, in the north, where Europeans also settled towards the end of the 1800's. In the twentieth century, a progressive reorganization of the ancient oasis of *Ghouta* took place, as

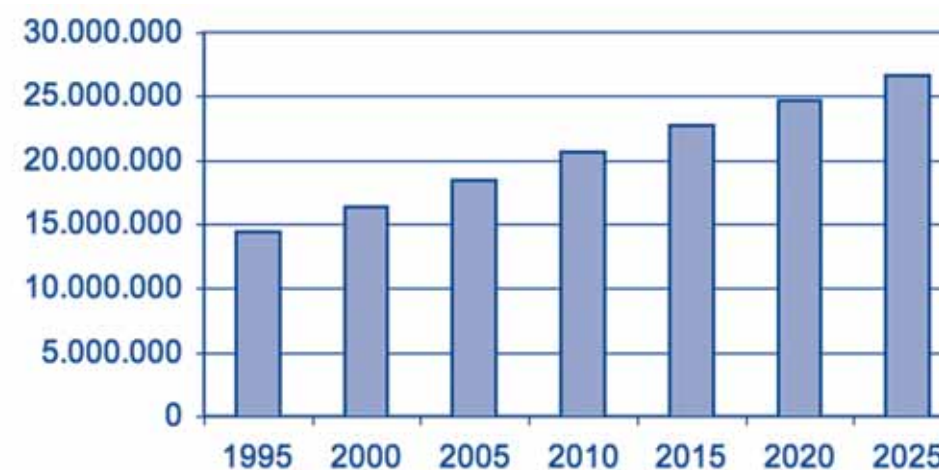


Figure 9: Population trends / Source: U.S. Census Bureau, International Data Base

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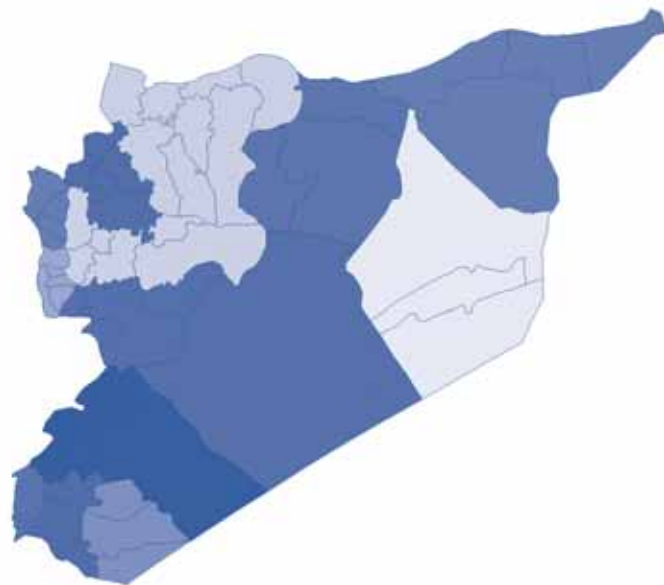


Figure 10: The administrative divisions and the districts in Syria / Source: University of Texas Libraries and Wikipedia

well as the developments of districts for Palestinian refugees to live in, like *Yarmouk*.

Aleppo is the second largest city of the country and one of its most ancient. An imperial centre, its name is an Italianized version of its common name: *Alep*, which was used during the Turkish and French period. The position of the settlement – on the *Quweiq* River – was an easily fortified passage on the trade routes from the Mediterranean to the mid-Euphrates. The fortune of the city has been linked with these routes to Mesopotamia and the Orient: in fact, Aleppo prospered until direct connections to those regions, like the Suez Canal, for example, were created. Destroyed by a violent earthquake in the Middle Ages (1138) and subsequently taken by the Mongols, the city enjoyed a new surge of growth in the Ottoman period and then during the French mandate, but the decision to unite Iskenderun (formerly Alexandretta) with Turkey in the Thirties deprived the city of its natural milieu. Today Aleppo is mainly an agricultural and commercial city, with a well conserved historical centre and modern residential districts, built after the Second World War. There are still large Christian communities in the city.

Homs is the city with the third largest population of the country and is situated approximately halfway between Damascus and Aleppo, on the river Orontes. It developed near the Roman settlement of Emesa, founded on a site constructed after the time of Alexander the Great and chosen for its proximity to the pass through the mountains of Anti-Lebanon connecting the coast with the inland cities. The city was the birthplace of a Roman emperor,

Marcus Aurelius Antoninus, and a military encampment for subsequent conquests, until it finally became a Roman colony. The city experienced a decline after the splendours of the first Arabic dynasties, also because of repeated earthquakes. Its rebirth took place at the end of World War I, thanks to its central position, and partly also to the concurrent decline of Hama, the city upstream of Homs on the Orontes River, which was also Homs' rival. Today, Homs is home to various universities and continues to be a regional agricultural centre; it is also attracting numerous industrial and service businesses, related to oil refinement, food packaging and production, chemistry and tourism.

The fourth largest Syrian city is **Latakia**, on the Mediterranean Sea. Main port of the country, it has a population of a little over one million (according to estimates from 2007); the majority of its inhabitants are Alawite and of the al-Assad dynasty – which brought forth the last two presidents of the Country – who came from Qardaha, a small city in the Province of Latakia. The city was described by the Romans as an excellent port and an important agricultural centre, and these have continued to be features of the city, founded by the Phoenicians and developed by the Greeks, up to the present day. It has been conquered over and over again and has been devastated by various earthquakes. In the period of the French mandate, the city became the capital of a sanjak, administered by France, which was abolished in 1936. The economy continues to centre around the business of the port and agriculture. Latakia is reference terminal for exports of asphalt/bitumen, cereals, cotton, fruit, oil and

tobacco. Some of these raw materials – in particular the agricultural ones – are processed by local industries before being exported.

Infrastructure and Communication Networks

The development of an infrastructure has been of constant concern for the Syrian government since its independence. The more economically and agriculturally productive zones are quite distant from the more densely populated ones and this has stimulated the development of transport as well as telecommunication networks.

Road networks Today the government above all is engaged in the maintenance of the existing structures, more than sufficient to guarantee mobility of persons and goods within the nation and nearby countries. Paved roads in good condition connect the main city centres and lead to the borders; the freeway network measures over one thousand km and recently has been upgraded between Latakia and Aleppo with the contribution of a Kuwaiti company. The continuous expansion of the road system, with the number of paved kilometres doubling in five years – from ten thousand in 1999 to approximately twenty thousand in 2004 – is justified by the increased number of vehicles on the roads and the increasing use of private vehicles for the movement of persons and goods. Further contributing to the trend is the existence of a system of fiscal incentives that are consequently causing less frequent use of railway transportation.

Railways The Syrian railway system continues to grow at a slower rate, although in 2006 it extended to less than 3,000 km (an increase of

10% from 2,425 km in the year 2005). This is partially due to the narrow-gauge lines (1.050-m) that still connect Damascus to Amman and impede the upgrading of the entire railway system. There is an immediate need to improve the railways, which are often slow, inefficient and costly, so as to be able to take advantage of the position as a link between Jordan, Israel, Turkey and Iraq. This is supported by the fact that, regardless of its defects, the existing system continues to be widely used for the transport of cargo, and there are many goods trains carrying petrol and refined products, as well as phosphates, cereals and cement.

Ports The major Syrian ports are Baniyas, Jablah, Latakia and Tartus. The latter two alone move about one and a half million tons of goods per year and represent the terminals from which Syrian exports leave the country, in particular phosphates (especially from Tartus). Both ports are in need of renovation and enlargement, which the European Investment Bank (EIB) has stepped in to finance. It is supporting a project to dredge the entrances and deepen the banks to allow the berthing of ships with greater draught. Action is also needed to improve the land services for ships and shippers, as well as simpler customs formalities and more effective control of corruption. In addition to the seaport system, Syria has 900 km of navigable canals and rivers, particularly along the Euphrates River. However, these networks are not regarded as a priority by the institutions concerned.

Airports Syria has a complex network of airports in the major cities and small towns: in total there were 90 runways in 2007, with three

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international airports (Damascus, Aleppo and Latakia) with connections to major European, African and Asian destinations. The national airline fleet – which almost all dates back to the time when there were strong economic ties with the Soviet Union – has recently been partially upgraded and modernized and six new Airbus A-320 purchased.

Oil and gas pipelines Syria is a terminal for the oil pipelines coming from Iraq and transporting crude oil to the structures located on the banks of the Mediterranean. However,

these pipelines have been closed since 2003 and are awaiting exports from Iraq to return to normal. On the whole, the country has approximately 2,800 km of pipelines, 2,000 of which are dedicated to transporting oil.

Telecommunications The system of telecommunications – in regard to its infrastructures and contents – is managed directly by the Ministry of Communications. Funds from backers in the Persian Gulf are being used by the country to modernize and digitalize the national network, with the installation of fiber optic cables and the spread

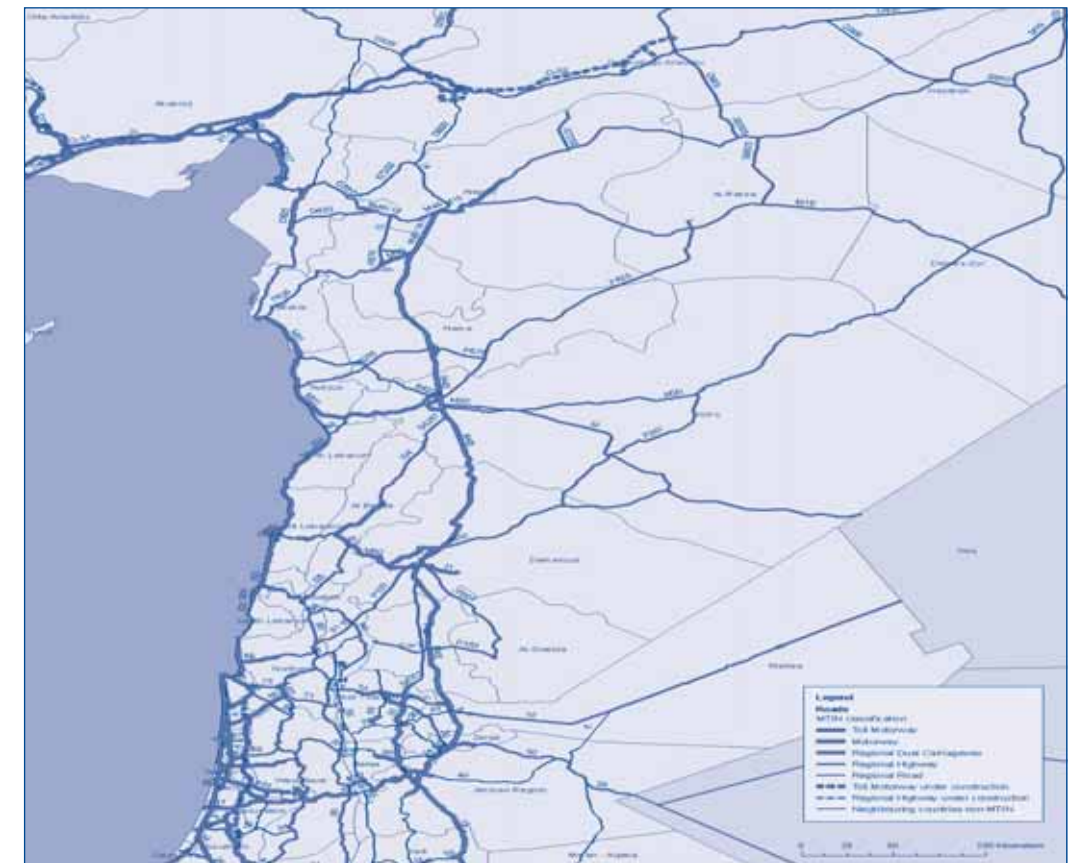


Figure 11: The road system in Syria and the regional connections / Source: Transportation Project EUROMED, European Commission.

of satellite receivers. In fact, the telephone lines in use in 2006 totalled over three million, while in 2004 there weren't even two million users and there were only 500,000 in 1991; these results still turn out to be less than what the government aims at; the goal had been to install at least four million lines by 2004. Currently, there are hundreds of thousands of customers waiting to have a phone line installed. The active lines today have reached a 25% rate of penetration, an increase compared to the 2004 data, which recorded only 10%.

An even more chaotic change has marked the field of cellular telecommunications, experimentally active in Syria since 2000. Licenses were granted by public auction in 2001 and the government expected approximately 850,000 customers; on the contrary, the total number of active lines for the two service providers has exceeded the number of fixed lines and looked like exceeding the goal of five million in 2006. Syria has numerous television and radio stations; access to Internet – previously limited to certain

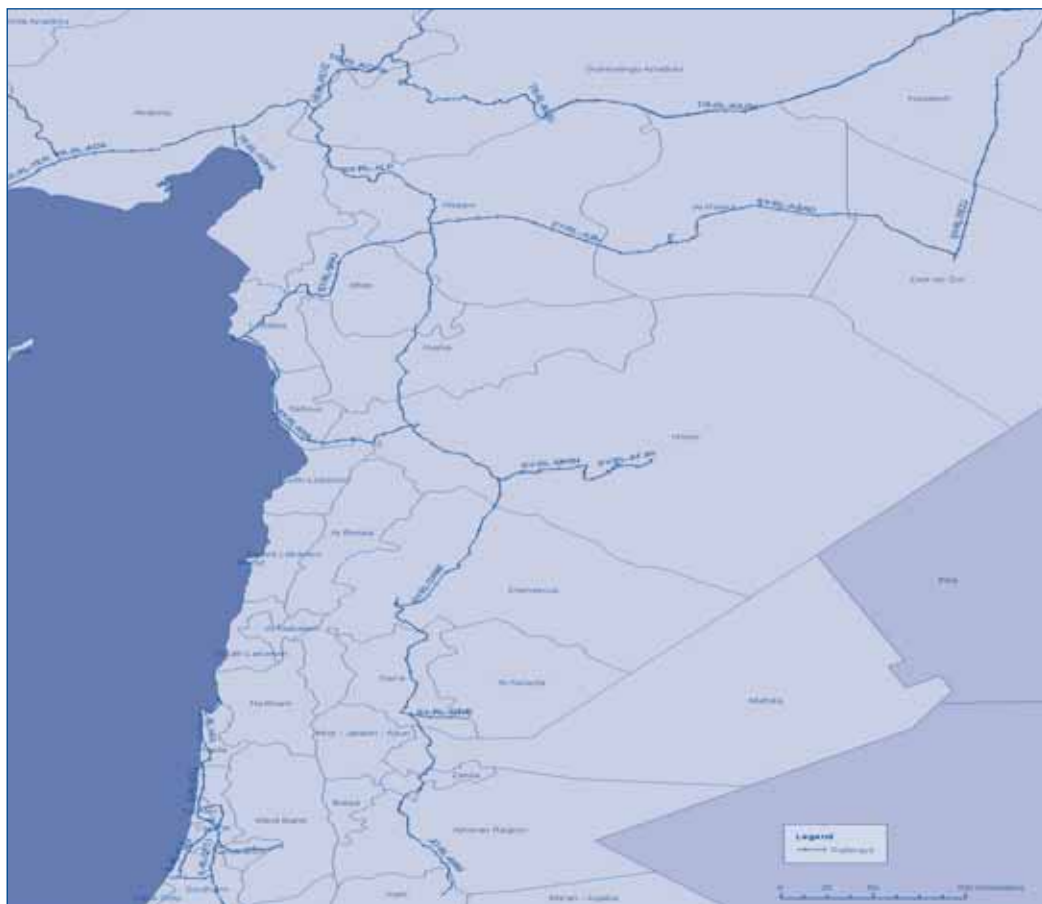


Figure 12: The railway system in Syria and the regional connections / Source: Transportation Project EUROMED, European Commission

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professional categories and civil servants – has increased sharply, with many more customers in last the two years (in the years 2005 and 2006, Syria went from 250,000 customers to beyond a million and half); in fact, many people connect to the internet using Internet addresses from nearby countries. This trend is also a result of President Assad's promotion of internet use by increasing the number of personal computers in use in the country and making access fees cheaper.

Legal, Health and Education Systems

Syria possesses a judicial system reflecting a mix of Ottoman, Muslim and French elements, divided into three levels: trial courts, appeals courts and the Court of Cassation, situated in the capital. The system is based on the French model and is structurally similar to the systems of European civil law. The Constitutional Court carries out its classic role of controlling the legitimacy and constitutionality of the laws; it also assumes the function of mediating conflicts of territorial competence and arbitrating in cases that arise within the judiciary. The Supreme Court also acts as elections council. Magistrates are appointed by the High Judicial Council which can judge and censure their conduct and inflict sanctions that can even impose dismissal. There are special courts operating outside the three-part system described. Particularly, the Court for National Security deals with cases directly linked to national security. In these cases, the procedural rules of the ordinary courts are not applied, there is no right of appeal, and the verdict is proclaimed with the endorsement

of the President of the Republic. Since these courts operate in an emergency regulation situation, many constitutional protections are suspended in the course of the hearing and regarding the final verdict. Another special court is the Military Court; civilians fall under its jurisdiction as well. Lastly, there are courts that rule on marital status and – divided according to religious affiliation – settle questions related to marriage and divorce.

Healthcare The Ba'ath Party has always dedicated much attention to the organization of the healthcare system, one of the top priorities of the government. This explains the high percentages of Gross Domestic Product (GDP) destined to the field of healthcare – 4.2% of the GDP according to data from the World Health Organization (WHO) – after a decrease in the previous years (compared to 2.5 percent in 2001). The system is decentralized and structured on three levels: provincial, district and village. The WHO has measured the government's commitment to assuring basic health services: in 1990, the country had 41 general hospitals and 152 specialized clinics; 391 health centres in rural districts and 151 in urban districts; 79 rural health units and 49 specialized centres. The total number of beds exceeded a ratio of 11 for every 10,000 inhabitants, with a total of 13,164, a fifth of which were private.

In 2006, notwithstanding the simultaneous increase in population, the number of hospital beds increased to 14 for every 10,000 inhabitants. Looking at the last available data, published by the WHO for 2005-2006, the government spent 6.8% of the GDP on the health system.

Regional disparities remain the weak point, however, and in particular the different performance of the public health system in urban and rural areas. These faults have led, moreover, to an increased number of private clinics that, however, benefit only the part of Syrian society that can afford such alternatives. Private clinics are nearly all situated in the big cities: Damascus, Aleppo, Tartus and Latakia. Nevertheless, there have not been high rates of serious illness or epidemics and access to safe drinking water is guaranteed today to approximately 90% of the Syrian population.

Education The national scholastic system has also been a central priority of the government which has promoted education as a means of guaranteeing the nation economic development: the average literacy rate (based on data from 2006) has thus reached the threshold of eighty percent of the population, much higher than the last available data, which placed the literacy rate at a little over sixty percent. Reaching 86% for men, it is a remarkable result for a low-income nation. This fact also places Syria at a higher level than many education systems in countries of the Middle East, with the exception of Jordan and Lebanon. Since 2001, private schools and institutes have been allowed, but they only exist in the bigger cities. On the whole, the State spends 8.6% of its GDP in this sector (2003 statistics).

The structure, inherited from the colonial period and therefore similar to the French systems, is divided into three levels. Primary school is free but obligatory, attended by all those with the right to school, and lasts four years. There is

the secondary school, which lasts five years and is followed by a third level, that can be general or technical (industrial, agricultural, domestic or computer science fields), with a duration of three years. Those who follow general studies take examinations to enter the classical or scientific field and continue studying for one year, followed by admission to specialized studies at the university level.

Since September 2002, Syrian students can obtain a degree by distance learning via internet courses at a virtual university, the Syrian Virtual University. Although there are technical problems, in part resolved by the use of high speed internet, the university has enrolled thousands of students and is further propagating new computer technologies. The objective is to use computers and internet – as well as to use foreign languages, since the courses are held in partnership with foreign universities, which grant their own degrees to the students – to stimulate the economic growth of the country.

Information

The right to free speech in the press is protected by the Syrian Constitution, although the state of emergency restricts its application. The government can monitor and destroy publications and broadcasts that endanger the security or interests of the country. The high officials of broadcasting stations and newspapers, usually financed by public funding and public property since 2001, are nearly always party officials. People that wish to start a private enterprise in this sector must obtain a ministerial license and, generally speaking, all operators must maintain

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a strict line of conduct in order to avoid censorship. This is not true for foreign programs, for example those transmitted via satellite, and satellite dishes are quite diffused, as is access to foreign radio programs.

Political System

The current form of government in Syria is that of a parliamentary republic, based on a constitution that provides for a classic three-branch system of executive, legislative and judicial powers. Two great actors dominate the political scene and hold a great amount of power: the President and the Ba'ath party, the party of the Arab Socialist Rebirth. The Constitution entrusts the Party with a policy-making function within the State structures and society, guaranteeing however at the same time the existence of other parties and political movements.

Constitution and Institutions

The Syrian Constitution bears the date of March 13, 1973, and has been modified only slightly since then. The Constitution provides for a republican form of government, with a socialist government supporting Arab nationalism. Although Islam is not the state religion, it forms the doctrinal and judicial basis for the government. The Ba'ath Party is at the leading edge of the society in the country. Moreover, the Constitution asserts the unity and indivisibility of the Arab nation, of which the Syrian national territory is only a part and the unity of which is a catalyst for action to attaining the goal of socialist ideals. Both these principles have become less attractive as time went on and

the international situation evolved, while ethnic and religious identities still play a very important role. The chosen presidential system for the republic and the remarkable imbalance in favour of the President renders the presidency the essential pillar that supports the entire structure of the State.

Presidency The current Syrian President is Bashar al-Assad, re-elected to a second seven-year term by popular referendum in 2007. He performs the functions of: Head of State, Head of the government, and Secretary of the Ba'ath Party. Assisted by a series of military and political advisers, the President plays an essential and executive role concerning most political and economic issues regarding life in the Syrian nation. As Commander in Chief of the army, the President is able to declare a state of war and in defence of national security he can take advantage of his authority over government employees and military personnel, in particular those who belong to the emergency units – the *mukhabarat*, nominated by the President – that guarantee unity of purpose at the different levels of government bureaucracy, also on the basis of the state of emergency – another presidential instrument – decreed on March 8, 1963; their importance has decreased considerably in more recent years, as the nation achieved stability. The President also has the power to amend the Constitution and grant amnesty. The Constitution requires the President to be Muslim and be supported by two vice-presidents.

People's Council The Parliament (*Majlis al-Sha'ab*) is unicameral and is composed of 250 deputies, elected to four-year terms in fifteen

constituencies by universal suffrage (by persons over eighteen years of age). The Ba'ath – the State party, which the Constitution declares shall guide the country – dominates this organ of government, since at least 167 (two-thirds) of the seats are reserved for the National Progressive Front (NPF – al-Jabha al-Wataniyyah at-Taqaddumiyyah). Created in 1972, it is composed of the Ba'ath and other small parties that “share the national and socialist vision” (since 2005 the presence of the Syrian Social Nationalist Party conflicts with that initial formulation) and are willing to be subordinate to the NPF. In fact, at least fifty percent plus one members of the Majlis must come from the Ba'ath Party. The Council performs the function of a parliament, although lacking the power of legislative initiative. It can, however, amend acts already in discussion and ratify them, while final approval must be given by the executive branch. The NPF meets with the President to discuss topics related to the economy and national security and authorizes the five-year development plans. After the 2007 elections, 134 deputies of the Ba'ath, 35 of smaller parties under the NPF umbrella, and 81 opposition deputies are seated in the Council. This situation reveals openness towards the Sunni business community, especially considering that the Parliament can criticize and censure government policies, and this is practised in particular in the economic sphere. In the last election 56% of the electorate voted. It is the Parliament that assesses the candidates for the Presidency and election is by popular referendum.

Government is subordinate to the authority of the President, who appoints the ministers. In the Syrian constitutional structure, the government serves to supply a wider range of instruments to the institution of the presidency, which in any case remains the foundation on which it rests. The government has been guided since September 10, 2003 by Muhammad Naji al-Otari, of the Ba'ath Party; formerly he was President of the Parliament and has been replaced in this office by Mahmoud al-Abrash.

SYRIA IN NUMBERS – CIA WORLD FACTBOOK

GEOGRAPHY	
LOCATION:	Middle East, on the coast of the Mediterranean Sea, between Lebanon and Turkey
GEOGRAPHIC COORDINATES:	35 00 N, 38 00 E
AREA:	<i>Total:</i> 185,180 sq km <i>land:</i> 184,050 sq km <i>water:</i> 1,130 sq km <i>note:</i> includes 1,295 sq km of Israeli-occupied territory
LAND BOUNDARIES:	<i>Total:</i> 2,253 km, <i>border countries:</i> Iraq 605 km, Israel 76 km, Jordan 375 km, Lebanon 375 km, Turkey 822 km
COASTLINE:	193 km
TERRITORIAL WATERS:	<i>Territorial sea:</i> 12 nm; <i>contiguous zone:</i> 24 nm
CLIMATE:	Mostly desert; hot, dry, sunny summers (June to August) and mild, wet winters (December to February) along the coast; occasional snow or sleet in Damascus
TERRAIN:	Primarily semiarid and desert plateau; narrow coastal plains; mountains in the west
ELEVATION EXTREMES:	<i>Lowest point:</i> near Lake Tiberias -200 m <i>highest point:</i> Mount Hermon 2,814 m
NATURAL RESOURCES:	Petroleum, phosphates, chrome and manganese ores, asphalt, iron ore, rock salt, marble, gypsum, hydropower
LAND USE:	<i>Arable land:</i> 24.8%; <i>permanent crops:</i> 4.47%; <i>other:</i> 70.73% (2005)
IRRIGATED LAND:	13,330 sq km (2003)
TOTAL RENEWABLE WATER RESOURCES:	46.1 cu km (1997)
FRESHWATER WITHDRAWAL:	<i>Total:</i> 19.95 cu km/yr <i>use by sector:</i> domestic, 3%; industrial, 2%; agricultural, 95% <i>per capita:</i> 1,048 cu m/yr (2000)
NATURAL HAZARDS:	Sandstorms
ENVIRONMENT – CURRENT ISSUES:	Deforestation; overgrazing; soil erosion; desertification; water pollution from raw sewage and petroleum refining wastes; inadequate supply of potable water

FILE 1

ENVIRONMENT – INTERNATIONAL AGREEMENTS:	<i>Party to:</i> Biodiversity, Climate Change, Climate Change-Kyoto Protocol, Desertification, Endangered Animal Species, Hazardous Wastes, Ozone Layer Protection, Wetlands, Ship Pollution. <i>signed, but not ratified:</i> Environmental Modification
REMARKS:	In August 2005 it was estimated that there were 42 Israeli settlements in the Israeli-occupied Golan Heights area

PEOPLE

POPULATION:	19,747,586; in addition, about 40,000 people (18,000 Druze, 2,000 Alawites and 20,000 Israelis) live in the Israeli-occupied Golan Heights (July 2008 est.)
AGE STRUCTURE:	<i>0-14 years:</i> 36.2% (male 3,679,473/female 3,467,096) <i>15-64 years:</i> 60.5% (male 6,119,459/female 5,822,376) <i>65 years and over:</i> 3.3% (male 310,838/female 348,344) (2008 est.)
AVERAGE AGE:	<i>Total:</i> 21.4 years <i>male:</i> 21.3 years <i>female:</i> 21.5 years (2008 est.)
POPULATION GROWTH RATE:	2.189% (2008 est.)
BIRTH RATE:	26.57 births/1,000 population (2008 est.)
DEATH RATE:	4.68 deaths/1,000 population (2008 est.)
NET MIGRATION RATE:	NA
SEX RATIO:	<i>At birth:</i> 1.06 male/female; <i>under 15 years:</i> 1.06 male/female <i>15-64 years:</i> 1.05 male/female; <i>65 years and over:</i> 0.89 male/female <i>total population:</i> 1.05 male/female (2008 est.)
INFANT MORTALITY RATE:	<i>Total:</i> 26.78 deaths/1,000 live births <i>male:</i> 27.04 deaths/1,000 live births <i>female:</i> 26.52 deaths/1,000 live births (2008 est.)
LIFE EXPECTANCY AT BIRTH:	<i>Total population:</i> 70.9 years <i>male:</i> 69.53 years; <i>female:</i> 72.35 years (2008 est.)
TOTAL FERTILITY RATE:	3.21 children born/woman (2008 est.)
HIV/AIDS – ADULT PREVALENCE RATE:	Less than 0.1% (2001 est.)

HIV/AIDS – PEOPLE LIVING WITH HIV/AIDS:	Fewer than 500 (2003 est.)
ETHNIC GROUPS:	Arab 90.3%, Kurds, Armenians, and other 9.7%
RELIGIONS:	Muslim 90% (Sunnis 74%, Shiites – including Alawites and Druze -16%), Christians 10%, small Jewish communities in Damascus, Aleppo and Al Qamishli
LANGUAGES:	Arabic (official); Kurdish, Armenian, Aramaic, Circassian; French, English
LITERACY:	<i>Definition:</i> age 15 and over can read and write <i>total population:</i> 79.6%; <i>male:</i> 86%; <i>female:</i> 73.6% (2004 census)

ECONOMY

GDP (PURCHASING POWER PARITY):	USD 90.37 billion (2007 est.)
GDP (OFFICIAL EXCHANGE RATE):	USD 37.76 billion (2007 est.)
GDP – REAL GROWTH RATE:	3.3% (2007 est.)
GDP – PER CAPITA (PPP):	USD 4,700 (2007 est.)
GDP – COMPOSITION BY SECTOR:	<i>Agriculture:</i> 24% <i>industry:</i> 27.9% <i>services:</i> 48.2% (2007 est.)
LABOUR FORCE:	5.462 million (2007 est.)
LABOUR FORCE – BY OCCUPATION:	<i>Agriculture:</i> 19.2% <i>industry:</i> 14.5% <i>services:</i> 66.3% (2006 est.)
UNEMPLOYMENT RATE:	9% (2007 est.)
POPULATION BELOW POVERTY LINE:	11.9% (2006 est.)
HOUSEHOLD INCOME OR CONSUMPTION BY PERCENTAGE SHARE:	<i>Lowest 10%:</i> NA; <i>highest 10%:</i> NA
INFLATION RATE (CONSUMER PRICES):	12.2% (2007 est.)
INVESTMENT (GROSS FIXED):	21.5% of GDP (2007 est.)
BUDGET:	revenues: USD 8.393 billion expenditures: USD 11.21 billion (2007 est.)

FILE 1

PUBLIC DEBT:	37.7% of GDP (2007 est.)
AGRICULTURE – PRODUCTS:	Wheat, barley, cotton, lentils, French beans, olives, sugar beet; beef; mutton, eggs and poultry; milk and dairy products
INDUSTRIES:	Petroleum, textiles; agri-food products and vegetable oils; tobacco; phosphate rock mining; cement and bricks; motor vehicles
INDUSTRIAL PRODUCTION GROWTH RATE (EXCLUDING THE HYDROCARBONS SECTOR)	2.5% (2007 est.)
ELECTRICITY – PRODUCTION:	34.94 milliard kWh (2007 est.)
ELECTRICITY – PRODUCTION BY SOURCE:	<i>Fossil fuel: 57.6%; hydro: 42.4%; nuclear: 0%; other: 0%</i> (2001)
ELECTRICITY – CONSUMPTION:	34 milliard kWh (2007 est.)
ELECTRICITY – EXPORTS:	986 milliard kWh (2006)
ELECTRICITY – IMPORTS:	0 milliard kWh (2007 est.)
OIL – PRODUCTION:	379,000 bbl/day (2007 est.)
OIL – CONSUMPTION:	229,000 bbl/day (2007 est.)
OIL – EXPORTS:	150,000 bbl/day (2007 est.)
OIL – IMPORTS:	160,000 bbl/day (2007 est.)
OIL – PROVED RESERVES:	2.5 milliard bbl (2007 est.)
NATURAL GAS – PRODUCTION:	7.8 milliard cu m (2007 est.)
NATURAL GAS – CONSUMPTION:	4.4 milliard cu m (2007 est.)
NATURAL GAS – EXPORTS:	NA
NATURAL GAS – IMPORTS:	240 milliard cu m (1 January 2007 est.)
CURRENT ACCOUNT BALANCE:	USD 908 million (2007 est.)
EXPORTS:	USD 11.14 billion f.o.b. (2007 est.)
EXPORTS – COMMODITIES:	Crude oil, minerals, petroleum products, fruits and vegetables, cotton fibre, textiles, clothing, meat and live animals, wheat
EXPORTS – PARTNERS:	Iraq 27.3%, Germany 12.1%, Lebanon 9.5%, Italy 6.6%, Egypt 5.3%, Saudi Arabia 4.8%; (2006)
IMPORTS:	USD 12.38 milliard f.o.b. (2007 est.)
IMPORTS – COMMODITIES:	Machinery and transport equipment, electric power machinery, fruit, vegetables, meat and livestock, metal and metal products, chemicals and chemical products, plastics, yarn, paper
IMPORTS – PARTNERS:	Saudi Arabia 12.1%, China 9.1%, Egypt 6.2%, Italy 6.1%, UAE 5.9%, Ukraine 4.9%, Germany 4.7%, Iran 4.4% (2006)
DEVELOPMENT COOPERATION – NET TOTAL:	USD 213 million (2008 est.)
RESERVES OF FOREIGN EXCHANGE AND GOLD:	USD 6.046 billion (31 December 2007 est.)

DEBT – FOREIGN:	USD 6.633 billion (31 December 2007 est.)
MARKET VALUE OF PUBLICLY TRADED SHARES:	NA
CURRENCY (CODE):	Syrian pound (SYP)
FISCAL YEAR:	Calendar year

COMMUNICATIONS

TELEPHONES – MAIN LINES IN USE:	3.452 million (2007)
TELEPHONES – MOBILE PHONES:	6.7 million (2007)
TELEPHONE SYSTEM:	<i>General assessment:</i> fair system currently undergoing significant improvement and digital upgrades, including fiber-optic technology <i>domestic:</i> the number of landline subscribers has increased markedly since 2000; mobile-cellular service is growing rapidly and teledensity has reached 25 wireless telephones per 100 persons; coaxial cable and microwave radio relay network; <i>international:</i> country code -963; submarine cable connection to Cyprus; satellite earth stations – 1 Intelsat (Indian Ocean) and 1 Intersputnik (Atlantic Ocean region); coaxial cable and microwave radio relay to Iraq, Jordan, Lebanon, and Turkey; participant in Medarabtel
RADIO BROADCASTING STATIONS:	AM 14, FM 2, shortwave 1 (1998)
RADIOS:	4.15 million (1997)
TELEVISION BROADCASTING STATIONS:	44 (plus 17 repeaters) (1995)
INTERNET COUNTRY CODE:	sy
INTERNET HOSTS:	119 (2007)
INTERNET USERS:	3.47 million; (2007)

TRANSPORTATION

AIRPORTS:	90 (2007)
AIRPORTS – WITH PAVED RUNWAYS:	<i>Total: 26 over 3,047 m: 6 2,438 to 3,047 m: 15 914 to 1,523 m: 3; under 914 m: 2</i> (2007)

FILE 1

AIRPORTS – WITH UNPAVED RUNWAYS:	<i>Total: 64 1,524 to 2,437 m: 1; 914 to 1,523 m: 11; under 914 m: 52 (2007)</i>
HELIPORTS:	7 (2007)
PIPELINES:	gas 2,794 km; oil 2,000 km (2007)
RAILWAYS:	<i>Total: 2,711 km standard gauge: 2,460 km 1.435-m gauge narrow gauge: 251 km 1.050-m gauge (2006)</i>
ROADWAYS:	<i>Total: 94,890 km paved: 19,073 km; unpaved: 75,817 km (2004)</i>
WATERWAYS:	900 km (not economically significant) (2005)
MERCHANT MARINE:	<i>Total: 87 ships (1000 GRT or over) 329,579 GRT/475,102 DWT by type: bulk carrier 6, cargo 74, container 1, petroleum tanker 1, roll on/roll off 1; foreign-owned: 9 (Jordan 2, Lebanon 4, Romania 3); registered in other countries: 170 (Barbados 1, Bolivia 2, Cambodia 33, Comoros 5, Cyprus 2, Dominica 2, Georgia 51, Hong Kong 1, North Korea 2, Lebanon 2, Libya 2, Malta 5, Mongolia 1, Panama 25, Sierra Leone 13, Slovakia 2, St Kitts and Nevis 6, St Vincent and The Grenadines 11, Sierra Leone 8, Slovakia 2); unknown 4; (2008) .</i>
PORTS AND TERMINALS:	Latakia, Tartus





HISTORICAL BACKGROUND AND INSTITUTIONAL STRUCTURE

PART II



CHAPTER 2 - HISTORY, INTERNATIONAL RELATIONS AND GOVERNMENT

(Asmae Dachan)

Syria is at the crossroads of three continents: Asia, Europe and Africa. There are ancient traces of human civilizations that inhabited the region over the centuries, making it a meeting point of the East and the West. As an independent province of Rome, it made a very important contribution to the Empire and it was during that time that this civilization revealed one of its distinctive features: the pacific coexistence of different faiths and creeds within a non-parcelled out society.

This feature still characterizes the region today, despite the many changes that have shaped it: the Sassanid advance, the Ottoman conquest (some of the greatest battles of Arab-Islamic history took place in this region), the great Umayyad Caliphate dynasty which followed and which contributed to increasing the splendours of Damascus, the capital of the kingdom's most important province.

The region's centrality began to diminish with the Abbasids and the Fatimids and this coincided with a decline in trade and with less religious tolerance. The turn of the millennium brought the Crusades – with negative effects on the region – the temporary revival under Salahuddin, and the new period of instability under the Mamelukes. The latter were defeated in 1516 by the Ottomans, who inaugurated a reign that lasted over four centuries, until the erosion of the economy by European powers and the spread of Arab nationalism

(which has one of its epicentres in Damascus) had undermined the political consensus in the Arab provinces of the Empire.

Space in this description is also dedicated to Syria's contemporary history during the first and second post-war periods, once again part of the regional events of the Middle East after the departure of the French troops, which left Syria in the hands of national forces and independent since 1946. These forces immediately stood out for their secularism and their desire to pursue the illusion of the newfound freedom.

Regional events, the Cold War, the birth of Israel and domestic political instability made it extremely difficult, from the start, to reach this objective, which remains a constant factor of national life. So does the interweaving of Syrian events with Lebanese and Israeli ones, which ultimately led to Pan-Arabism – the pillar of the Syrian government's activities in the second half of the 20th century – being defined in new *national* rather than regional terms. The gradual drifting away from socialism and the receptiveness to privatization, trade with Europe under the Barcelona Process and the introduction of new information technology are all part of this same process. These are changes related to current events and most likely subject to interesting developments in the future.

A decisive factor is the desire of current President Bashar al-Assad to resume regional talks, which will allow the untying of intricate knots.

SYRIA

Historical Traces of Syrian Civilization

The first traces of Syrian civilization blend with the origins of humanity and with the appearance of the first populations organized in a social system. The area between the Euphrates and the Mediterranean saw the emergence of human groups that laid the foundations of human cultural development, thanks to their inventions and discoveries.

According to the “*Wasaek Ebla*” (Ebla Tables) – discovered between 1974 and 1975 – in 2300 B.C. there was already an advanced form of civilization in the area known today as Syria, with an internal political structure, connections with foreign countries, and an absolutely remarkable channel of trade for the time. For centuries the area was a crossroads of peoples due to its favourable climate and particular geographical position. Syria

straddles three continents, Asia, Europe, and Africa, and has often been a meeting point for the East and the West.

Back in 2000 B.C., Syria had already been the bone of contention between the Amorreans in the north (subsequently driven out by the Hittites) and the Egyptians in the south. Pharaoh Ramses II started a battle against the Hittites, who, as many archaeological findings show, represented a refined and advanced civilization. In Greek times, Syria was divided into numerous reigns. In 64 B.C., the area fell under the Roman leader Pompey.

Syria had its first independent structure between 211 and 253 A.D., when it was declared an imperial colony by the Syrian family of Alexander Severus. The reign of Philip the Arab followed and its role in defending the Roman Empire also helped to



Figure 1: Roman Syria / Source: The Syrian Encyclopaedia

protect the area against the threat of the Persians. In Roman times, Syria was divided into regions and its borders stretched from Anatolia to Alexandria. In the 2nd century A.D., Syria experienced a prosperous phase, thanks to its economic development, its sophisticated form of administration, and the efficiency of its agricultural innovations. At the beginning of the 3rd century, Syria played an important role in the politics of the Empire, when Rome was under the rule of Philip the Arab's family (which came from the city of Homs) between 242 and 249 A.D.

The end of Roman rule over Syria coincided with the division of the Empire into two portions: the Eastern Empire – with Constantinople as its capital – and the Western Empire, with Rome as its capital. In 323, Emperor Constantine, who fought against Licinius, announced the beginning of a period of religious tolerance, thanks to which Christianity spread widely, without fear of further persecution. Until that moment, the people of Syria had worshiped both Roman and Aramaic gods. The spreading of Christianity in the Arab world thus began; in 392, Emperor Theodosius officially recognized Christianity as a legitimate religion and Byzantium became the capital of this creed. Under Justinian, different branches of Christianity began to emerge even in Syrian territory.

Syria officially appeared on maps of the Byzantine Empire in 392 A.D. At that time there were many conflicts among different Christian factions and Syrian territory became the theatre of the wars between Byzantium and the Sassanids. In 532,

Emperor Justinian signed an agreement with the Persians, but Syria was besieged by Kathra Anushran. It was only in 622 that Emperor Hercules launched an attack against the Persians in Syria and was able to gain control over the Eastern regions. The local people paid dearly for these wars and longed more and more to free themselves from all kinds of foreign rule. In 636, the Arabs defeated Hercules and began to represent a threat to the Byzantines in the region; the inhabitants of the region were relieved by this and hoped for a time of stability.

Syria in Islamic Times

The beginning of Islamic times brought a wave of new ideas in all of the Eastern Mediterranean. Until that moment, there had been different religions in the region: Polytheism, Judaism and Christianity. The advent of Islam upset the social and political balance of the Bedouin tribes in the Arab Peninsula and brought a wave of new customs, traditions and social and political systems. Confrontation with this new creed – presented as a religion that would continue the Abramitic tradition – was not always easy. Historical evidence, however, has proven that the Muslims advanced peacefully and, where able to settle, they brought a refined culture, attentive to architectural beauty and extremely advanced as far as science and civil and political structure was concerned.

Under the leadership of Prophet Muhammad, Muslims began travelling throughout the Arab Peninsula to spread Islam. Territories north of Arabia were called “Sham countries”

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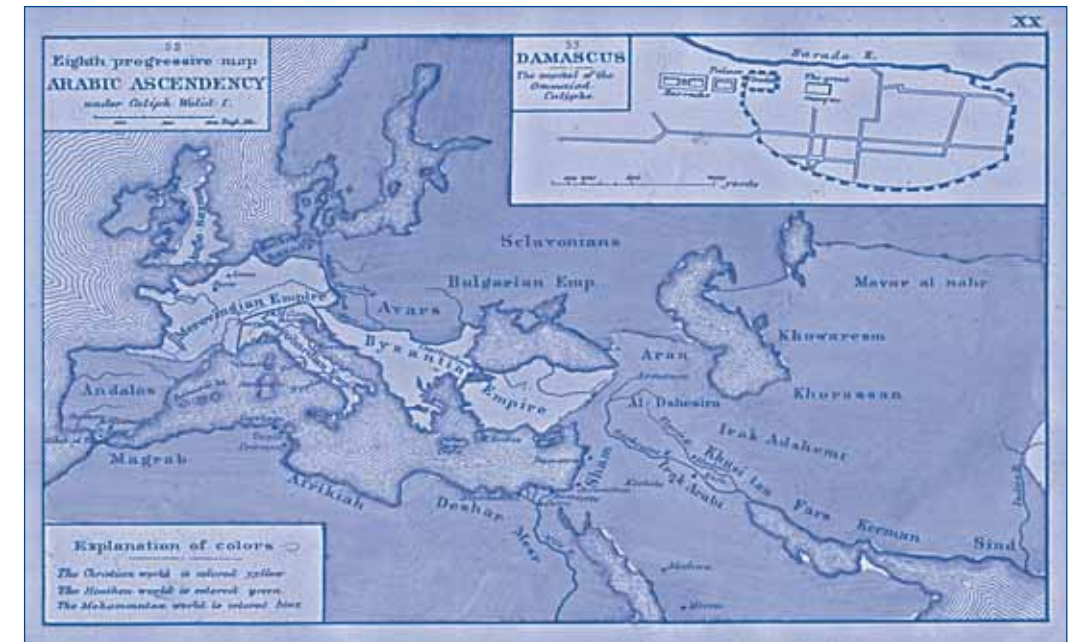


Figure 2: The caliphates / Source: The Syrian Encyclopaedia

(*Bilad Al Sham*); in the Arab language, the word *Sham*, which is also used to indicate the city of Damascus, means dignity and honour, and this shows the high regard that the Arabs had for the inhabitants of the region. Caravans of Bedouins would travel across the desert to *Bilad Al Sham* to stock up on fabric, spices, fruit, grain, and other goods.

In 635, the Muslims reached Damascus under the leadership of Khalid Ibn al-Walid and Abu Ubaidah Ibn al-Jarrah. In 636, the memorable battle of Yarmouk took place (the name derives from the Yarmouk River) and the Muslim forces sided against the region's Byzantine rule. To this day the battle is remembered as an important success of the first Islamic leaders. In Syria, Islam found fertile ground and soon a new culture

flourished: it rapidly became a landmark for the entire Muslim civilization. The pre-existing religious communities continued their activity without any particular disruption. Omar Yazid Ben Abi Sufian was appointed governor of *Sham*.

The Umayyads, Abbasids, and Fatimids

In 661 – after the death of Caliph Ali – Muawiyah, who had governed Syria during the first Arab conquest, declared himself his successor and settled in Damascus. Muawiyah was known as “the architect of the Islamic Empire” and was a political genius; under his rule, Syria became the most important province of the caliphate, with an advanced financial and postal system, an important

army and the first Islamic fleet. Muawiyah took the wellbeing of Christian Syrians at heart; those who enlisted were promised double pay and assignment to important official tasks. His attentiveness and respect for everyone's religious principles contributed to his political success. In fact, thanks to his policy of tolerance, this young caliph was able to rely on support from all social classes. In 732, the dynasty he founded conquered Andalusia and Sicily, and reached France, Samarkand and Kabul. Damascus reached a splendour that set it apart from all other cities in the 8th century. The Muslim Umayyad set up a military government in Syria, which became an important base for all of their operations. The Byzantine principle, which gave full authority to provincial governments, was safeguarded.

As far as legislation was concerned, the Umayyad preserved the Greek-Roman tradition. Islamic law, *sharia*, was applied to Muslims only. Civil law was applied to the other *millat* (religious communities); the individual leaders of the different creeds took care of the administrative issues of their respective communities. This principle still stands in the current Syrian legal system. In the 9th century, many Syrians turned to Islam and the Arab language slowly replaced Aramaic. The Umayyad dynasty built hospitals, water networks and roads, leading Syria towards significant economic and cultural prosperity. The Umayyad dynasty began to split up when Sunni and Shiite Muslims in Iran started pressuring them. In 750, the Abbasid dynasty – from Khorasan, in the north of Iran – defeated the

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Umayyad and proclaimed Baghdad the new capital of the caliphate. Syria went back to being a simple province of the Empire and the Abbasids played a marginal role. Some independent Muslim princes took on the role of leading the country; one of the most important was Abu Ali Hasan, who founded the reign known as Hamdani, with Aleppo as its capital (today it is Syria's second most important city from a political and an economic viewpoint). The Hamdani dynasty ruled through the entire 10th century and became famous for its scientific and literary progress and for its continuous attacks against Byzantium. The Hamdani reign fell in 1040, after the Turkish invasion from the northeast. During the same period, the Fatimid caliphate settled in Egypt in an attempt to penetrate northern Syria.

Unlike the previous caliphates, the Fatimids were less tolerant: under Caliph Abu Ali Mansur Al Hakim (966-1021), many churches were destroyed and the Christian communities were forced to seek refuge in the mountains. The Caliph was then killed by his own mother because he had referred to himself as "a divinity". His followers – who gathered in the valley under Mount Hermon, in Syria – embraced his religion and become the predecessors of the Druze community, which is still present in the region today. These events upset the situation in the Middle East, arousing worries among the rulers of Europe who prepared to begin the Crusades, "the first form of western colonization in the Arab world", as described by Muslim historians.



Figure 3: The Umayyad Empire at Its Maximum Extent / Source: The Penguin Atlas of Mediaeval History



Figure 4: The Conquests of the Crusades and Saladin's Empire / Source: The Syrian Encyclopaedia

The Crusades and the Mameluke Period

Great battles and significant changes marked the five centuries between the end of 1000 and the beginning of 1500. A fertile ground for the flourishing of cultures and encountering of populations, Syria witnessed – in less than 500 years – the coming and going of the Crusades, and the Ayyubid, Mameluke, and finally, Ottoman dynasties. Each arrival represented a change in the pre-existing social and political balance, and the religious influences that each group brought were significant as well.

Between 1097 and 1144, the Crusaders established the states of Edessa – in northern Syria – Antioch, Tripoli and Jerusalem. Faced with the threat of the Crusaders, the Muslims joined forces from Syria to Egypt, dissolving the differences between Sunnis and Shiites. Critical historians of the Arab world see the Crusades not only as a war for religious reasons but also as a political conflict to all intents and purposes. The passing through of the Christian military forces is described as a dramatic moment, in which “the blood of Muslims and Arab Jews was spilt”. It was the young and brave leader Saladin – a Muslim of Kurdish origin – that succeeded in recapturing Jerusalem and keeping Syria and Egypt united. During the course of his life he brought harmony to the Muslims in the Middle East, earning great esteem and respect in the Arab world, in particular in Syria. When he died of malaria in 1192, his reign stretched from the banks of the Tigris River to North Africa and Sudan. However, his successors of the Ayyubid dynasty were in

conflict with each other. Thus, Syria was divided into small dynasties: Aleppo, Homs, Hamah and Damascus.

The glorious period under the leadership of Saladin was followed – between 1250 and 1516 – by a difficult one, the Mameluke period. The Crusades ended in Syria in 1291, when the city of Acre fell and all the crusaders’ conquests in Syria were abandoned. In the 14th century, after driving back the Mongol invasions from the north (they were known for destroying everything they met along their path), the Mameluke sultans in Egypt – who were the successors of the Abbasids – extended their dominion from the Nile to the Euphrates. As they were not of Arab nationality, the Mamelukes decided to entrust the local religious leaders with the role of acting as mediators; they were, therefore, able to dedicate themselves to the realization of their political project by counting on the cooperation of different spiritual guides. This brought an increase in the number of schools and cultural facilities. The situation, however, remained unstable. In 1516, the Ottoman sultan in Turkey, Selim I, defeated the Mamelukes at Aleppo and Syria became a province of the new Islamic Empire.

It is interesting to consider the importance of the presence of different religious faiths in the country during this series of historical events. Historians point out that in Syria, more than anywhere else in the Mediterranean area, different religious groups have always coexisted in an environment of general tolerance, respect and freedom. This atmosphere favoured the emergence of trends and minorities, within all creeds, and they are still

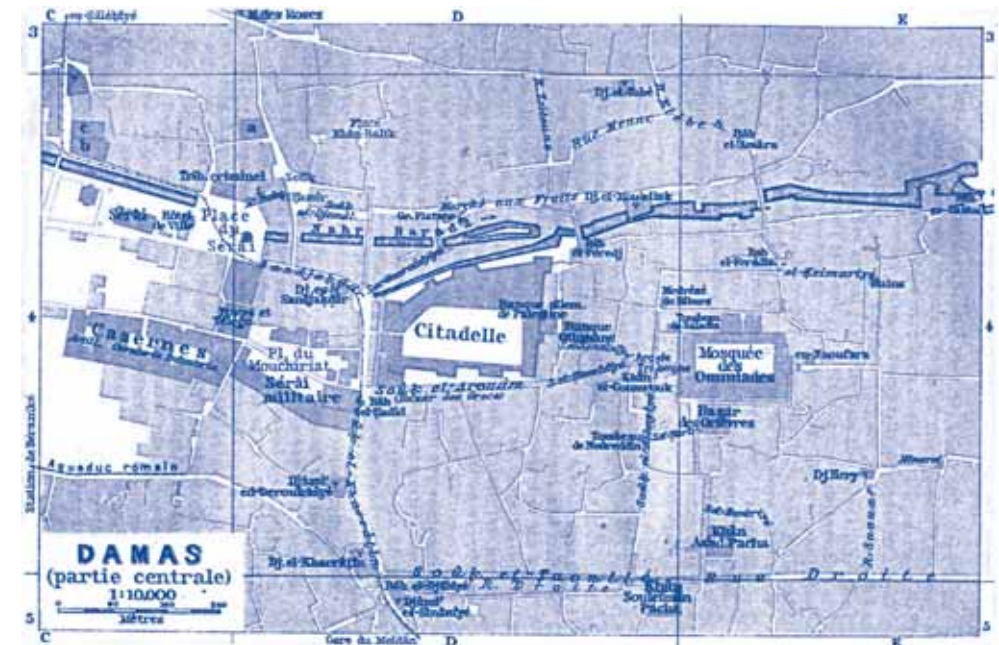


Figure 5: Map of the city of Damascus in 1912 / Source: The Syrian Encyclopaedia

more concentrated in Syria than any other region of the Middle East even today.

Just to mention a few examples: the Christian Maronites, the Alawites, and the *Sufi* confraternities born within Sunni and Shiite Muslim groups.

The Ottoman Empire

The Ottomans were Turkish Muslim nomads who had turned to Islam during the Umayyad conquest in the 8th century. In 1300, under Uthman (the word Uthmani, which derives from this caliph’s name, means “descendants of Uthman”), they established a principedom that included the remains of the Seljukian Empire, left behind by the Mongols northeast of Turkey. Fifty years later, Uthman’s successors invaded Europe; in

1453 they conquered Constantinople and, during the 16th century, the entire Middle East. Thirty-six sultans descending from the same dynasty governed the Islamic world – a territory stretching from North Africa to the Far East – between 1300 and 1916, when the Empire finally fell.

From 1516, the Ottomans governed Syria through “*pasha*” (a Turkish word, also used in the Arab language, which indicates a title given to governors) who were in charge of administrative and political powers, even though they had to answer to the throne of Istanbul. For the entire duration of the Empire, there was little contact between the Syrian colony and the Turkish governors, with the exception of wealthy citizens who managed to have important connections

with the government or sent their children to study at Turkish universities.

The Ottoman government was not hostile to the Syrians and the Turks showed great respect for Arabic, as it was the language of the Koran, knowledge of which was essential for those who set themselves up as *defenders of the faith*. Damascus was considered by the caravans of pilgrims to be the door to Mecca, and this made it a holy place. Under the government of Suleiman the Magnificent, the sumptuous complex of mosques of the Tekke was built in Damascus. Different religious communities, Greek Orthodox, Jews, Maronites, Shiites, freely professed their creed; their respective leaders took care of personal affairs of their own followers and performed some civil functions. The Syrian economy did not flourish significantly during the Ottoman period: at that time, Syria was a poor country that needed to be rebuilt; there was a 30% drop in population and many villages disappeared into the desert. Despite the poverty of the time, the region continued to attract European traders, who for centuries had carried spices, fruit and fabrics from the Middle East. In the 15th century, the city of Aleppo was the most important market in the area, more important than Damascus. This caused great rivalry between the two cities. Besides traders, also from the West came missionaries, teachers, scientists and tourists and their governments of origin began to claim various rights. For example, France claimed the right to protect Christians, which was recognized in 1535 by Sultan Sulaiman the Magnificent. This initial concession of extraterritorial-

ity developed over time into political semi-autonomy and brought not only the French but the whole Christian community under foreign protection. In 1580, Great Britain acquired the same right and the “Levant Company” was established in the city of Aleppo. Towards the end of the 18th century, the Russians requested the right to protect the Greek Orthodox community.

The Ottoman dynasty began to decline towards the end of the 18th century. In the 19th century, European forces took advantage of the situation and began military and political penetration: Napoleon invaded Egypt, followed by British intervention and the French occupation of Lebanon. Penetration by the west gained significant political weight after the appearance of the Druze community in the Syrian province of Lebanon, about the year 1860. The revolt began in the north, at the time when the Christian Maronites rebelled against the Christian landowners. When the revolt reached the south – where most of the landowners were Druze – the conflict became inter-sectarian: the Druze massacred over 10 thousand Maronites and France intervened by sending troops. In 1861, for the first time, Lebanon was independent from Syria and eventually fell under French control.

In the 19th century, pressure from Europe and the discontent of the Syrian population led the Ottomans to promote a series of important reforms. Egyptian occupation in Syria, from 1831 to 1839, led to a centralized government, a law reform and more transparent taxation. In 1832, Damascus officially became the

capital; schools were established, the judicial system was restructured and the tax policy changed. However, the unpopularity of *pasha* Ibrahim – son of the Egyptian governor – grew day by day, due to the restrictions he imposed on landowners and the heavy taxes he forced citizens to pay. Under Ibrahim’s government, however, Christians and Jews were granted the same rights as Muslims.

The reforms introduced by Sultan Mahmud II were successful among the Alawites outside Latakia but less so among the Druze in the southwest, who were demanding administrative and judicial independence and exemption from military service. Although some reforms were failures, others brought significant results, for example, the reforms that provided for the colonization of the Syrian frontiers, the elimination of tribal raids, the farming of new lands, and the settling down of many Bedouin tribes. The population, however, continued to fear new taxes and this created a lot of tension.

The decline of the prestigious Ottoman Empire began with Sultan Abdul Hamid II, also known as Abdul Hamid “*the damned*”, who is remembered in history as the dynasty’s most oppressive sultan. The long feared tax raises soon arrived, and political opponents were persecuted. The sultan tried to win the Muslims’ trust by spreading Pan-Islamic ideas and by completing – in 1908 – the Hejaz railroad, which connected Istanbul to the holy city of Medina. The sultan’s cruelty, on the one hand, and the ongoing pressure from the West on the other, favoured the flourishing of the first currents of Arab nationalism.

On June 10, 1916, the first great Arab Revolution broke out to put an end to the Ottoman presence. The Ottomans tried to contain the revolt and erected gibbets in Damascus and Beirut. Dozens of people – accused of holding the reins of the independence movement – were hanged and historians describe them as the “first martyrs of Syrian independence”. The Arabs decided to enter the First World War alongside the countries of the Entente, which had promised to support their cause until they gained full independence from the Turkish sultans. In 1918, after 400 years of Ottoman dominion, the Arabs freed Damascus under the leadership of Emir Feisal I, son of Ibn Assherif Hussein, known as *Sherif* (honoured) of Mecca, and Thomas Edwards Lawrence.

It is necessary at this point of our account of Syria’s history, to give careful consideration to the historical meaning of the Ottoman presence in the Middle East, its influence on customs, politics and local economy, and the different ways it has been analyzed by historians. There are two main schools of thought: the Islamic current and secular Pan-Arabism. The former describes the Ottoman era with the word *Fath*, the same word used to indicate the expansion of Islam since the times of Prophet Mohamed, when it spread from the Arab peninsula to the rest of the world. It is a totally positive historical interpretation, which considers the Ottomans with pride to be the true custodians of the Islamic message and the propagators of a modern, non-Arab Islam. The latter uses the word “*ehtilal*” (occupation), and gives a strong negative interpretation to those historical events.

It points out the country's economic, social and political decline, which lasted over four centuries, and especially the fact that the Turks – even though Muslim – were considered “non-Arab”, and therefore foreigners, and for this reason not welcome. In any case, the Turkish presence in Syria left important marks, visible to this day, not only from an architectural viewpoint but also from a linguistic and social one. Experts, in fact, point out that there are a large number of words and names of Turkish origin, which are used in cities of the north and especially in Aleppo.

World war I and the French Mandate

An independent Arab world after the Ottoman dominion was more a dream than a reality. In 1919, Prince Faisal convened the Syrian General Congress, which proclaimed Syria to be independent and sovereign. A year later, the Congress appointed Faisal ruler of the nation and so the rebuilding of the country began. Arabic resumed its status as the official language, in place of Turkish; during the same period, the School of law at the University of Syria and the Arab Academy of Damascus were founded. The new ruler appointed a committee to draw up the national constitution.

The country's coast, however, had remained under French control, and protests and revolts by citizens continued to grow. According to historical analysis, three forces were working against Arab nationalism and Faisal's project for a great Arab monarchy. First, there was the British will to extend its control over East Mesopotamia in order to contrast Russian influence in the north and protect its own interests in the area. The second

force was Zionism and Jewish interest in Palestine. Although Great Britain had promised to recognize “an independent Arab state or a confederation of Arab states”, with the Balfour declaration in November 1917, it also promised Zionists “an independent home” in Palestine. Obviously, these two promises clashed. The third force was France's determination to remain a power in the Middle East. By this time, the area had become the theatre of rivalry and competition between the two countries.

At the beginning of the war, the French and British had met with their Italian allies and – with the consent of the Russians – signed the secret agreements of Saint-Jean-de-Maurienne, defining the partitioning of the territories of the Ottoman Empire. However, the fate of Arab countries was decided by a second secret agreement, called “Sykes-Picot” (the names of the two negotiators), signed between France and Great Britain in 1916. This agreement remained top secret until after the October Revolution, when the Bolsheviks released all foreign diplomatic documents. The pact provided for France to have important control over Syria, Lebanon and parts of central and southern Anatolia, while Great Britain would have Transjordan and Iraq; an international condominium was to be set up in Palestine.

At the Conference of Versailles in 1919, American President Woodrow Wilson asked that the Arab request for independence be taken into consideration, and invited Saudi Prince Faisal – skilled strategist and politician – to present the Arabs' arguments. His request, however, was not granted. The same fate was met by the report

that specifically requested Syria's independence under the leadership of Prince Faisal or – alternatively – a mandate of the League of Nations over the country. Disappointed by the failure in Versailles, the ruler returned to Damascus and nonetheless declared Syria a free and independent country.

For the Arabs, the pact secured with the British and the French in order to get rid of the Ottomans, therefore, turned out to be a stranglehold. Indeed, not only did the two countries not recognize Syria's independence but they also did not take into consideration the work done by the League of Nations or by the ad hoc Commission that President Wilson wanted. In fact, during the summit in San Remo, held in April 1920, the two European powers assigned themselves the territories taken from the Ottoman Empire, almost exactly as laid down in the “Sykes-Picot” agreement. Not only did this decision represent a major violation for the Arabs, but it also led to the transformation of the Middle East into a chessboard of different countries divided up among European colonialist powers. This new occupation resulted, on the one hand, in an increase in sentiments of Arab nationalism, and on the other, a strong desire for independence that fired up the local population.

Syria was allocated to France's control: in 1920, forces under orders from Paris landed on the Syrian coasts; the battles were violent and, despite their adversaries' limited training, it took three years for the French army to finally defeat the resistance of the local population. In 1923, France's dominion over Syria officially began.

These events marked the beginning of a new, severe, crisis in relations between the Arab world and Europe and laid the foundation for the birth of Pan-Arab parties, like the Ba'ath party (Arab Socialist Resurrection Party) and the National Arab Movement, and also religious movements, like the *Ikhwan* (Muslim Brotherhood), which preached the rebirth of Arab-Muslim pride against the oppression by the Christian West. Laymen and clerics, socialists, republicans, and monarchists, all fought for the same cause: to free the Arab world. Initially, the European occupiers were identified as the enemy, but as time went by, the Arab governments became the enemies. In the eyes of the people, they were “puppets” subjugated by Europe, who did not care about the interests of their own countries.

The rivalry and friction between the French and the British did not come to an end after the sharing up of power in the Middle East, as defined by the protocol signed in San Remo. With their mandate, the French were hoping to increase their power by working on two fronts: on the one hand, by favouring the separation between religious minorities, on the other, by working to weaken Arab nationalism. The initial plan was to create three states subdivided by ethnic group and religious denomination: an Alawite state in the north, a Sunni Muslim state in the centre, and a Druze state in the south were to be incorporated into a federation. At the same time, France created a Christian state in the Mount Lebanon area. In reality, the Sunni state was never established and, in 1926, the French extended the borders of the Christian

state even further, in collaboration with the Maronite leaders.

The rest of Syria was divided into five semi-independent areas: Jabal Druze, Aleppo, Latakia, Damascus and Alexandretta (now Iskenderun), where religious diversity became more evident and a strong feeling of pride and local identity – in opposition to the Pan-Arab nationalist one – started taking root. The coastal region of the north and Jabal an-Nusayriyah were united to form the state of Latakia; this area would become particularly important in the future under the Alawites. At the same time, Arab nationalism lost ground and with time became an isolated phenomenon, concentrated mostly in the city of Damascus.

The Syrians soon regretted Ottoman rule, which had been less oppressive than the French one. Besides imposing the French language in schools, where the *Marseillaise* was mandatory, the colonial powers also held the reins of the economy, leaving the most important decisions to French bankers, who certainly did not care about the interests of Syrians. Colonial administrators applied management techniques acquired in North Africa, without taking into account the differences and the more sophisticated nature of the Syrian Arabs, or even the failures that were starting to appear in Maghreb. In this situation, however, it was clear that the country's future was in the hands of the European occupiers.

Proud and free by nature, the Syrians could not take this oppression without reacting. The French, however, had control over the press, and exercised their influence by censoring all independence sentiments. In 1924, the birth of a

people's assembly, elected in British-controlled Iraq, encouraged the Syrians to fight for freedom. The occupying French power was forced to be more tolerant, allowing the birth of the People's Party in February 1925. That same year, however, hotbeds of revolts multiplied and the fighting between independence movements and colonial powers was very violent, even though, as yet, without nationalist inspiration but rather actions by single groups: Alawites, Druze or Bedouins against the occupants.

The French reaction was extremely violent: areas where incidents had taken place were heavily bombed, and Damascus was especially punished for supporting the revolt. Entire districts were razed to the ground. The number of victims was extremely high: at least 5,000 are thought to have been killed; all this led to international condemnation. Aware that unity was strength, Aleppo and Damascus united, while in 1926, Lebanon became an independent republic under French control. During the meeting held in Rome in 1926, the League of Nations declared that the encouragement of sectarian and ethnic factions had led to great instability in the area. Paris started coming under a lot of pressure. In 1928, the French agreed to the formation of the *Kutlah Al-Wataniyah* – the National Bloc – composed of various groups concentrated in Damascus. The national alliance was led by Ibrahim Hannanu and Hisham Al-Atassi and included important landowners. Elections for a constituent assembly – held the same year – brought the *Kutlah* to power and Hannanu began drafting the Constitution. In 1930, the French were forced to accept the proclamation of the first constitutional charter

and, two years later, the election of the first President of the Syrian Republic, Mohamed Ali Abbad. Syrian nationalists believed it was necessary and strategically important to sign an agreement with the French, following in the footsteps of the Iraqi and the British, who had made a treaty. In 1936, in fact, the French and the Syrians signed a treaty of alliance, never ratified by the Parisian parliament; Syrian optimism, however, was not discouraged, especially when Hashim Al-Alassi was elected President of the first national government. France was under pressure from the *Kutlah* and in 1937 agreed to give back Jabal Druze, and Latakia to the Syrians and allowed them to take control over the administrative functions of many local governments. French domination influenced local habits and customs; the country acquired new architectural styles and saw the birth of modern cities, with numerous infrastructures. It is important to emphasize how, under the French mandate, Syria had become a refuge for persecuted groups from neighbouring countries, like the Kurds and the Armenians. The local economy underwent significant changes and slowly moved towards the future.

The general situation in the Middle East was far from calm and Syria felt the effects; the stability of the government was undermined by issues such as the Turkish claim for Alexandretta, the Arab revolt in Palestine, the devaluation of the French franc, and the lack of real unity among Syrians. There were strong rivalries within the *Kutlah* itself: Abdul Rahman Shanabandar – one of the leaders of the National Bloc – formed a rival organization in 1939 in

order to obtain more power, but he was assassinated the following year. In addition, France supported separatist movements in Jabal Druze, against the nationalists.

During talks between Syria and France – in 1936 – Turkey had requested that the situation in the area of Hatay be reconsidered. At the time, it was part of the Syrian province of Alexandretta but most of its population was Turkish. This area had enjoyed a special administrative system since the Ankara Agreement between the French and the Turks, in 1921. The case was brought to the League of Nations, which decided, in 1937, that Alexandretta would become an independent state. Direct negotiations took place in 1939 between Turkey and France, and Alexandretta was assigned to Turkey. The Syrian nationalists strongly criticized this evolution of events and accused their own government of not knowing how to protect national interests. President Atassi resigned, parliamentary institutions were abolished and France resumed its control over a Syria overwhelmed by chaos. The French government, at that point, officially declared that it would not sign the Syrian-French treaty.

World war II and Independence

When France surrendered in 1940, General Henri Dentz was chosen by Vichy as High Commissioner and a new cabinet was formed with Khalid Al Azm as head. He was a landowner, who belonged to an old family of Damascus, and would play an important role in Syria's history for over 22 years. Great Britain and France, however, were able to defeat the Vichy regime in both

Syria and Lebanon, with help from the Arab Transjordan Legion, and the Free French Forces gained control. After the appearance of the allied troops, the leader of France – General Charles De Gaulle – promised theoretical independence. De Gaulle himself declared right away that the mandate over Syria would remain valid until the new French government annulled it. In 1943, the Syrians elected a new Parliament, ruled by the *Kutlah*; Quwatly was nominated President.

A year later, the Syrian government took administrative control of 14 departments that had been under French control since 1920. They dealt with customs, social affairs, taxes, control over the concessionaires and supervision of the tribes. France still controlled educational, cultural, and social services, while the *Troupes Speciales du Levant* were used to guarantee safety. Despite French opposition, the Soviet Union (in July 1944), and then the United States (in September of that same year), guaranteed Syria and Lebanon unconditional recognition as sovereign states; British recognition came the following year. These countries pressed France to leave Syria once and for all. Damascus asked the *Troupes Speciales du Levant* either to leave the country or pass under its control and work to form a national army. Paris withdrew its troops on condition that Syria signed a treaty assigning France a privileged position in the country.

In January 1945, the Syrian government announced the creation of a national army and a month later declared war on the Axis Powers. In March, the country thus became a founding member of the United Nations; this was an

important event because it officially secured the recognition of Syria's sovereignty. In April, Damascus declared it would support the idea of Arab unity and signed a pact with the Arab League. France left Syria in a way that increased the Syrians' negative feelings for the French. Paris was indeed resolute in its request to protect its cultural, economic and strategic interests with a treaty. Without one, it would not withdraw the *Troupes Speciales du Levant*. The population was exasperated with what they perceived as unending and illegitimate oppression on the part of the French colonizers and this led to an increase in demonstrations and marches demanding the end of all European presence and interference.

In May 1945, the demonstrations in Damascus and Aleppo led the French to bomb the old capital for the third time in 20 years: the number of civilian victims was very high this time also. Violent conflicts broke out in the cities of Homs and Hamah, and only the intervention of British Prime Minister, Winston Churchill – who threatened to send his troops into Damascus – convinced General de Gaulle to order a ceasefire. In 1946, following President Shukry Alqutly's plea, a resolution of the United Nations ordered France to evacuate Syria; On April 17 that same year, all foreign troops withdrew from Syrian territory: Syria has, ever since, celebrated this day, *Evacuation Day*, as a national holiday.

Syria lost many lives in the attempt to free itself from French colonization and to protect its own cultural, historical, religious, and social identity, threatened by the ideological impositions of

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the occupying power. The Syrians felt they had nothing in common with the French colonizers, unlike the Ottomans who shared their religious faith. Writers and poets of the time wrote about those feelings, about the wish to recuperate the pride and freedom which had characterized the ancient Arabs, and the will to resume speaking Arabic in schools, courthouses, political seats and markets. The departure of the French was like a mirage of a newfound freedom and the end of a very long period of occupation and wars.

The taste of independence – however – did not last long; the beginning of the Palestinian Diaspora and the new conflicts that broke out in the south were the start of a new and painful phase for the local population. In 1947, the decision to divide up Palestinian territory and create the State of Israel, which at the time threatened the Arabs that it would expand from the Euphrates to the Nile, was the beginning of the tragedy of the Palestinian people and a new time of crisis began in the Arab world.

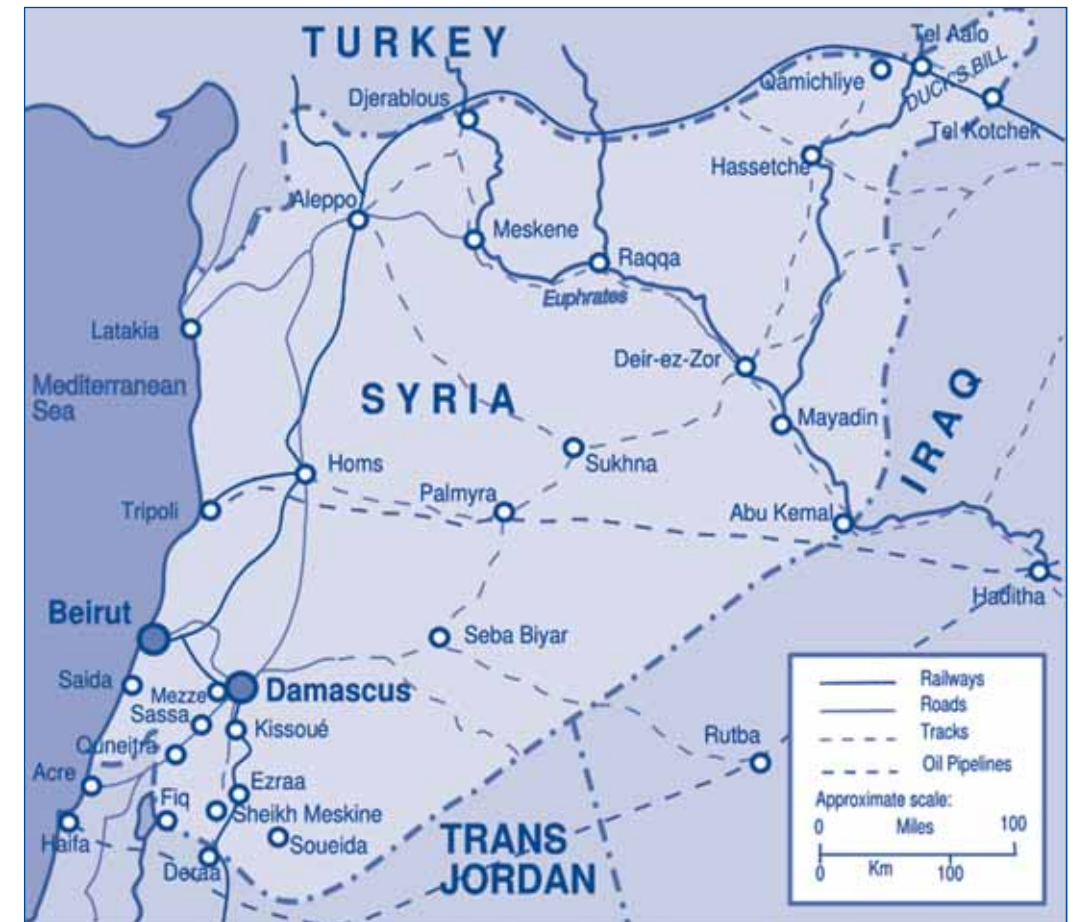


Figure 6: Syria during World War II / Source: Wikipedia

Post-independence Syrian politics continued to be unstable until 1960, despite rapid economic growth. A series of coups d'état began in 1949 and brought Colonel Abid Shishakli to power in 1951. He was then overthrown in 1954. Numerous rival factions, supported by the military, fought to gain control over the country.

In 1954, the parallelism between Syrian and Egyptian politics became more evident; the appeal of Egyptian President Gamal Abdel Nasser at the beginning of the Suez canal crisis – in 1956 – laid the foundation for a union between Syria and Egypt: On February 1, 1958, the two countries formed the United Arab Republic – with Nasser as President; all Syrian political parties stopped their manifest activities. Rather than constituting a real power against the threat of Israel's expansion, and rather than fulfilling the desire for unity among Arab peoples, the United Arab Republic turned out to be a failure, another disappointment. Initially, it had been praised by Arabists, politicians, and intellectuals but it did not last long. The Syrians were the most discontent and so, with a military coup on September 28, 1961, they withdrew from the union and proclaimed the Syrian Arab Republic. Nazim el-Qudsi's moderates won the elections but his government was tormented by 18 months of alternating military operations.

On March 8, 1963, left-wing officials of the Syrian army created the National Council of the Revolutionary Command (NCRC): a group of military and civilians that controlled the executive and legislative activities. The members of the Arab Socialist Resurrection Party – Ba'ath, which had been active in Syria and other Arab

countries since 1940, were in control of the new cabinet. The new Syrian government considered the idea of federating with the members of Ba'ath in Egypt and Iraq. For this purpose, in April 1963, an agreement for a referendum was signed in Cairo. Major disagreements within the Party, however, sabotaged the project: a series of nationalizations followed and, in May 1964, the President of NCRC Amin Hafiz promulgated a provisional constitution, which defined Syria as a democratic socialist republic. This lasted until February 1966, when an armed military group organized an intra-party operation, imprisoned Hafiz, dissolved the cabinet and the NCRC, abrogated the provisional constitution and appointed a regional Ba'ath government. There was even talk about “rectifying” the principles of the B'ath party.

The surprise war started by Israel in June 1967 defeated the Syrians and Egyptians and weakened the socialist regime that had been established with the coup of 1966. The armies of Syria, Egypt and Jordan were defeated in the “Six Day War” and the pride of the Arab world suffered a great blow when it saw its military forces decimated. Indeed, Israel's rapid victory opened a wound in the Arab world. Israel occupied Sinai, the Gaza Strip, Transjordan and the Golan Heights.

The war of 1967 was not the only one against Israel; in 1973 – in fact – the armies of Syria and Egypt attacked Israel, in the war known as “Kippur”, and succeeded in regaining partial control over the Suez Canal; whereas they were able to free only a small part of Golan Heights and the area of Qanitra. Syria was not able to

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follow Egypt (which had conquered Sinai anew) on the road to peace, while the UN passed a number of resolutions in this regard. Back in 1962, the Security Council (resolution 171) had already condemned Israel's violations against Syria. In 1981 (resolution 497), the Security Council declared Israel's annexation of the Golan Heights to be null and asked Israel to withdraw immediately. This particular issue still has an impact on relations between Damascus and Tel Aviv.

Internal Hotbeds: Ba'ath against the Muslim Brotherhood

The lack of peace and political stability, however, was not caused by foreign affairs only, but also by the constant military coups that upset internal stability. In 1970 – in fact – a conflict broke out between the moderate military wing and the extremist civilian one of the Ba'ath party. The retreat of the Syrian forces, sent to give support to the PLO during hostilities with Jordan in “Black September”, mirrored the political disagreement within the party's leadership. In November that same year, this situation led to the military coup triggered by the Minister of Defence Hafiz Al-Assad, who drove out the party's civilian leadership and took over as Prime Minister. A new era thus began for modern Syria: al-Assad worked to create a ramified organization for his government. The Provisional Regional Command of Assad's Arab Socialist Ba'ath party appointed the members of the People's Council: of the legislature's 173 members, Ba'ath party had 87 seats, while the remaining ones were divided

among minor parties and popular organizations. In March 1971, the party held its regional congress and elected a new Regional Command composed of 21 members under the leadership of al-Assad. That same month – through a national referendum – he became President with a seven-year term (and was reconfirmed in the elections of 1978, 1985, 1992, and 1999). A year later, al-Assad formed the National Progressive Front, a coalition of parties under Ba'ath to gain further consensus and obtain the collaboration of the Communist party and other left-wing groups; elections were announced to appoint local councils in Syria's 14 provinces. In March 1973, a new Syrian constitution was promulgated. It was followed by the first parliamentary elections for the People's Council since 1962.

The authoritarian regime imposed by the Alawite leader received a lot of criticism and opposition, especially in 1970 when the Sunni movement of the Muslim Brotherhood gained ground, mainly in Hama and Aleppo. The main Ba'ath party issues challenged were the secularism of its political program and the role of the Alawites, looked on as heretics by Muslim traditionalists. The Muslim Brotherhood's opposition soon turned into an armed conflict and many young people, both soldiers and militants, lost their lives between 1976 and 1982, when the movement was suppressed. In 1979, the movement killed over 80 young cadets of the military school in Aleppo. There were also various car bombs in different parts of the country; The Brotherhood organized an attack

on President Assad in June 1980, during a military parade in honour of the President of Mali. The Syrian President miraculously escaped the attack and immediately got his revenge: only a few hours after the attack, hundreds of young Islamic activists held prisoners in Tadmor were killed. The President's brother, Rifaat al-Assad, led the operation. In order to put an end to all Muslim Brotherhood activities, the government launched a decisive attack against the stronghold of Hama on February 2, 1982 in which thousands of people died; Rifaat led this operation as well. The entire old part of the city was attacked and no civilians were spared, as they had not abandoned their houses and were all considered pro-rebels. It is still impossible in Syria to speak openly about these incidents and it is a fact that public demonstrations against President al-Assad have been limited since then. European nations expressed reproach and condemnation and gave political asylum to many young people who fled Syria. Not only political militants but also intellectuals, artists, writers, journalists and poets fled.

The Lebanese Question

The 80's were a difficult time for relations between Syria and Lebanon: during the civil war in Lebanon, which broke out in 1975, Beirut asked for assistance from Damascus as an Arab peace force. The Arab League accepted this request; the initial role of the Syrian army was to protect the Christian community and Damascus sent an army of 40 thousand men. However, the scene soon changed radically. In 1978, Syria adopted a new position regarding

Middle Eastern affairs and came down in favour of the PLO, which was beginning its battle against Israeli occupation in Palestine. Over time, Lebanese feelings towards the Syrians changed: during what the Lebanese called "the 30 year Syrian occupation" many crimes were associated with Damascus, and attributed to both the army – led by Rifaat al-Assad – and the secret services, *Mukhabarat*. The cases of Kamal Jumblat, Bashir Gemayel, and *mufti* Khaled Hassan Rene Mouawad are famous for the impact they had on public opinion. It must be said that Damascus has always denied any type of involvement in these operations, and instead pointed its finger at Israel and the United States, accused of undermining the region's stability to look after their own interests. In 1982, Lebanese General Michel Aoun – who was appointed Prime Minister by President, Gemayel – officially asked for the Syrian troops to be withdrawn, and defined their presence on Lebanese territory as "an unjustified military occupation". Syria – however – did not recognize Aoun's authority or his government, in which the Lebanese Muslim ministers refused to take part. On March 14, 1989, Aoun declared a "War of Liberation" against Syrian forces.

On this occasion, Aoun received support from the Iraqi government, which was anxious to strike a blow at the rival Ba'ath regime of Damascus. Once the internal conflict ended in 1990, Syria left its contingent intact on Lebanese territory and the situation carried on for a decade – until April 26, 2005, when Damascus notified the United Nations that all of its troops had been withdrawn, along with its mil-

itary vehicles and the intelligence organization. The emissary of the Secretary General of the United Nations for the application of resolution 1559, Terje Roed-Larsen, defined the event as an "important day in history for the people of both countries".

The incident that influenced Syria's decision was the assassination of Lebanese Prime Minister Rafiq al-Hariri on February 14, 2005; on this occasion also, many pointed their fingers at Syria, although the latter denied any involvement. The effects of Syria's retreat, however, were not only political but also economic: while Syrian troops remained in Lebanon, Syria had, in fact held the reins of national economy by controlling banks, factories, companies, and even the unions. After they left, Beirut found itself facing a complex scenario and a financial and administrative situation part of which required rebuilding.

The Era of Hafiz al-Assad

The most important exponent of the Syrian Ba'ath party has always been, without a doubt, President Hafiz al-Assad – the falcon of Damascus – considered the father of modern Syria. He came into power in 1970, and remained until his death on June 10, 2000. Under his leadership, Syria took on an authoritarian structure and was built on a personality cult, but Hafiz al-Assad was also able to guarantee stability in the country, which held firm over time and favoured a gradual economic growth. His presidency inaugurated a series of important social reforms and saw the building of many infrastructures – like the Thawra dam, built on the

banks of the Euphrates thanks to support from the Soviets. The ties between Damascus and the USSR were, in fact, strong, and were based on strategic collaboration, particularly in the military field. During the long years of the Cold War, Syria continued to side with the Soviet Union and counted on its alliance.

The Syrian government took on a secular form, thus ensuring support from all religious groups. The school system was reformed and in the curriculum – as well as in information policy – the concept was introduced that Syria was the only non-corrupt Arab country, the only one that deserved to inherit the glorious past of the *arab* and the only one that did not give in to the violence of western imperialism. The purpose of this propaganda was to legitimize the government's activities and build national pride. The Alawite President allocated most resources to the army; thanks to support from the Soviet Union, Damascus was able to acquire sophisticated weapons.

Apart from the disorders stirred up by the Muslim Brotherhood, the Assad government never had any real moments of crisis: the tighter the control of the Ba'ath party over the people, the more stable the country was. In 1983, however, President Hafiz el-Assad had to deal with an unexpected adversary, his brother Rifaat. In fact, the head of state was hospitalized due to a heart attack and a council was appointed, made up of six people he trusted including Minister of Defence Mustafa Tlass. This puzzled people, mainly because the six people were Sunnis, whereas the majority of the government and parliament were Alawite; in such circumstances it

would have no power and would not be able to act independently. Hafiz el-Assad's serious condition and his brother's lust for power led the latter to manoeuvre the armed forces in order to rise to power. An army of 50 thousand of his supporters of the Defence Company – with tanks and helicopters – began to set up checkpoints all over the capital. Rifaat's supporters, however, had to face Hafiz's supporters. The latter's speech to the nation put an end to the hotbeds of war: even though he was worn out from his illness, he announced that he would resume control over the country. His brother Rifaat – although never formally accused – was removed from the Defence Company. His departure for France was described as a "business trip" for an indefinite period.

Foreign Politics

Hafiz al-Assad's Syria was a country proud of its Arab roots, averse to Western occupation, self-determined and forward looking. Its international role has always been controversial due to its relationships, at times fraught, with the neighbouring governments: Israel, Lebanon, and Iraq. As for the conflict between Syria and Tel Aviv, it is important to point out that it preceded Assad's rise to power and continued after his death. In 1973 – under his leadership – Syria fought the fourth Arab-Israeli war, described by Damascus as a victory, despite the loss of human lives and the further expansion of Israel. In fact, thanks to negotiations conducted by Henry Kissinger, a few occupied areas were freed in 1967.

Syria has never officially recognized the State of Israel, but it has always observed the curfew zone imposed by the United Nations on the occupied

areas of the Golan Heights. Its refusal to negotiate with the "Zionist enemy" has undermined relations with Western governments – particularly the United States – but at the same time has helped Syria earn respect from the Arabs that consider their own representatives traitors for negotiating with Tel Aviv. Damascus' inflexibility began to relax in 1990, when Hafiz al-Assad – who was aware of the imminent change in international politics following the dissolution of the Soviet Union – decided to soften tones with Israel. To that end, several attempts to negotiate were made but did not last long. In May 2008, both countries revealed that secret talks had been going on for about a year, with a view to signing a peace treaty. Syria has always openly supported the Palestinian cause, which is considered by Damascus to be the "*cause par excellence*" of the Arab world. President Assad, however, has never hidden his hostility towards Yasser Arafat, leader of the PLO, considered a puppet in the hands of the United States. Damascus has fought bloody battles against him in Lebanon and has accused him of fuelling the disorders in Hama. In 1983, Assad financially supported the revolt within Arafat's party, known as Fatah, and sided with the fringe led by Abu Musa. As time went by, the enmity for Arafat led to open support by Syria for Palestinian opposition movements, usually religiously inspired, like Hamas and Jihad. Also in Lebanon, Damascus chose to support a religious movement, Hezbollah. There was rivalry with Iraq as well. Although Saddam Hussein headed the Iraqi branch of the Ba'ath party, there was never cooperation between the two leaders, but only conflict and disagreement. In order to understand the level

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of hatred towards Iraq, it is sufficient to recall that Damascus had forbidden persons holding Iraqi and Israeli passports to enter its territory. There has never been actual fighting between the two countries except when, in 1991, Syria joined the coalition headed by the US against the Iraqi invasion of Kuwait.

Contemporary Syria

Hafiz el-Assad's regime had planned the future of the country in detail; Although Syria had always defined itself as a democratic republic, everyone knew that the successor to the President in office would be his son, Basil. Young, well educated, he was the only son of the Alawite leader involved in politics and he was talked about because of his campaign against corruption within the regime. But on January 22, 1994, a terrible car accident took the life of Damascus' heir, thirty-three years old at the time. Basil's death represented for Syria not only mourning but also disruption of political plans for the future. The government claimed it was a fatal accident but there were many rumours about an attack. Asef Shawkat's name was mentioned; he was in charge of the Syrian security forces and aspired to reach the top and marry Basil's sister, Bushra. The young heir had always been against this and when he died, Asef did, in fact, become Head of Secret Services and he married President Assad's daughter. This was not the only theory; there were rumours in some Arab countries that the attack had been organized and carried out by foreign secret services in order to put an end to the regime of Assad's Alawite dynasty.

On June 10, 2000, President Assad died at the age of 70 after battling against his long illness. According to Western sources, Assad died while he was speaking over the phone with his Lebanese counterpart, Emile Lahhud, about the need to build a better future for both countries. The funeral was held in Damascus but his body was brought back to Qardaha, the birthplace of the man who had been President for 30 years. A huge mausoleum was built in his honour. Today it is a place of pilgrimage for members of the Ba'ath.

The Parliament in Damascus called for an urgent meeting and in a very short time an amendment was made to the national constitution reducing the minimum age requirement for the head of state (initially the required age had been 40). At that time Bashar Assad, his father's designated successor, was only 34 and – thanks to this amendment, demanded by the Ba'ath party – he was eligible to become President of the Republic. Before his brother Basil's death Bashar had been studying ophthalmology in London but in the meantime he returned to Damascus to familiarize with the institutional environment and acquire a military based training. Bashar became President in July 2000 and on June 10, 2001 he was confirmed by a referendum, obtaining a 97.29% consensus (according to official estimates).

Young Bashar brought an approach to politics, power, and the party that was very different from his father's: he proposed himself as an innovative and modern President, who took his country's and people's well-being to heart and wanted to renew and modernize the nation. Under his leadership, thousands of political prisoners – who for years had

been held in the country's prisons – were freed. Assad's program immediately focused on economic, administrative, and social reforms; the Internet was among the great innovations he brought to the country in 2001. Thanks to his reforms, the Syrians enjoyed the so-called "Damascus Spring", a period of economic growth and political and social change, which, however, lasted only a short time for security reasons.

Bashar's direct role in political and decisional activities remained limited; the majority party in fact, continued to control all the power: many opponents and political critics claim that Bashar is "a puppet manoeuvred by the party leaders". Although he had spoken of a new era of democracy and the importance of political freedom, the country's situation did not change much in reality. The Ba'ath party's grip on the economic system remained strong as well: for example, industry remained state-controlled and foreign investments were encouraged and were mainly concentrated in the oil sector. The only real change was the introduction of private banking, opening to Islamic banks as well. After his first seven-year term, Assad was re-elected in 2007, but according to many political analysts, his consensus was weakened by the withdrawal of Syrian troops from Lebanon, following the "Cedar Revolution" in 2005.

Indeed, foreign relations remain one of the most problematic questions for the Syrian government. The United States has blacklisted Syria, accusing it of supporting terrorist organizations like Hamas, Hezbollah and Jihad. Syria, in fact,

houses the political HQs of many Islamic militant groups, on condition that they do not carry out any opposition activity in the country. In addition to these political groups, thousands of refugees have been given hospitality, including many Iraqis who fled the United States' invasion in 2003 and many Palestinians. Unlike what happened during the first Gulf War, Damascus sided against the USA military action and opened its frontiers to refugees. This secured approval among the NGOs that work for refugees.

Yet another crisis between Damascus and Israel broke out in 2003, after Tel Aviv bombed an area near Damascus, claiming it was a hideout for Islamic Jihad terrorists. Syrian authorities denied this version, and claimed that the area attacked was civilian. The incident was condemned by the United Nations, which defined the Israeli action as "unacceptable". The United States had a different attitude and took advantage of the situation to confirm their conviction that Syria had become a refuge for all Arab extremist groups, declaring that it would impose heavy sanctions on the Damascus regime. The last Israeli incursion into Syrian territory was in September 2007. Jets from Tel Aviv bombed the Deir ez-Zor area – in the north-eastern part of the country – where the majority of population is Armenian. This time Israel claimed it had bombed a nuclear reactor. There were many victims on this occasion as well. In April 2008, after many denials, Assad himself told the press that Syria and Israel were holding negotiations with a view to a peace treaty. Withdrawal from the occupied

areas of the Golan Heights remains Damascus' *sine qua non*. This is a strategically important area and the prospects for a treaty seem to be remote for the moment.

A new crisis for Damascus broke out in February 2005, with the assassination of Lebanese Prime Minister Rafik al-Hariri. Despite the fact that the Syrian government condemned the assassination and denied any involvement, Syria received so many accusations that Damascus was forced to withdraw its troops. President al-Assad, however, has always refused to be questioned by the investigator appointed by the United Nations, sending a representative and setting up his own commission to investigate the case.

One of the changes brought in by Assad is to give the first lady a public role. His young wife – Asmae al-Assad – is, in fact, the first Syrian woman to appear by the side of a head of state. Asmae's family is Sunni and came originally from Homs. She was born in London, where she studied merchant banking. In a short time she was able to gain the esteem and respect of her own people and the international community. As the wife of the President of the Republic she immediately focused her energies on issues concerning economic growth and rural development. In 2001, she established FIRDOS (Fund for Integrated Rural Development of Syria). The fund aims to play a leading role in sustainable human development. Asmae has become a role model for young Syrian women and has, without a doubt, contributed to the process of emancipation of

Arab women. Thanks to her efforts, there is a new approach to child protection, with activities to foster education and respect for children's rights. Her interest in new technology encouraged the creation of facilities like the MIC (Mobile Information Centre). It is also thanks to her contribution that Aleppo was nominated capital of Islamic culture in 2006, while in 2008 Damascus became capital of Arab culture.

Political Parties [and leaders]

National Progressive Front NPF: includes the Ba'ath – the Arab Socialist Resurrection Party; the Democratic Socialist Unionist Party, presided over by Fadlallah Nasr Al-Din; the Arab Socialist Union, presided over by Safwan Qudsy; the Communist Party of Syria, presided over by Wissal Farha Bakdash, Yusuf Rashid Faysal; the Syrian Socialist Nationalist Party, under the leadership of Ali Qansu, and the Socialist Unionist Party, under the leadership of Fayez Ismail.

Opposition Parties, not legally recognized: the Democratic Arab Socialist Union, presided over by Hasan Abdul Azim; the Arab Socialist Movement; the Democratic Ba'ath Party, under the leadership of Ibrahim Mahkos; the Democratic People's Party, under the leadership of Riad Al Turk; the Revolutionary Workers' Party, presided over by Abdul Hafeez Al Hafez.

Political Pressure Groups [and their leaders]

Damascus Declaration National Council (Riyad SEIF, secretary general) (a large alliance of opposition groups and individuals including: the Committee for Revival of Civil Society [Michel KILO, Riyad SEIF], the Communist Action Party [Fateh JAMOUS], the Kurdish Democratic Alliance, the Kurdish Democratic Front, the Liberal Nationalists' Movement, the National Democratic Front, the National Democratic Rally, and the Syrian Human Rights Society or HRAS [Fawed FAWUZ]); the National Salvation Front (an alliance between Vice President Abd al-Halim Khaddam, the SMB and other small groups); the Syrian Muslim Brotherhood or SMB [Sadr al-Din al-Bayanuni].

Participation in International Organizations

ABEDA, AFESD, AMF, CAEU, FAO, G-24, G-77, IAEA, IBRD, ICAO, ICC, ICCT (signatory), ICRM, IDA, IDB, IFAD, IFC, IFRC, IHO, ILO, IMF, IMO, Interpol, IOC, IPU, ISO, ITSO, ITU, LAS, MIGA, NAM, OAPEC, OIC, UN, UNCTAD, UNESCO, UNIDO, UNRWA, UNWTO, UPU, WCO, WFTU, WHO, WIPO, WMO.

GOVERNMENT

POSITION HELD	NAME
PRESIDENT OF THE REPUBLIC	Bashar al-Assad is the President of the Republic; he was elected for the first time in 2000 and confirmed in this office in 2007.
VICE-PRESIDENT FOR FOREIGN AFFAIRS	Farouk Ashare
VICE-PRESIDENT FOR CULTURE	Najah Al-Attar
PRIME MINISTER	Muhammad Naji Al-Utri
PRIME MINISTER FOR ECONOMIC AFFAIRS	Abdallah Al-Dardari
MINISTER OF FOREIGN AFFAIRS	Walid Al Muallim
MINISTER OF INTERNATIONAL AFFAIRS	Ghazy Kanaan
MINISTER OF DEFENCE	Hasan Turkmay
MINISTER OF ECONOMY AND TRADE	Amer Housni Loutfi
MINISTER OF INFORMATION	Mohsen Bilal
MINISTER OF INDUSTRY	Fouad Issa Al-Jouny
MINISTER OF CULTURE	Riyad Na'san
MINISTER OF OIL	Sufian Alaw
MINISTER OF TOURISM	Adnan Kouly
MINISTER OF AWQAF	Zeyad Eddine Al-Ayuobi
MINISTER OF AGRICULTURE	Adel Safar
MINISTER OF JUSTICE	Nabil Khatib
MINISTER OF EDUCATION	Ghiath Barakat
MINISTER OF TRANSPORTATION	Yarob S. Bader
MINISTER OF HEALTH	Mohamed Iyad Al-Shatti



COUNTRY RISK ANALYSIS



CHAPTER 3 - GENERAL OVERVIEW ON SECURITY

(Vincenzo Palmieri)

It is certainly stimulating to write about the general situation in Syria in this moment of history – July 2008 – right before the meeting in Paris between Syrian President Bashar al-Assad and Nicolas Sarkozy, his French counterpart and mediator of a rapprochement between Syria and Israel. It is less stimulating to have to proceed along a path fraught with vagueness and ambiguity. Readers must keep this in mind when judging and following the country's geopolitical developments.

In Syria, there are no particular warnings concerning personal security or common acts of crime. A person can enter Syria freely by obtaining a visa in advance or at the border, if entry is organized by a national operator. Usually, a visa is for a single entry. Admission is denied if a passport contains evidence of entry to Israel or another country's border crossing points with Israel (Jordan/Egypt).

Regional and International Relations

For a little over one year – since May 2007 – emissaries of the Syrian government have been involved in secret and indirect talks in Turkey with their Israeli counterparts. The talks are a continuation of the Annapolis conference and are mediated by Turkish officials who travel back and forth between the places where the foreign delegations are located. These contacts were made public in April 2008 and official on May 21, 2008, in conjunction with the Lebanese crisis and the Hizb'allah victory; tensions were defused by the Doha agreement.

The publicity given to the talks aims at getting the United States involved – as their response to the Lebanese situation is considered too timid and discreet and their sanctions policy continues – and at giving a new perspective to Syria's receptiveness to neighbouring governments. Damascus wants the return of the Golan Heights, seized in the war of 1967; while Israel's goal is to regain a type of security at its borders that goes beyond its heavy military equipment, which risks proving ineffectual against today's challenges.

These are the macroscopic distinguishing features of the current situation. They could constitute the prelude to important historical changes in regional and diplomatic relations, and security in the Near and Middle East in the medium term. The prisoner exchange between the Israeli government and Hizb'allah (the ninth since 1991) that took place on July 16, 2008 also confirmed the change of tone in regional relations with Israel. Syria signed a memorandum of understanding with Iran concerning military issues on May 28, 2008 – during the visit to Tehran of Syrian Minister of Defence Hassan Turkmani. The memorandum is a reaffirmation of agreements regarding defence issues that were already established in June 2006 by a similar document. The collaboration will include reciprocal visits from experts, training and military cooperation and it has served to re-establish the unity of intent shared by Damascus and Tehran that had looked close to dissolving after the announcement of

talks with Israel. It is, therefore, obvious that there are no illusions about an imminent change in alliances: Bashar al-Assad has clearly declared that, in order for this to happen, changes within US policies must take place, a change of *ideas* rather than people.

The test site for relations between western governments, Syria, and Iran is Lebanon, whose historical events have gone hand in hand with Syria's history. The bond between the two nations has a strong influence on regional relations, security policies, and Syria's internal situation. Syria sees Tehran as a partner willing to grant it the pre-eminent role it longs for in decision-making regarding Lebanese issues. The different views of the international community – and in particular the United States – have led to conflicts, at times violent, and to resolutions of condemnation by the United Nations: in particular, UN Security Council resolutions 1559, 1680, 1701. They concern the support, in Lebanon and Palestine, by Syria and Iran of organizations internationally recognized as “terrorist” (Hizb'allah and Hamas), which have allegedly received weapons and funds from Iran through Syrian mediation. Damascus has recently been accused of wanting to hinder stability in the Middle East, especially by the Republican administration in Washington. Although these stances are very recent, it is hoped that they are part of a regional and international context destined to change for the better.

The Doha agreement – for example – has been greeted favourably, and Syria has been praised for its support during the five days of talks between opposing factions. The agreement,

centred on the concession of veto power to the opposition, enabled the election of General Michel Suleiman as President of the Lebanese Republic (a position that had been vacant for more than six months) and saw the creation of a government of national unity. Although the concession of veto power and the failure to hand over their weapons are victories for Hizb'allah, the reaching of an agreement with the opposition is a victory for the moderate front and so is the commitment not to employ military means to stifle Lebanese political unrest. There is a lot Syria can do to help support this new line, and it is for this reason that western governments have sided with the Arab League (this body's summit, held in Syria in April, 2008, had been very poorly attended in sign of protest against politics in Lebanon; this newfound unity is the pride of Bashar al-Assad's government, which continues to make Pan-Arabism its banner) and other regional actors – like Qatar – to greet this progress with satisfaction. During the summit in Paris, the tension between Syria and Lebanon was tangibly eased by the highly symbolic announcement of the opening of diplomatic offices in the respective capitals. This was followed by the visit of Syrian Minister of Foreign Affairs Walid Moallem to Beirut, where he invited his counterpart to visit Damascus.

This reciprocal recognition, which had always been denied since the two countries became independent (Lebanon in 1943, Syria in 1946), puts an end to Syria's claim that Lebanon was part of its own territory (or even of “Greater Syria”, a project including territories that today

are comprised within Israel and Jordan, a scheme of the nationalists rather than the socialists or the al-Assads). The Syrian President has invited France and the United States to support Syria's openness, and has accompanied this request by expressing willingness to accept IAEA inspectors in various locations as well as in al-Kibar, where Israeli air force activity has been connected to the need to dismantle an alleged Syrian nuclear program. This position was sponsored by Qatar as well as by Sarkozy, who has conducted an official trip to Syria in September, 2008.

The involvement of France – a former colonial power in Maghreb and in the Levant – can be explained by the weakening of its traditional role as former mother country in countries bordering the Middle Eastern region (like Djibouti, where it has a naval base that is most likely going to be closed and relocated in Abu Dhabi) but also its relations with key governments traditionally situated within its orbit, like Morocco and Algeria. Paris is, therefore, trying to regain ground and political initiative with the Union for the Mediterranean project: its activities in Syria and Lebanon are part of this scenario, which involves over forty countries. The Syrian President, on his part, has been increasingly isolated after the end of the “Damascus Spring” – which only lasted a few months after he took office, until the second Intifada broke out in Palestine. Bashar al-Assad must emerge from the corner he has been put in as a result of various incidents: he was openly challenged by the western community for his politics in Lebanon and his alleged

responsibility in the assassination of Lebanese Prime Minister Rafiq al-Hariri.

The revising of alliances with neighbouring regions had already begun with the restoration of diplomatic relations with Iraq on November 21, 2006, after 25 years of interruption: a gesture of good will towards American and Iraqi authorities. In January 2007, Iraqi Prime Minister Jalal Talabani visited Damascus; he was the first authority to do so after Iraq's independence and the contact turned out to be particularly fruitful in regard to the management of refugees on the border between the two Nations.

Syria and Israel came very close to reaching an agreement – mediated by the US – in 2000, at the end of Bill Clinton's second presidential term when “Golan in exchange for peace” seemed practically accepted. The Israeli negotiators suddenly became inflexible after conservative military components – anchored to a defensive concept of a territorial and traditional nature – gained the upper-hand and the agreement thus failed. However, in 2006 the Government of Israel realised that it was impossible to defeat Hizb'allah by engaging it in a traditional military conflict. The conclusions of the Winograd Commission, charged with investigating the cause of the failure, were *painful* from a political viewpoint but nonetheless led to the start of a new phase in which to resume negotiations between Tel Aviv and Damascus.

The latter, however, must choose to loosen its ties with Tehran and with Hizb'allah and Hamas: systems of power based on approval of initiatives with a very religious bias, which are really incompatible with the secular and

nationalist systems of the al-Assads. What is more, Hizb'allah and Hamas appear on the list of organizations sponsoring terrorism compiled by the US Department of State, but then again, so does Syria. This is incongruous in the bilateral relations between the two governments, since there is a convergence of interests regarding their respective positions towards Israel, Lebanon and Iraq. This convergence was evident in Hafiz al-Assad's regional aversions, already manifested in the past (in 1973 and in 1990) and reappeared again more clearly in the past months. These were very similar to American ones.

Getting back the Golan Heights would represent an undisputed and prestigious victory for the Syrian President in terms of public opinion, and it is likely that he would decide to invest this image abroad in order to spread his regional alliances even further. Obviously, these results are yet to come; for the time being, Syria should not make explicit commitments that would noticeably and abruptly contradict the strategies and alliances built by both sides, but, instead, proceed with limited and reciprocal concessions; by drifting apart from Iran, the context would have to include the United States, possibly in conjunction with the handing over of power there. In recent years, Syria has often been a headache for the occupants of the White House rather than an opportunity for achieving peace in the Middle East, giving the lie to the old saying about international relations according to which “you cannot wage war against Israel without Egypt and you cannot make peace with Israel without Syria”. A large part of Arab public opinion is against this type of rap-

prochement, is convinced that Israel speaks only the language of force and that justice for Palestinians can only be achieved through violence – but this matter includes the Lebanese and the rest of the area as well. Successful diplomatic activities would help to weaken this line of reasoning and it is to be hoped that this path will be followed with conviction.

Syria's relations with Turkey and with the AKP government are also important where security is concerned; in addition to what has been said so far regarding mediation with Israel, we must analyze the bilateral relationship between Damascus and Ankara, marked by three important topics: the Kurdish issue, regulation of the waters of the Euphrates and the question of Hatay province. Relations reached their lowest point in October 1998, when Syria threatened to intervene against the PKK bases located in Turkish territory, which the authorities of Ankara were openly accused of tolerating. The quarrel was settled through diplomatic channels and relations improved within a few years, as demonstrated by the important visits that have been exchanged recently: Bashar al-Assad was in Ankara in January 2004 and Turkish Prime Minister Recep Tayyip Erdogan returned the visit in December that same year. More visits have been made by Turkish President Ahmet Necdet Sezer and Minister of Foreign Affairs Abdullah Gul (in April and November 2005). The last two visits in particular occurred at a difficult time for Syrian authorities, as relations between the authorities and western governments were strained. Political solidarity from Turkey has, therefore, been very well accepted by Syria, even though it might

seem to be dictated by internal priorities of the Turkish establishment.

With European countries, Syria maintains relations based mainly on economic issues institutionalized by the Barcelona Process, which started in 1995. On October 19, 2004 negotiations officially began to stipulate an Association Agreement, the culmination of a journey which began in December 1997 under the aegis of the European Council and Commission. In 2000, Syria ratified the MEDA agreement (Measures to accompany the reforms to the economic and social structures in the Mediterranean member countries), the aims of which are to strengthen economic relations with the EU and partnerships for the development of countries on the south banks of the Mediterranean. 100 million Euros have been allocated to the liberalization of the Syrian economy and the strengthening of bilateral relations.

Border Crossing Points

The situation at the borders is related to what has been said so far regarding geopolitical relations with neighbouring governments. For example, it is important to point out that Syrian policy does not allow entry to anyone carrying a passport containing evidence of entry to Israel. The state of belligerence with this country is constant. The Golan Heights area (1,295 km² contended by Israel, Syria and Lebanon since 1967), as far as border crossings with Israel is concerned, is barred to all those who are not in possession of a special permit. However, news on July 3, 2008 had it that those borders – sealed for over

forty years – had been opened to allow the symbolic passing of about 80 Syrian Druze students on their way to start their university studies in Damascus.

The initiative was followed by a second passing of 200 Syrian students from Golan. This is an example of how those situations could suddenly change as a result of talks between Damascus and Tel Aviv.

As far as the Syria-Lebanon border crossings are concerned, the main worry for Syrian authorities is the risk of infiltration by destabilizing elements. This was also one of the main reasons for Syrian intervention in Lebanon in pursuit of a balance between Christian and Muslim components among which Damascus would not allow any leading figures to arise. According to some observers, Imad Mughniyeh's death, caused by the explosion of a car bomb in the Syrian capital in February 2008, is part of a global change in the geopolitical scenario: Mughniyeh was one of the most prominent figures of the Hizb'allah movement, responsible for the intelligence service. Some observers think that his assassination – abhorred by the Syrian authorities who have promised to shed full light on the "martyrdom" – could be the prelude to better coordination with Israeli authorities on this matter. It is important to point out that Syrian authorities still do not give visas to international students who wish to study Arabic or theology at the private Islamic institutions located in the country and pay great attention to these situations.

The situation on the border with Turkey has been affected, in the past, by events related to

Hatay, the province surrounding the city of Alexandretta (now Iskenderun). Historically, it formed part of the Syrian *vilayet* within the Ottoman Empire and was later annexed to Turkey. The Syrian government never recognized the territorial change made by the French mandatory power and has often protested against the treatment of "Syrian" citizens residing in that area. Tensions reached a peak during the period after the First World War and the years immediately following World War II; the issue was then set aside and when it was brought up again at the end of the 90s, current President Bashar al-Assad opted for a final withdrawal of the claim, though there was no formal announcement of relinquishment. Turkey, on its part, has reformed its local laws and has allowed resident Syrian citizens (or at least some of them) to become landowners in Hatay. Today, Syria and Turkey cooperate in the trans-border field on economic and social projects. This renewed cooperation concerns all the bordering regions, including the easternmost ones, made unstable in the past by Kurdish guerrilla movements or disputes about the waters of the Euphrates. Kurdish protest movements still persist in these areas and can be a source of danger for foreigners, especially westerners.

The border with Iraq – scene of heavy flows of refugees since 2003, due to the war – is even harder to oversee and control, especially along the desert and steppe-like strip in the south: this has led to restrictions on the possibility of travelling to the area, which must therefore be considered a risk area. In agreement with Iraqi authorities and UN specialised agencies, moni-

toring has recently made it possible to control the flow of people into the area (to avoid infiltrations of extremists as well), thus lowering, although not eliminating, risks.

Warnings on Security and Crime

Since mid-July 2008, the Italian Ministry of Foreign Affairs has been warning its citizens that tensions in the Middle East continue to be a cause for alert, despite the progress that has taken place in regional relations. The warnings are like those sent out by other diplomatic services and focus on the still concrete risk of attacks which characterizes the entire Middle Eastern area and calls for measures of precaution during visits to the country.

Measures mainly include: contacting the embassy upon arrival and adopting cautious and preventive behaviour, simple but nevertheless always effective, like always being aware of the situation and respecting local customs and culture. It is advisable to stick to these rules especially when in proximity of mosques, in Hama, and in inland villages. Possession of even small quantities of drugs is severely punished.

It is necessary to point out that some areas are barred for security reasons; they are indicated with signs and patrolled. It is a duty to cooperate with public security authorities, even when in plain clothes, whom it is relatively easy to meet and who, according to state of emergency rules, can further restrict access to certain areas of the country; not needless to say, no entry usually also means no photographs or filming in restricted areas.

The health situation does not require any special attention, so people are advised to follow

the usual hygiene measures for westerners visiting the Middle East. The risk of contracting an infectious disease – like hepatitis A or B or typhus – is low, although present in the country. The rate of AIDS outbreak is low and estimated at 0.01%.

Because of traffic conditions and driving habits, it is advisable to adopt an appropriate and careful driving style. Some warnings suggest using local drivers. Hunting is prohibited throughout Syria.

Crime The crime rate for personal and property crime is not particularly worrisome: petty theft and fraud (more common in crowded areas and markets, and sometimes carried out through credit cards or ATM machines), similar to what happens in large Middle Eastern and European cities.

Economy

Even the country's insurability conditions and assessment of economic risk are related to its

confrontation with and closure to international institutions and to large financial flows that could change in the short-to-medium term. One of the pending issues in negotiations with western countries is the possibility of joining the World Trade Organization (WTO). This opportunity is still blocked by the veto of the United States, which might however reconsider its decision. The Ba'ath Party Congress, held in June 2005, confirmed the decision to open up to liberalization of the productive system. According to the centres responsible for national political economy, this would ensure a better performance of the Syrian economy and, therefore, also improve the risk index. Standard and Poor's, Moody's and Fitch have not released their ratings.

SACE In their most recent ratings (report draw up in June 2008) SACE assigns a CCC+ rating and an "H2" risk, the second

highest, with a stable outlook. The company gives a positive value to Bashar al-Assad's openness to Israel and to the resumption of relations with France. These steps are necessary to strengthen the President's position as far as internal support is concerned, whereas external investments, necessary to compensate for the deterioration in the oil sector, are still insufficient. Nevertheless, a recovery of the economy is taking place and this could help to exploit "unexpressed potential" and solve youth unemployment. The financial sector has recently been innovated with private and foreign bank operators, but overall deficiencies remain.

OECD: The category assigned to Syria for its organization of the country is 7/7, i.e. last place. There is exposure to sovereign risk, banking risk, and corporate risk, and the country's ceiling is one hundred million Euros.

IMF The International Monetary Fund's country risk ratings of Syria are fairly positive: they focus on the decrease in tax revenue linked to the oil production slowdown. IMF estimates reveal that 1/4 of the total expenditures registered in the national accounts are possible thanks to oil revenues. The healthy state of this sector is important for the country's positive outlook. The Fund, therefore, suggests adopting fiscal adjustment measures (see figure 2) and incentive revision strategies for the sector to reduce the government's commitment to price subsidization and to imposing a value added tax (VAT) to ensure low public debt. The decision on these reforms has been postponed to 2009 – according to the Minister of Finance Mohammad al-Hussein – and the tax will be 10%, with some obvious exceptions: for example, staples. It is not clear, however, how VAT revenues or oil and customs revenues will be utilized,

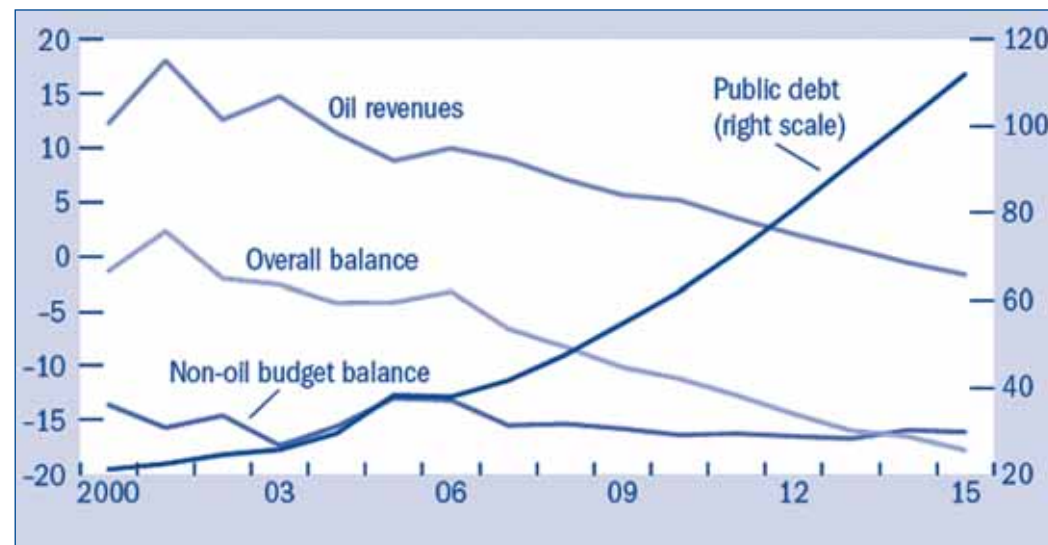


Figure 1: Syrian public debt without adjustments. Ordinate axis shows GDP percentages / Source: International Monetary Fund

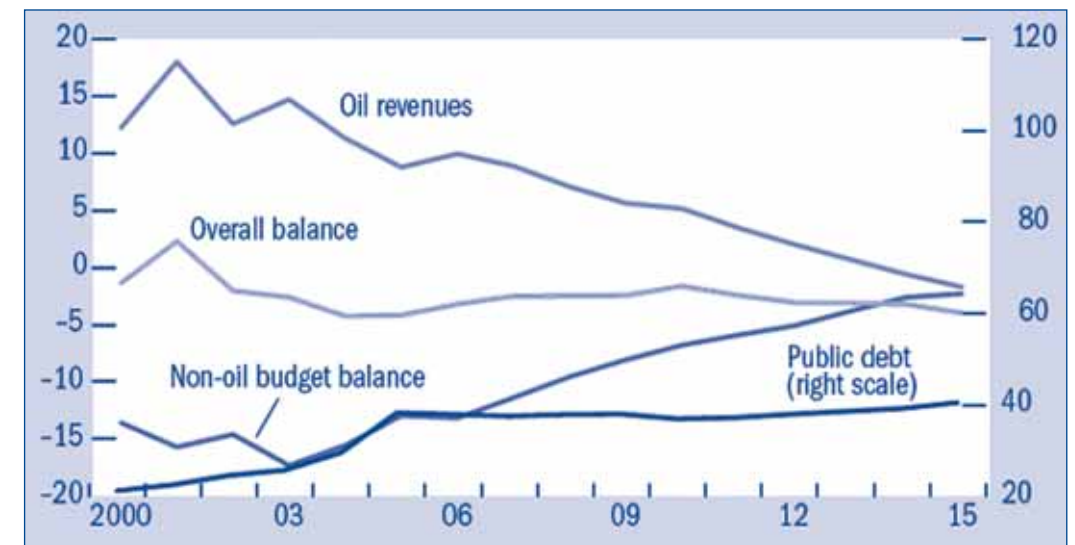


Figure 2: Syrian public debt with adjustments / Source: International Monetary Fund

although they are expected to offset the budget deficits that followed the cut of the highest tax rate (from 63% to 28%).

Armed Forces

Syria's armed forces and security should be analyzed within the context of the country's internal instability: the conflict with Israel; the Cold War alignments; diplomatic relations with other regions (Lebanon, Turkey, Jordan, and the leaders of the PLO).

In a State that has been unstable since its first moment of independence, the armed forces were considered an element of stabilization and a way to control the excesses of certain civilian activists. The armed forces, in fact, organized the coup d'état that led to the presidency of the al-Assad dynasty. It is difficult to define today the organization of Syrian armed forces in detail, due to the secrecy of its leadership and the fact that there has been little or no penetration of the country by foreign intelligence. Many very important tasks are assigned to members of the President's family, to men of Alawite origin or people from Latakia and the surrounding region. This has helped to strengthen cohesion among the minority groups surrounding the President and gain loyalty for Hafiz al-Assad's project from strong men that might otherwise have been a threat to his position and to the stability of the State (which – incidentally – has happened).

The four wars against Israel that took place between 1948 and 1973 (none of which victorious and the last one ending in a stalemate) and the entrenchment of situations accompa-

nying the rise of the western and socialist blocks have led to special attention being paid to state defence and to competition for regional supremacy, as well as the interventions in Lebanon. In 1985 there were over 500,000 units and 340,000 reservists; the Army (whose men constituted 4/5 of the total), organised in nine divisions, was the nucleus of the defence system. Equipment included over 4,000 Soviet tanks, of which about a thousand were state-of-the-art T-72s; air defence was assured by ground-to-air missile batteries and heavy and light anti-aircraft artillery. In 1987 alone, Syria received 500 SS-23 missiles from the USSR, which were an addition to the missiles produced in the country and could be equipped with chemical and bacteriological weapons. The Air Force and airmobile units at the time had a total of 160,000 men, divided into 9 attack squadrons and 15 interceptors (a total of about 650 aircraft), whereas there were only 4,000 effectives in the Navy which, however, had 22 missile launchers and three submarines among its 41 units.

With the change in the international scenario and in the balance of power among adversaries – that is say, the probability of a large-scale attack and the possibility of withstanding one – it is today estimated that there are about 320,000 regulars (of which 200,000 in the Army) and 280,000 reservists, who are still drafted. Military service lasts 18-30 months and is compulsory for all male citizens who have turned 18. Their size makes the Syrian armed forces one of the most impressive in the Middle Eastern region; the structure and

equipment reflect the situation at the end of the 80s. It is important to emphasize how Syria became less intimidating with the fall of the mentor that made its rise possible. Syria, in fact, depended on the Soviet Union for equipment (SA-10 and SA-11 air defence systems, MiG-29 and Su-27 fighter planes or T-80 and T-90 tanks), training, and generous credit to purchase military material. During the 90s, as a result of Damascus' participation in the Gulf War against Iraqi expansion, the countries of the Persian Gulf granted substantial credit to the Syrian government, part of which was used to purchase new equipment (MiG 29 and 31, for example). The complete success of the Israeli air raid on the alleged Syrian nuclear site of al-Kibar in September 2007 (operation Orchard) shows the real capacity of Syrian security systems today – in particular air defence – except except for that being a military exercise of a different nature.

Together with Iran and North Korea, Syria is accused by US intelligence services of having included weapons of mass destruction and nuclear weapons in its most recent military plans. As far as nuclear weapons are concerned, there is no evidence of field projects and the IAEA is investigating. Syria has a nuclear power centre used for research purposes in Dayr al Jajar, provided by China in 1968. Damascus' contacts with the governments of Russia and China are recent and high-end: the former is once again a primary supplier of weapons and China is suspected of supporting development of the Scud-B, and of supplying missile technology: M-9 and M-11 (which can reach targets at a distance of 600 km)

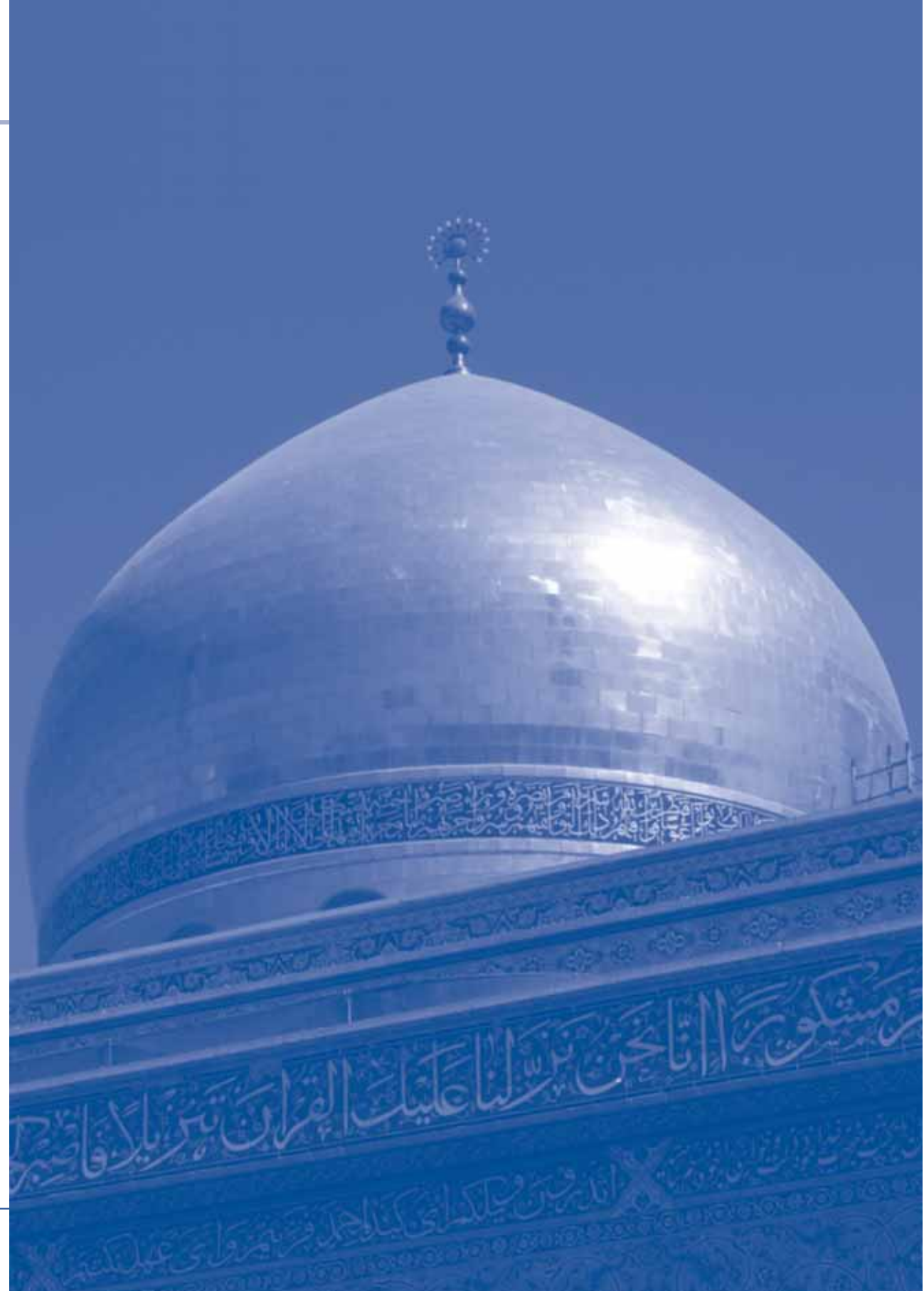
and relative launching and controlling technology. Despite profuse, verbal reassurances from both sides, the US administration has always been convinced that such agreements exist – and even include transfer of the know-how required for production on the spot – and that they would allow Syria to partially offset the differences in conventional weapons compared to Israel.

Apart from its presumed military offensive capacity, Syria is thought to be capable of conducting computer hacking and espionage, as a consequence of its recent investments in scientific material and data transmission networks. Syria is, therefore, aligned with countries like North Korea, Libya, and Iran, as well as Russia, China, and India – whose programs are, however, much more advanced at the moment.

Military system

Military branches:	Syrian Armed Forces: Syrian Arab Army, Syrian Arab Navy, Syrian Arab Air and Air Defense Forces (includes Air Defense Command) (2008)
Military service age and obligations:	18 years of age for compulsory military service; conscript service obligation – 30 months (18 months in the Syrian Arab Navy); women are not conscripted but may volunteer to serve (2004)
Manpower potential for military service:	males aged 16-49: 5,251,875 females aged 16-49: 4,966,367 (2008 est.)
Manpower fit for military service:	males aged 16-49: 4,242,401 females aged 16-49: 4,218,648 (2008 est.)
Manpower reaching militarily significant age annually:	males aged 16-49: 215,734 females aged 16-49: 203,106 (2008 est.)
Military expenditures – percent of GDP:	5.9%; (2005 est).

Source: CIA World Factbook





**ECONOMY, TRADE
AND INVESTMENTS**



CHAPTER 4 - GENERAL OVERVIEW OF ECONOMY

(Vincenzo Palmieri)

Syria has a planned economy, which has been dominated by the Ba'ath Party's decisions since the Sixties. It has, in fact, been characterized by a centralized organization with an oversized public sector, which is greater than the agricultural and industrial sectors, with over 36% of employees (i.e. a total of more than two million people, including those working in civilian and military administrations, nationalized and public enterprises, small municipal companies, and schools). One of the aims announced by current President Bashar al-Assad when he took office in 2000 was to pursue his father's goal of establishing a social and market economy. This objective was reaffirmed in June 2005 during the Party's 10th convention, which launched the X five-year plan for 2006-2010.

This instrument plans a gradual opening to foreign investment in the banking and productive systems (textiles, pharmaceuticals, petroleum), and a partial reformulation of public spending policies. Reform of the subsidy regime, as suggested by the International Monetary Fund, caused an immediate price increase of some fuels: for example, heating oil went up 340% per litre. In addition to this, the cost of some staples (flour and bread, for example) went up 30-60%. These inflationary increases were promptly curbed in July 2008 by Bashar al-Assad, with salary raises (equal to 25%) in the public sector. These additional expenses risk interfering with the corrective

measures adopted, but at the same time show how hard it is to carry out a renewal plan in a situation of international price tension.

However, growth of non-oil GDP – which in 2006 reached 7%, while the oil-non oil aggregate value was equal to 5.2 % (4.4% according to IMF estimates) – there is still a hope that the increase in costs can be reabsorbed into the state budget. In any case, private consumption is increasing, thanks to the flow of Iraqi refugees into Syria: +16% on an annualized basis, despite price increases and the discontinuance of subsidies.

Economy Structure

At the time of independence, the Syrian productive system had all the features of a developing economy, with strong agriculture and an emerging industry. The trend changed with the rise of the Ba'ath Party, which accelerated the process of nationalization. Foreign companies and large national firms were put under the management of the State and the Party promoted an agricultural reform that showed how the nation was moving towards the Socialist bloc.

In the '70s, however, Syria took advantage of high oil prices (a *beneficial* consequence for the country of the 1973 oil shock) to favour expansion in the industrial sector and in services. This process was interrupted in the '80s, with the drop in income in the oil sector. The government imposed austerity but did not

move on to reform the productive and services systems (for example, by reducing state economy). Such a move could have mitigated the effects of the international economic situation, which had deteriorated for Syria after the dissolution of the Soviet Union in 1989.

Syria, therefore, has a more diversified productive structure than many of its neighbouring countries in the Middle Eastern region and does not depend solely on oil. This is due to the late discovery of oil supplies that could influence economic policy choices (discoveries date back to the late '50s but there were no significant oil fields until the '70s). The country's full and balanced development was, however, hindered by other internal and external factors present throughout the twentieth century, like the need to ensure support for the Alawite minority in power and the issues with Israel. Economic policymakers have, therefore, postponed making state budget cuts and relaunching trade, which are possible instruments of development along with an increase in external financial flows. These dynamics are still present in the Syrian economy. Since 2000, and more actively in 2005, the economy has been undergoing some reforms, of which the positive effects could lead to bigger interventions.

The interventions include inception of a privatization process and opening up the banking sector to foreign investment. New regulations are planned for textiles and pharmaceuticals: although national enterprises still exist in these sectors, the government has compiled a list of capital goods necessary for produc-

tion and has authorized their import, which was previously not allowed.

The private sector, therefore, can now compete on an equal footing with state enterprises. The government still has the monopoly over agricultural market prices, oil production and refining, telecommunications and air transport, and the production and supply of electricity and water. There has been an experiment to open up the oil extraction sector, where the drop in production is more significant (in less than a decade Syria may have to begin importing oil), and capital inputs and know-how of important foreign actors in the field are necessary.

President Bashar al-Assad's efforts are indeed contrasted by the members of the elite who – ensconced in the party and the establishment – benefit from the imperfect allocation of resources.

Agriculture

The primary sector is one of the cornerstones of the Syrian productive structure. The government, in fact, follows the policy of food self-sufficiency and means to avoid intensive depopulation of the countryside. Syria's constant population growth makes it even more important to follow-up on the balanced development of this sector in order to reach the goals set. After the big reforms of the '60s, property today is fragmented but for the most part private and this accounts for the sector's dynamism.

Less than 1/5 of the total active workforce is, in fact, employed in this sector. Numbers were certainly much higher at the beginning of 2000 when 30% of Syrian workers had jobs in this

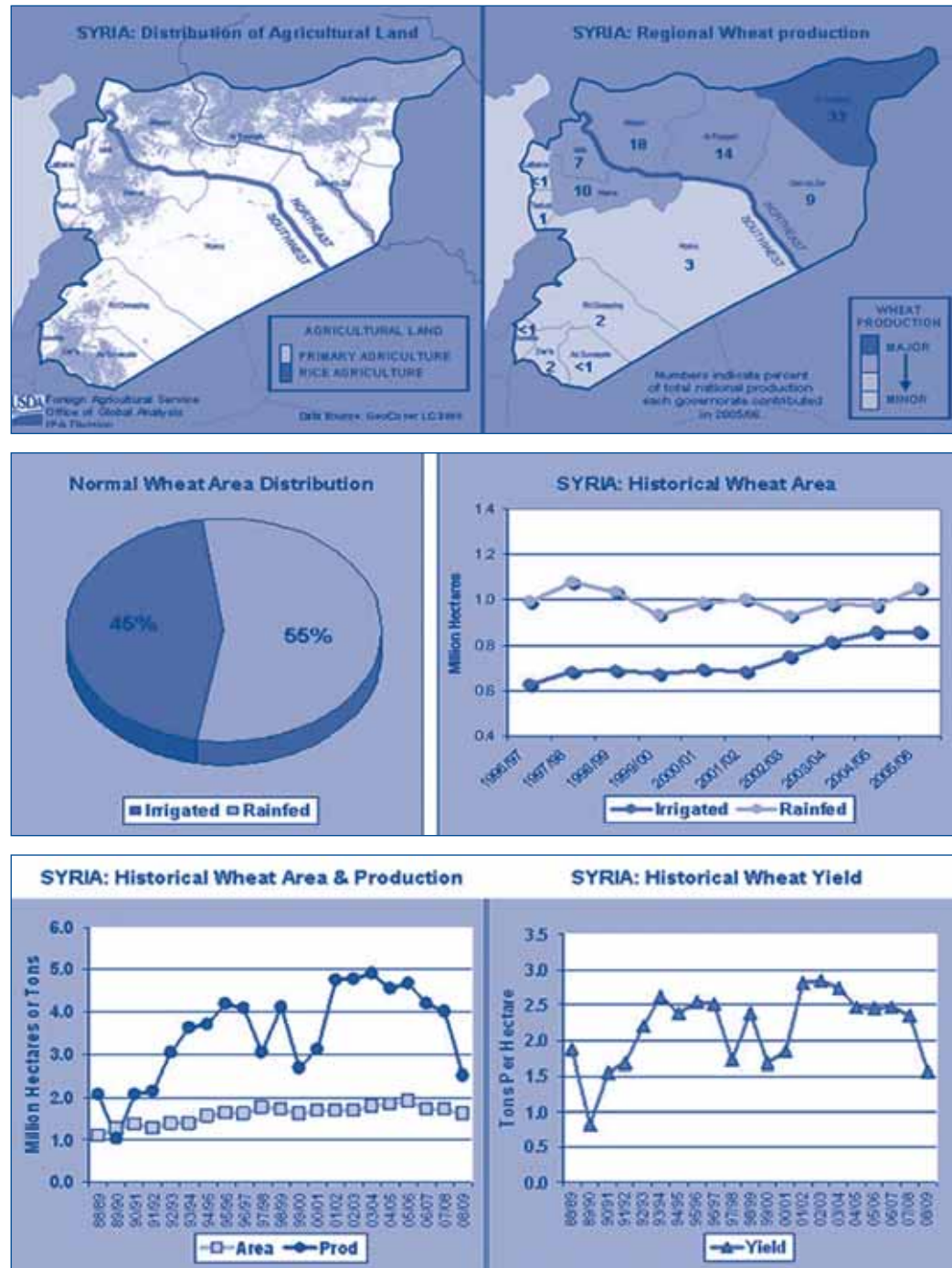


Figure 1: The wheat sector: distribution of irrigated areas and wheat production / Source: USDA-FAS

field. Despite this, it accounts for 1/4 of the GDP. This is proof of the sector's strategic importance and its contribution to national resources, especially if we consider the results for previous years: in 2002 it produced the same percentage of national resources but employed almost double the number of people.

About 30% of the 185,000 km² of Syrian territory is suitable for agricultural production: 24.8% for crop rotation and the remaining 4.5% for pasturage and permanent crops. 1/7 of the territory is irrigable and most of this land is located in areas "strategic" for domestic production. Therefore, the farms in these areas (mainly located in the Euphrates Valley and in the northern part of the region) enjoy tax relief, subsidies and other forms of organizational and administrative assistance, in order to ensure the production of cereals (especially wheat and barley), sugar beets and cotton and make it more economically sustainable. Although cereal production has the highest output and quantity of finished products (in 2007, 4.7 million tons of wheat alone were produced), cotton production is the most valuable, second only to oil at the national level. However, growing cotton involves a huge waste of water resources and requires appropriate irrigation techniques and the areas dedicated to this crop are decreasing year after year. Nonetheless, Syria's cotton harvest is the largest in the region and second in the world (about one million tons in 2007, second only to Australia). The government buys the entire production at a higher price than the market price in order to protect farmers from foreign competitors (mainly Chinese and south-East Asian, as a result of the abolition of European duties on products from those regions).

Sugar beet is produced in the central and north-eastern parts of the country. Plantations cover 29,000 hectares of land and in 2007 produced about 1.4 million tons, for a value of nearly 70 million dollars. However, Syria continues to import about 2/3 of the country's requirements. Other Syrian agricultural products include olive oil, fruit and vegetables. Animal husbandry provides livestock and meat for export. There is also a considerable production of pistachios and cumin (133,000 cultivated hectares, an industry that exports to 50 countries and accounts for 10% of the total agricultural income).

Syria is regularly among the first five olive oil producers in the world, with a growing production: currently 150,000 tons of product, which is expected to become 250,000 tons within 2012. The authorities concerned estimate that at least 2/5 of the total can be exported and they are, therefore, cooperating with foreign partners to do research and prepare projects for the system with a view to improving the quality of the finished product and bringing it into line with the standards of foreign consumers and international control organizations. There are Departments in charge of the organization of important sectors (for wheat it is the HOBBOB, General Establishment for Trade and Processing of Cereals; for cotton, the GOTI, General Organization for Textile Industries).

Industry

Syria's industry is diversified in areas such as mineral and oil extraction, building materials, manufacturing, textiles, and food. The oil and textiles areas produce the most, followed by food processing and phosphates. In 2003, the sector

employed 30% of the workforce and accounted for 29.4% of the GDP. According to 2007 estimates – on the contrary – contribution to the GDP has dropped to 25% and the workforce is now 14.5% of the total. However, the sector's importance is confirmed by the five-year plan, which allocates two milliard dollars towards the modernization of public industry, another eight are guaranteed by private individuals. Interventions in the oil, wheat, and textile sectors are controlled by the SPC – the national oil company – and by the sector's Departments.

The construction section is developing quickly, stimulated by the sharp increase in population and the flow of refugees from Iraq. In fact, the local cement industry, under the management of the GOCBM (General Organization for Cement and Building Materials), is not able to fully satisfy the overall demand (this is a rare case in the Middle Eastern region and common only to Sudan and Yemen). Margins of expansion are estimated at 80%, from five to nine million tons of material (according to statistics released by the pertinent Syrian bodies, production could reach 30 million tons per year by 2011, when internal demand will have reached 18 million tons, thus leaving margins for export to neighbouring countries).

In 2004, and effectively starting in 2006, the government gave the go-ahead for partnerships between Syrian private firms and foreign companies – among these Italcementi. The expected increase in production is proof of the receptiveness to the co-partnership of foreign companies in private firms, where the construction sector is the forerunner of the

country's economy. The Syrian Investment Authority has established the necessary requisites for external investment: a deposit of one million US dollars in the Syrian Central Bank, a technical and engineering and an environmental impact assessment of the facility, and proven experience in the sector. In exchange, the government assigns plots of land in specific areas and has liberalized the price of cement.

Investments in production facilities go hand in hand with investments in the real estate sector (where prices are not fixed), which is just as vital and needs just as many substantial investments. They include huge development projects, like the “*Eighth Gate*” on the outskirts of Damascus (Yafour), proposed by Syrian entrepreneurs in cooperation with companies from the Arab Emirates.

State monopoly has also been discontinued in the agri-food sector, in particular with regard to the bottling of mineral water. The sector is still regulated by the GOFI (General Organization of Food Industries): some of the facilities operate under its management and its importance has been praised by the President himself.

Lastly, there are the automobile and mineral extraction sectors. As far as the automobile sector is concerned, it is important to mention the Syrian company al-Sultan, which inaugurated a joint venture with the Iranian Khodro Industries (SIAMCO, Syrian-Iranian Automobile Manufacturing Company) for *in situ* production (the first time for the Syrian industry) of cars based on the Khodro Samand, which in turn is based on the Peugeot 405. In fact, this is a project with a new name and only slightly revised, but it

SYRIA

allows an industry to be set up in Syria that is of strategic importance for the national economy, using only Syrian manpower and under Iranian supervision. There is a big demand for vehicles for private transportation in Syria (which at the same time has lowered import duties on pickups and minibuses) in order to satisfy both collective and individual transport needs. The extraction industry works with the country's oil, iron, and phosphate reserves. Phosphate extraction, in particular, is 6th on the national scale for volume of business, with a production that exceeded 2 tons of material, 3/4 of which exported to Europe. In 2001, the government announced the opening of the mining industry to foreign investment, in order to link it to the expansion of the construction sector: especially the marble, tuff, and asphalt sectors. The chemical industry is starting to emerge: with a significant contribution from China, a plant was set up in Aleppo to produce about 50% per of the national requirement of caustic soda, hydrochloric acid, chlorine, and sodium hypochlorite.

Energy Market

The oil sector is the most important sector in Syria: it alone accounts for 20% of GDP, 50% of state income, and 70% of export value (2006 data). Oilfields in Syria were first discovered in Qarah Shuk (Karachuk) – in the northeast, near the border with Iraq – in 1956, by an American company. Three years later, a German company carried on the work under licence and found oil in Suwaydiyah, a few kilometres south of the first discovery. The Syrian government nationalized the oil industry with early measures in 1964.

Since then, the industry has grown progressively, even though there have not been enough investments in technology to guarantee a constant output. After the golden age of the '70s and '80s, production started to decline: 414,000 barrels a day in 2005, 404,000 in 2006 (2.48% less on an annualized basis), and 380,000 in 2007. After dropping below the psychological threshold of 400,000 barrels, experts maintained that, if authorities in the sector did not intervene, production would drop to less than 300,000 barrels a day in 2030.

This led the Syrian government to open international calls for tender to upgrade the two refineries in Homs and Banias in order to increment refining capacity and improve finished product quality; to restore the Syrian-Iraqi pipeline running from northern Iraq to the Mediterranean, which had been damaged by the war and was closed in 2003; to build new refineries on the coast, in the northeast and in Deir ez-Zor; to improve the distribution network (although there are still restrictions, like state monopoly on sales and fixing the price at the pump); to carry out new drillings and avoid a drop in production. Today, Syria has an estimated oil supply amounting to 2.5 milliard barrels, and natural gas reserves amounting to 297 milliard cubic meters.

This situation has partially changed due to the presence in Syria of foreign competitors, whose contribution to increased productivity is expected to be decisive, especially in this current period characterized by high prices. There are many regions involved: Ebla – in the north of Syria – where the Anglo-American company PETROFAC won a contract to build a system

of 2.5 milliard cubic meters of natural gas (extracted from wells in Ash Shaer and Cherife and processed in situ) with a value of 477 million US dollars, designed by Petro-Canada and disputed in court for 15 years. The same company also won a contract for a second system – in Jihar, with a capacity of 4 million cubic meters per day – on behalf of the Hayan Petroleum Company, a joint venture between the Syrian Petroleum Company and INA Naf-

taplin. The total of the two contracts is nearly 1 milliard US dollars.

Sanctions imposed by the United States initially blocked Gulsands Petroleum from exploiting their Syrian assets to the full. In May 2008, the company announced it would fire its top managers and move its registered office to Great Britain in order to begin its activity in the Khurbet East oilfield (Block no. 26 in Figure 2), where the reserves have been estimated

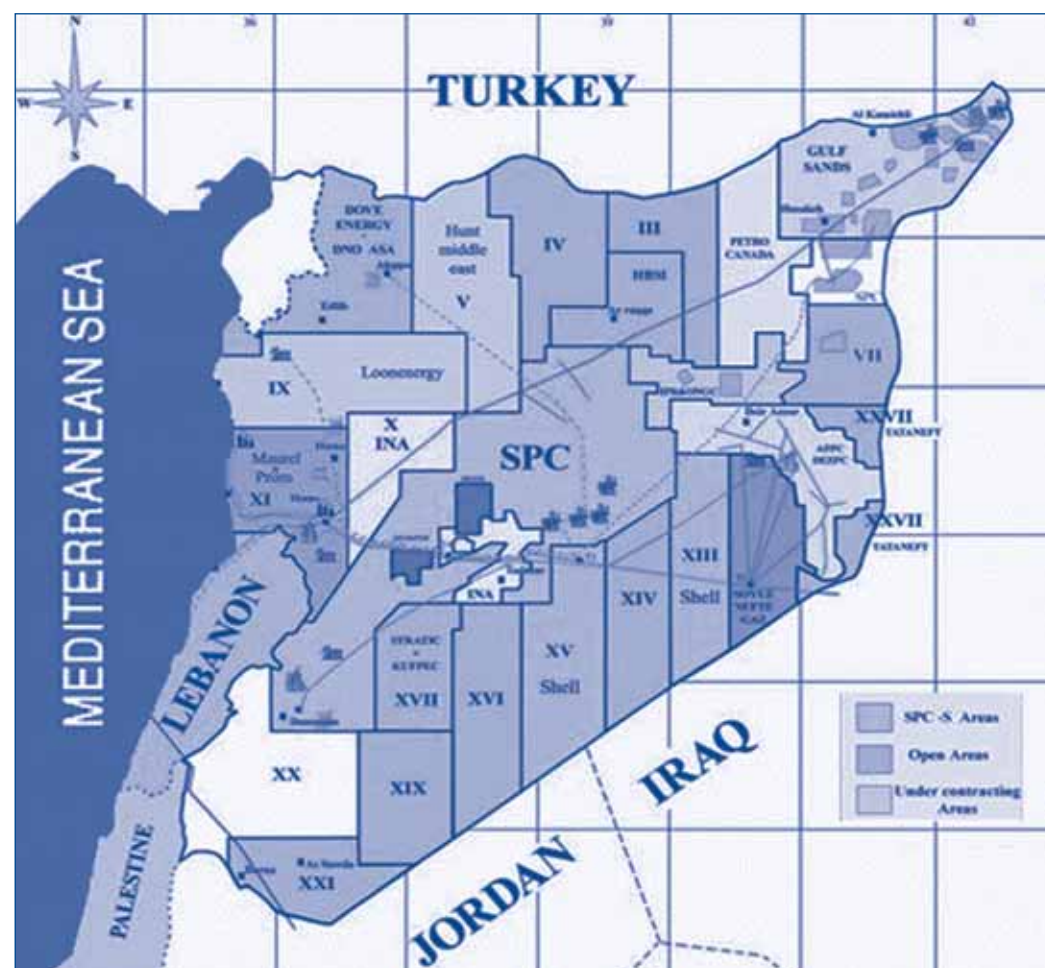


Figure 2: Blocks of exploration activity, hydrocarbon fields in use, and pipelines / Source: The Syrian Petroleum Company

to be 66 million barrels. Another important contract was assigned to the Russian company Sroy Transgaz for the third phase of the Arab Gas Pipeline project; for the connection with the power plant in Tishreen, and for the exploitation of the gas reserves in the central region, with a capacity of three and six million cubic meters per day.

In April 2008, in addition, the Ministry for oil sealed an agreement with the China National Petroleum Corporation (CNPC). The contract plans to set up an oil refinery in Deir el-Zor, with a 100,000 barrel per day productivity. The Chinese company will cover 85% of the funds necessary, while the remaining 15% is to be financed by the government in Beijing. This project highlights the ties between the two countries, which include a total of five billion dollars of Chinese funding (within a five-year term) for projects in Syria.

Services

Energy The supply of electricity is linked to the oil sector. The increase in population and the development of infrastructures have led to a steady increase in demand, which in 2006 reached 37 milliard kilowatt-hours. This sharp increase was due to the huge flow of Iraqi refugees into the eastern regions. It was not possible to cope efficiently with this peak, in particular during the summer of 2007. National facilities (grouped and directed by the PEEGT, Public Establishment of Electricity for Generation & Transmission) are not able to fully satisfy internal demand, even in normal conditions, and this is the reason why Syria made an agreement with Turkey for the supply of 1.4 milliard kilowatt-hours.

In order to overcome this inadequacy, the PEEGT launched a development program, which plans to install over 4500 MW of power within the next three years. First of all, it plans to expand the power plants in Nassirieh and Zayzoun; it then includes a project for a combined cycle power plant in Deir ez-Zor (750 megawatts), a 300 MW wind power plant and three contracts for engineering, procurement and construction (EPC) for a total of 1120 MW. The former is a joint venture between a Syrian and Kuwaiti company, Kharafi Cham; the latter is the first example of the entrance of a completely foreign company (German) in the energy market; the three EPC contracts were finalized with a branch of *Siemens Power Generation*, with Russian *Power Machines*, and Iranian *Mapna*. The agreement with PEEGT, which remains the only authorized actor, determines that the energy released be bought at a prearranged price, which will serve to compensate investments (investment in wind power is the first example of investment in the field of renewable sources of energy) without further intervention from state authorities (the Build-Own-Operate, BOO, contract). In addition, Syrian authorities have made agreements with Iranian companies and with the EU to build new plants and finance projects for modernizing the obsolete lines that cause power loss during transmission.

Telecommunication The STE (Syrian Telecommunication Establishment) is the Syrian phone company. Two internal operators – Areeba and Syriatel – won a contract to manage the GSM network. Accord-

ing to the fifteen-year contract – drawn up in 2001 – the two operators must build the network and the connections necessary for operations, paying the Syrian government (through the STE) a prearranged proportion of its income: 30% for the first 3 years, 40% for the following 3 years, and 50% for the future years (i.e. starting in 2008). The high rates of growth – once again a result of the increase in population due to the flow of refugees – and prospects of future developments make this sector one of the most dynamic, and the domestic company STE will most likely enter the mobile phone market as a third operator in 2009, once the exclusive period established by the contract has expired (7 years). There is controversy about the actual starting time of the contract, as licenses only became operative in April 2002.

Syria – unlike other regional markets – has not saturated its possibilities of expansion and this attracts investors. According to the most recent data, relating to December 2007, in Syria there are 5,830,000 lines, covering 30% of the resident population (therefore not including refugees). In 2006, there were 4.4 million telephone subscribers, double the amount in 2005.

In 2007, a South African company (MTN) bought out Areeba for the equivalent of 1 billion dollars, renaming it MTN Syria. At the end of 2007, the Turkish mobile phone company Turkcell announced it had accepted the proposal of Rami Makhoul – cousin of current President Bashar al-Assad and owner

of 65% of Syriatel's capital – to buy 51% of the company shares, an operation estimated at 1 billion US dollars. The agreement has not yet been finalized due to pressure from the US administration on Turkcell managers; therefore, other proposals have been made, for example by ZAIN.KW, Kuwait's mobile phone company.

Syriatel covers most of the users (3,470,000 at the end of 2007, equal to 55%) and reported an income of 610 million US dollars (data referring to 2006 budget), with a 25% increase over the previous year. It is present in Yemen, as well, through HitsUnitel Mobile Telecom, of which it owns 10% of the capital. There is a significant difference in the increase of users and profits: in 2006, in fact, the latter grew only 0.53% compared to 2005. This is due to the obligations determined by licenses and to the need to make substantial investments in order to expand coverage (the objective is to bring it to 95% of the country first and then to 100%) and supply third generation data transmission systems.

The landline sector – although equally dynamic – is not affected by these tensions in company setups. In 2006, the STE recorded an 18.7% increase in business volume, going from 813 to 965 million US dollars. The increase in 2008 compared to 2007 was even more significant, and equal to 24%: 1 billion and 250 million dollars compared to 1 billion and 9 million. Landlines and income from the mobile network obviously play a predominant role. An interesting sector for the

company is that of prepaid phone cards, of which it holds the absolute majority (55%). Less revenue comes from the use of the internet, a sector where there is participation by Greek and German companies for the extension of wireless service through projects coordinated with national authorities and financed by the European Investment Bank and the Syrian General Establishment of Telecommunications, the state authority for telecommunications. Projects for the modernization of landlines are carried out through European and Oriental partners: Siemens, Ericsson and Samsung.

Transportation The transportation system in Syria is based on the road network, which guarantees individual and collective mobility as well as a great deal of internal and regional freight traffic. The sector is controlled by the General Establishment of Road Transport, which, according to the 10th five-year development plan, will spend 3 billion dollars on modernizing the network. Special attention will be paid to connections with Iraq, where most of the traffic is headed, operated by two Syrian-Iraqi companies, one by land, the other maritime. Some goods are, in fact, shipped by sea (Syriamar, the domestic company, has a predominant role) and, therefore, part of the improvements planned by the General Director of Transportation are concerned with expanding harbours on the Mediterranean, Latakia and Tartus first of all.

As far as air transportation is concerned, new investment projects concentrate on building

new airports and buying new aircraft. The government has invested in the airports of Damascus and Latakia, where new runways are being built. Since buying Boeing aircraft is forbidden by US administration regulations and the Airbus has parts subject to the same restrictions (a 2006 proposal for the purchase of 7 aircraft, equivalent to 500 million US dollars, was withdrawn in the end) Syria continues to choose Russian Ilyushin aircraft. An agreement for new acquisitions was hindered by lack of agreement regarding the construction of a service and maintenance centre in Syria that would avoid Syrian companies having to go to Russia for repairs. A legal expedient could have been for the Emirate companies to *lease* aircraft to the Syrian airlines. This possibility has been put aside for the moment. Instead, in June 2008, the two companies drew up a memorandum of understanding guaranteeing the Emirates unlimited access to Syrian airports, and more frequent flights for Syrian Air and Pearl of Syria (14 weekly flights) to airports in Abu Dhabi, Dubai and Sharjah. On July 28, 2008, the Emirates announced that they had purchased sixty new aircraft from Airbus.

Tourism The tourism sector experienced a favourable period in 2006: 3.1 million units, against 2.6 million in 2005 (+19%). The income flow that year added up to two billion dollars (+7% compared to the previous year, a sign that the increase in number involved different types of visitor and attracted categories less prone to spending). However, the Syrian government has stated that it wants to pursue

the growth of the country's tourist potential, by improving the destinations offered and the assistance to tourists until it can manage at least 7 million tourists by 2011. The first steps taken involved infrastructures.

Hotels and residential complexes have been built and some smaller facilities remodelled in Damascus and Aleppo. According to the priorities set by the government, the areas most suitable for future development are Snobar (south of Latakia), the al-Mustaha region (lake al-Assad) and the Palmyra region (in Tadmor, an oasis between the Mediterranean and the Euphrates), while various operations have been recorded concerning the ownership of big 5-star hotels in the capital, like the Mövenpick Hotels Damascus, or the Wadi Motel, on which building started at the end of 2006.

THE BANKING AND FINANCIAL SECTORS IN SYRIA

The Syrian financial system was affected by the economic crisis in the '80s and was marked by a shortage of liquidity. Those few authorized actors – all part of the public sector – who had funds available tended to direct them towards only some sectors of the economy. Obvious bureaucratic and legal inefficiencies contributed to hampering domestic operators. Hence the strong will to reform the system and open it up to the private sector and to foreign operators, as suggested by President Bashar al-Assad and the 10th five-year development plan, approved by the Ba'ath Party in 2005. The economic reforms necessary to relaunch the country began in this sector and already in 2006 some significant novelties had appeared, like the law allowing foreign banks to hold the absolute majority – 60% – of shares in companies operating in Syria, exceeding the previous limit at 49%. The same text mentioned the mechanisms necessary to start up the Damascus Stock Exchange – DSE, created at the beginning of 2008, on which dozens of companies are quoted. Control authorities hope that the Stock Exchange mechanisms will lead to more correct accounting procedures and will attract foreign investors to the national economy. Important Syrian groups such as Syriatel and Daaboul are listed on the DSE.

The large state banks – the *Commercial Bank of Syria*, the *Agricultural Cooperative Bank*, and the *Popular Credit Bank* – continue to dominate the sector. However, the contribution of private banks – represented mainly by subsidiaries and controlled by banking institutions in Lebanon, Jordan, and the Persian Gulf – was important in determining movements and acquisitions in a stagnant market, which they contributed to recapitalizing. To this day, there are six state institutions and ten private ones, three of which are Islamic. This was something new, introduced in May 2005, when the government authorized private investors to apply Islamic law – which basically forbids interest and advocates risk-sharing – to the bylaws of credit institutions. The only difference is the bigger share capital, which must be equal to at least five billion Syrian Pounds (about 100 million US dollars) compared to the 1.5 billion requested from traditional credit institutions. Since 2007, new banks that wish start operating in Syria must ensure a minimum capital equal to five billion Syrian Pounds (100 million US dollars), whereas Islamic banks must ensure at least double: 10 billion SYP. This rule was introduced in conjunction with modifications regarding property, in order to guarantee a more substantial presence of non-Arab investors.

Also in the banking and financial sectors the elite, who defend their privileged positions within the structure of the state, have slowed down the innovations planned by the government and control authorities. However, the market is gradually tending to regulate itself and to reward private institutions, which are more dynamic, more profitable, and stricter about granting loans (thus suffering minor losses). One of the effects of competition is the contraction of deposits in private banks.

Not indicative for development in itself, it gains importance if we consider that 46% of credit was granted to private initiatives in 2006. This is an example of how public credit institutions can open up to initiatives that are not public. The two biggest private institutions in the country are the *BEMO* – created from the fusion of Lebanese and Saudi capital – and the *BSO*, created with Syrian and Lebanese capital. Another innovation is the authorization granted to microcredit institutions, for which a capitalization of 250 million Syrian Pounds (5 million US dollars) is sufficient. They can participate from abroad – under the same conditions as traditional institutions – provided they receive the government's approval first.

The insurance sector, under the aegis of the *Syrian Insurance Company*, was nationalized in 1961 and reformed in 2005: a supervisory commission was created and changes were made to the corporate structure. The market is still tied to car and goods insurance, with a possibility for expansion in the future. The transition to a new system of foreign currency conversion is also interesting from a financial point of view. The Syrian Pound was pegged against the dollar for decades. This was slowly abandoned during 2005, and Syrian authorities gradually gave up their reserves to purchase Euros and Pounds Sterling. In 2006 it was announced that parity with the dollar would be abandoned and this became definitive in 2007. Under supervision of the IMF the Syrian Pound is still pegged against Special Drawing Rights through a currency basket with the following proportions: 44% USD, 34% Euro, 11% Yen and British Pound Sterling. By doing so the country's currency gained more stability. These operations are applied, at the same time, to the reform of current accounting operations (entrepreneurs can now make use of a foreign currency, through local banks, to finance their activities, which makes illegal operations more difficult) and the inflow of foreign capital. All of these measures are taken to stabilize the national economy and trade.

MAJOR BANKS OPERATING IN SYRIA

STATE BANKS
AGRICULTURAL COOPERATIVE BANK
COMMERCIAL BANK OF SYRIA
INDUSTRIAL BANK
POPULAR CREDIT BANK
REAL ESTATE BANK
SAVING BANK
PRIVATE SECTOR
ARAB BANK SYRIA SA
AUDI-BANK SYRIA SA
BANQUE BEMO SAUDI FRANSI SA
BANQUE OF SYRIA AND OVERSEAS SA
BANCA UBAE
BYBLOS BANK OF SYRIA SA
CHAM BANK SA
INTERNATIONAL BANK FOR TRADE AND FINANCE SA
SYRIA GULF BANK
SYRIA INTERNATIONAL ISLAMIC BANK
PRIVATE BANKS (pending authorization)
BANK OF BARAKA – SYRIA
BANK OF JORDAN
BANQUE LIBANO-FRANÇAISE
DUBAI ISLAMIC BANK
GLOBAL HOUSE GROUP OF BAHRAIN
LEBANON'S FRANSABANK
NOOR FINANCIAL INVESTMENT COMPANY
QATAR NATIONAL BANK
TADHAMON INTERNATIONAL ISLAMIC BANK

Source: Central Bank of Syria, June 2008

CHAPTER 5 - ECONOMIC SITUATION

(Vincenzo Palmieri)

Syria experienced a moment of crisis from the mid-Eighties to the early Nineties, coinciding with the fall in the price of the oil – its main source of income – which caused a sudden reduction of revenues to the state and a simultaneous increase in public debt. The disappearance of the Socialist economic bloc aggravated the effects. Furthermore, the government and the economic policy-making institutions were unable to act by means of monetary levers, given the insufficient liquidity reserves and the need to maintain parity with the American dollar; yet these instruments would have been necessary to face the crisis. Today, an analysis of three indicators shows that Syria has survived the crisis: it has recovered the equilibrium of its national accounts thanks to the increase in domestic demand, at negative real interest rates in relation to inflation, and it has overcome parity with the American currency, which brings the Syrian Pound (SYP) more in line with the situation of trade flows and the potential of Syria's current economy. Still today, much of Syria's potential remains unfulfilled. Privatization, foreign investments and foreign income have shown great yields and been able to strengthen those sectors where they have been allowed, especially in the production and financial fields. But, particularly with regard to future prospects, the reduction in oil production

and strong internal resistance show that there still is a long road ahead in order to fully relaunch the national economy.

Nevertheless, the analysis of the economic indicators leads us to foresee stable growth for Syria. As well as the increase in GDP, although slow according to some estimates, the data are positive in particular on: 1) the aggregate demand, thanks to the flow of refugees from Iraq; 2) trade, due to the agreements with Turkey and some Persian Gulf countries, and 3) the liquidity of the system, which is necessary to guarantee the growth and modernization of the productive sectors leading the national economy as time goes on. Inflation has returned to more acceptable levels – around seven percent – which is comforting because at the same time tensions are rising over prices at the international level. Less positive is Syria's public debt, which is worsening.

Indicators on the country's balance of payments are good. Although currently the only available estimates come from 2007 data, observers agree that there is a simultaneous increase in exports and imports. The value of imports tends however to exceed exports, resulting in a negative imbalance in the current accounts. However another positive sign is that foreign debt is decreasing, in particular in relation to the GDP. Debt may, however, begin to increase again from 2008 on, as a symptom of less governmental attention to

SYRIA

this indicator – a doubtful choice particularly in relation to the present state of affairs – after the great negotiations to cancel foreign debt with Russia and Romania.

Political Economy

The political economy described up to now can be classified as moderate and cautiously open to foreign capital and know-how, which has fuelled national recovery, in particular through: the increase of liquidity, the introduction of new financial and insurance instruments and the end of parity with the dollar, which no longer reflected the dynamics of regional trade.

Syria's performance in the medium term will depend on the ability of government policy-makers to cope with the currently negative economic situation without relying solely on the resources of the hydrocarbon industry. However, this is a pillar of the economy and its elevated incomes have to be used by the government to stimulate economic diversification and to increase trade flows. President Hafiz al-Assad already understands that this is a current political objective. He has said that economic growth will unite the majority of public opinion around the Alawite minority, a strategy applied to the economic policies and the first reforms of the late Eighties, which are now being taken up again. The instrument used to achieve the goal remains the making of centralized five-year plans, which continue to provide the guidelines for the economy. However, nowadays the approach is quite different from the collective imagination's idea of planning.

The introduction to the tenth five-year plan, approved in 2005, reads: *“Preparation and implementation of the 10th Five-Year Plan occur in the context of getting Syrian economy and society prepared to meet the demands and requirements of the 21st Century and an evolving epoch of political and economic international relations. These relations are characterized by sharp international competition, based on knowledge supremacy, high advanced levels of productivity, and an ability to utilize, analyze, and compose complex sciences and super highway information and communication. [...] Hence, the present FYP is fully cognizant of the challenges posed by the current historical epoch and the genre of accelerating future economic developments. This plan is also aware of the fact that in order for the Syrian economy and society to get an effective foothold in the 21st Century, and to achieve remarkable economic and social successes, it must be transformation – oriented.*

Therefore in order to properly understand Syria's political economy one must consider the different aims it is seeking to fulfil. In confronting the need to change, on the one hand, there are those who would like to accelerate change and insist that policy must be less rigid, where possible, in following the line of Pan-Arab nationalism and socialism, which characterised government policy up until the late 80s. On the other hand, there are others who defend the policies followed thus far, more often than not in order to defend their positions of privilege rather than from economic short-sightedness or inability to plan for the country to take its place on the regional and international commercial and financial scene. It is also worth noting that current President

Bashar al-Assad identifies himself with the first group, of which he is a leader, despite the difficulty he has encountered trying to meet the objectives set. For example, the prices of basic commodities have increased, except for fuel, for which there are small subsidies, and this led to increases in the salaries of civil servants and the return of inflation in 2008, after it had been reduced in 2007. The President had supported the options advised by the IMF, but was soon forced to change his position. The government had moreover intended to recover a certain level of autonomy with respect to the dollar in order to avoid excessive depreciation of the currency; the value of imports had surpassed exports by over two billion US dollars. This demonstrates that the productive structure needs to catch up, while currency exchange remains only an instrument for correcting minor imbalances. These dynamics demonstrate that the policy-making institutions still have to struggle with conflicting needs and that the liberalization

that has taken place is only one step towards an overall balance of the economic system some time in the future.

Economic Trends

The present trend is affected in a mixed way by the international situation. As an exporter of oil, which makes up 40-50% of its income, Syria can use this income to provide capital for other sectors of the economy and develop them. However, the very bad wheat harvest has reduced, at least temporarily, the importance of one of the country's most substantial exports, and the high prices of other raw materials that it has to import have caused a cancellation of the national income surplus and created a negative balance of payments. Luckily, an area that has performed very well is tourism. As a source of precious currency income and a vehicle of social and cultural development, government authorities define it as the "third pillar" of the national economy, thus showing how determined they are to ensure the sector's success.

Its adherence to the Greater Arab Free Trade Area is another positive indicator because it means that Syria today belongs to a very dynamic area with enormous liquidity, which can have beneficial effects on the whole Syrian national economy. Similarly, the trade treaty with Turkey is another positive sign as it marks the convergence of two complementary markets and decades of good trade relations, with only sporadic disagreements. Results of these agreements will be evident in the short to medium term, when Syria's economic actors will have to face foreign competitors and compete with them for market shares, and when they have acquired the necessary experience to advance the national economic production system.

The necessity once again emerges to differentiate total national production from the non-oil-related sectors because these are the products that the Syrian economy can use to gain a comparative advantage for growth, since it already has a productive structure that is relatively independent from hydrocarbon production. Obviously, the performance of Syria's economy depends on stable growth in neighbouring countries and in Europe, which can be seen by the growth of tourism. However, this calls for a new approach by national actors and a broader exploitation of possibilities with the help of foreign partners.

Macroeconomic Indicators

The macroeconomic indicators depict a *transitory* phase in the Syrian economy: they are positive in the majority of cases, but are affected by fragility and by the sudden adjustments typical of transition phases.

Public finances and inflation An example is the dynamics of public finances: the Syrian government prepared in 2007, and implemented in 2008, a necessary revision of its policy on subsidies – also in accordance with International Monetary Fund (IMF) directives – since they account for over seven billion US dollars of the country's annual budget. The measure is accompanied by a revision of fiscal policy and the introduction of a value-added tax (VAT) set at ten percent of the value of the finished product. The VAT will come into force in 2009, while a series of reductions on personal taxes, which were collected inconsistently in the country, are being implemented immediately.

Up until now, the total benefits for the country's finances have been much lower than expected. The income from taxation amounted to a billion and a half US dollars versus the 460 million collected in 2003, yet the tensions caused on the social front by the increased prices of gasoline and diesel for motor vehicles and heating forced the government to grant a 25% wage raise to the two million workers employed by the public sector. This has not interrupted the process of reduction of public and foreign debt, but neither was it able to check the rise of inflation, which is estimated (also by the International Monetary Fund) at around seven percent in 2007 and stable or rising in 2008 (see Figure 1).

Therefore, the 2007 financial budget predicts an increase (of 4.4 percent) in the current deficit of 1.68 billion US dollars, compared to the 100 million recorded in 2006 (while the



Figure 1: Level of current transactions, growth of GDP and inflation trends / Source: SACE, June 2008

IMF predicts a deficit of 4.8%). Budget expenditure will amount to 11.7 billion dollars – in 2006 it was 9.9 billions, an increase of 19% – more than half of which (6.6 billion US dollars, according to the document) is to be used for current expenditure, while 5.1 billions will be used for capital expenditure to support economic

development projects. Although the absolute value is still lower than current expenditure and may indicate an imbalance, expenditure for economic development increased greatly in 2007 compared to the previous year, by 32 percent, while current expenses increased by barely 10%. Total income will amount to

approximately 10 billion US dollars compared to the 8.2 billion dollars of 2006.

Moreover, the inflationary trend is also due to increased domestic demand, due to the increasing flow of refugees from Iraq.

Their presence has been especially felt in the real estate section, where the high demand

for housing has raised prices, in a sector that is now liberalized and no longer controlled by the authorities. This is one macroeconomic example of a variable that can not be fully contained by government action.

In this case, the authorities can influence markets indirectly by favouring the return of some

Table 1: Main economic indicators

Main economic indicators	2004	2005	2006e	2007f	2008f
GDP (real growth %)	2.8	3.3	4.4	3.9	3.7
Average Annual Inflation (%)	4.4	7.2	10.0	7.0	7.0
Total Public Budget/ GDP (%)	-4.2	-4.4	-5.7	-5.0	-5.9
Balance of Payments					
Exports (USD mld)	7.1	9.0	10.3	10.8	ND
Imports (USD mld)	-8.2	-10.5	-12.1	-12.9	NA
Trade Balance (USD mld)	-1.1	-1.5	-1.8	-2.1	NA
Balance Current Transactions (USD mld)	-0.8	-1.2	-2.1	-2.2	-2.6
Balance Current Transactions/GDP (%)	-3.2	-4.1	-6.1	-5.8	-6.6
Total Foreign Debt (USD mld)	18.3	6.7	6.8	6.3	6.9
Total Foreign Debt/GDP (%)	73.2	23.3	19.4	17.2	17.8
Debt Service (%)	5.9	4.7	5.4	7.3	7.5
Gross Monetary Reserves (USD mld)	17.6	17.6	16.8	16.2	15.8
Average Exchange Rate SYP/USD*	48.6	53.4	52.0	50.0	46.3

Sources: IMF, July 2007; * EIU Bureau Van Dijk, June 2008; SACE June 2008

Table 2: Key economic data

	2004	2005	2006	2007
Exchange Rate to Euro*	59.71	64.85	65.55	70.91
Exchange Rate to US dollar	48.60	53.40	52.00	49.98
GDP in USD current prices (mln)	25,991	27,918	32,859	37,071
Variation in Real GDP (%)	6.72	4.50	5.10	4.20
Origin of the GDP (%)				
Agriculture	NA	NA	NA	NA
Industry	30.19	29.10	28.14	27.30
Services	47.13	47.51	47.34	48.30
Variation in industrial production (%)	NA	NA	NA	NA
GDP per capita in USD at current prices	1,413	1,478	1,693	1,860
Inflation Rate (%)	4.43	7.24	10.03	4.00
Unemployment Rate (%)	12.30	8.00	8.50	9.00
Ratio of Public Debt/GDP (%)	76.70	39.20	39.80	42.50
GDP Destination (%)				
Private Consumption	64.13	66.62	65.98	67.40
Public Consumption	15.67	13.86	12.80	12.40
Investments	23.83	24.14	21.40	21.60
Total foreign debt in USD (mln)	18,981	6,571	6,678	6,604
% over GDP	73.03	23.54	20.32	17.80

Source: Economist Intelligence Unit – Bureau Van Dijk; *Bank of Italy data - Average Annual Syrian Pound in Euro from 2004 to 2007

refugees to their countries and thus weaken the inflationary tendency. Another instrument – which is more direct but less likely to be adopted – would be the reduction of liquidity in the system or restrictions on credit institutions.

Gross Domestic Product According to the most recent data released by the Syrian authorities for 2007, the Gross Domestic Product shows a 6 percent growth rate – a value that positively contradicts the less optimistic estimates made and is mainly due to increased consumption and domestic investments.

There is actually some confusion in the estimates: the International Monetary Fund continues to support estimates of growth and reports data close to 4 percent for 2008 (substantially unchanged from the 3.9% of 2007); the increase of the oil sector instead is expected to be at the lower rate of 5.3%, after having reached 5.8% in 2007. Beyond the divergence in estimates – which we quote for information's sake – what we think should be considered regarding such a sensitive indicator of the state of an economy is that there is a substantial convergence of opinion between observers and authorities in foreseeing moderate growth, far more stable than it was in the past.

Unemployment The unemployment rate – over 12 percent in 2004 – came down in 2006 to 8.5% and then went up to 8.9% in December 2007. Such a result, on the whole, was more positive, and was due to the combined action of investments in the private sector, (estimated at having created approximately 150,000 jobs) and the public sector, adding to this about 50,000 new hires.

The nation's delicate situation was thus dealt with successfully, yet even with such positive advances it has been difficult to absorb fully the pockets of long-term unemployment. In fact, the Syrian population is predominantly made up of young people (approximately 200,000 young adults enter the job market every year) and this makes it more difficult to achieve the objective of full employment. Furthermore, latest available statistics reveal a strong disparity in the access to the job market for women, who barely account for thirteen percent of the total working population.

Monetary reserves and public debt The Governor of the Syrian Central Bank has declared that the foreign currency reserves amount, as of August 2007, to approximately 20 billion US dollars, whereas they were 15 milliard in 2006, which is an increase of about a third in one year. Equally positive is the renegotiation of the agreements on foreign public debt; in April 2008, out of the 13.4 billion US dollars of Syria's debt to Russia, it was able to cancel 9.8 milliard (a decrease of 73 percent of the total). This brought its level of debt to ten percent of the GDP; similar agreements have been made with Romania. However, the outstanding accounts with Bulgaria – the only Nation of the former socialist bloc with which Syria still has not negotiated any form of reduction of debt – show a credit by the authorities of Sofia of about 83 million dollars.

Interest rate The Central Bank of Syria is responsible – according to the terms of its Charter – for fixing the level of the country's interest rates. Statutory tasks are main-

taining the stability of the local currency and the general level of prices. Although it can intervene on the monetary side in order to influence both macroeconomic variables, the Central bank chooses to manipulate the interest rate – or discount rate – in order to support the demand for Syrian Pounds in the event of deflationary trends or to discourage demand in the event of inflationary trends. As of June 6, 2003, the official discount rate is equal to 2% while the rate on loans and deposits is equal to 2.15%. Every credit institution is then free to make its savings rate more attractive if it chooses to; the rates for fixed savings accounts are currently between 7 and 9%; for ordinary savings they are slightly lower (6%). The government has still never issued treasury bonds, a measure that is under review and consideration by the Syrian Central Bank. Obviously, savings interest rates are practically negative, in order to favour the circulation of capital and thus contribute to the development of the national economic system.

CHAPTER 6 - FOREIGN TRADE

(Marianna Capasso)

Since its opening to international markets, Syria has also intensified its international relations both on the global and regional levels.

International Economic Relations

Without a doubt, Syria's relationship with the **European Union** is of considerable importance. Finalized in December 2003, and with negotiations completed in October 2004, the Agreement of Association between Syria and the European Union was one of the largest projects of the Declaration of Barcelona of 1995, when the 27 countries (15 of the EU and 12 of the Mediterranean coasts) established the creation of a free trade area by the year 2010. Since that significant date, the EU has been working on many fronts to negotiate ad hoc associations with

every individual country, encouraging countries to make trade agreements between themselves for lowering customs tariffs.

From a strictly economic point of view, the agreement promises the creation of a free trade area by the year 2010, while at the same time protecting intellectual property rights and enforcing cooperation for good practices in customs, transportation, and tourism services. The agreement considers political factors, as well, and pays special attention to human rights and democracy – banning terrorism and armed movements.

Instead, from a financial point of view, the agreement establishes an allocation of funds for this Mediterranean country, in order to favour the transition towards competitive market standards and therefore encouraging gradual development.

The EU has funded the National Indicative Program (NIP) 2007-2010 which foresees disbursement by the Union of 130 million Euros for 3 projects specifically aiming to:

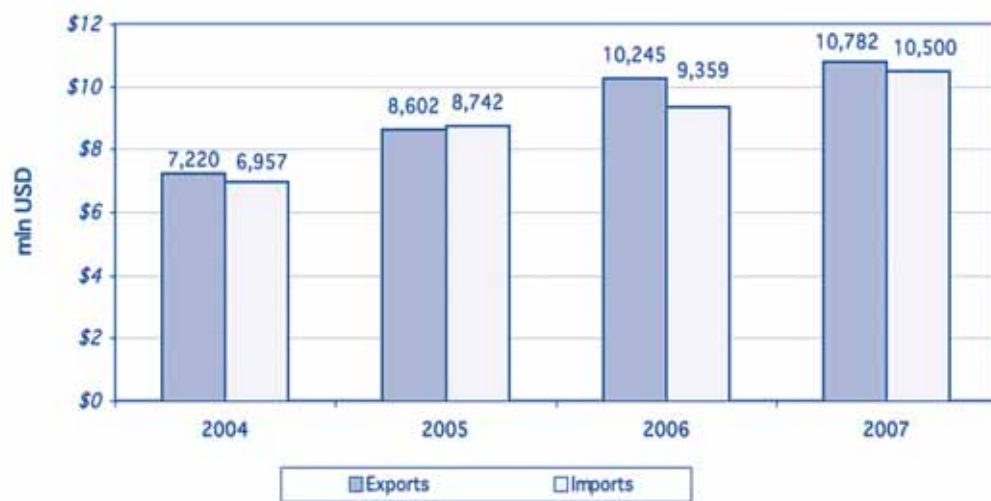
- support political and administrative reforms, with the modernization of the PA, decentralization, respect for laws;
- support social reforms;
- support economic reforms, above all in regards to the Five-Year Plan development programme for 2006-2010 (date of the beginning of total free trade), creating greater guarantees so that the country can become a member of the World Trade Organization (WTO).

In fact, regarding this issue, in October of 2001, Syria applied for membership to the **World Trade Organisation (WTO)**: in 2005, the request was renewed, but, as things stand, its position is still under observation. Nevertheless, even though Syria is not yet a

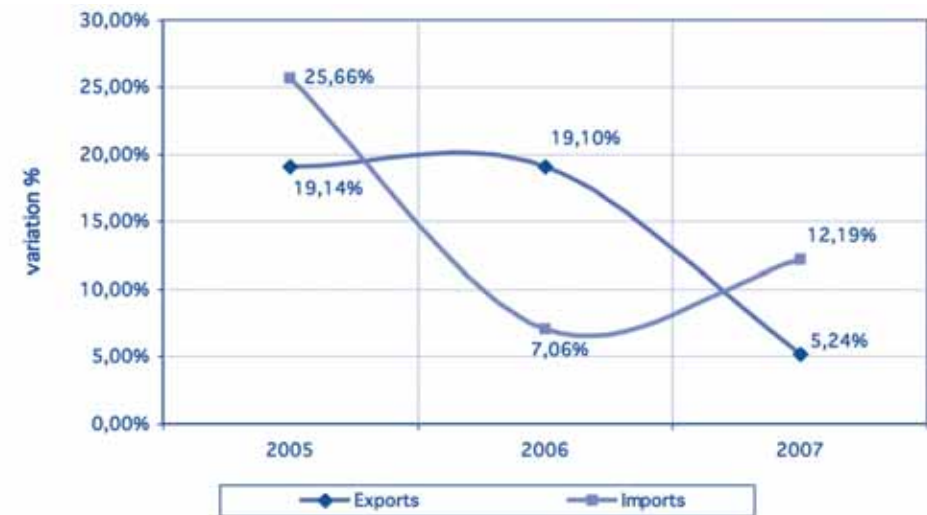
member, it is worth noting that the government has demonstrated its willingness to align its trade policies with the rules and regulations laid down by the WTO.

Furthermore, in order to show its commitment to the WTO requirements, Syria is aligning its legislation to the principles of Trade-Related Aspects of Intellectual Property Rights (TRIPS), the intellectual property rights protection agreement.

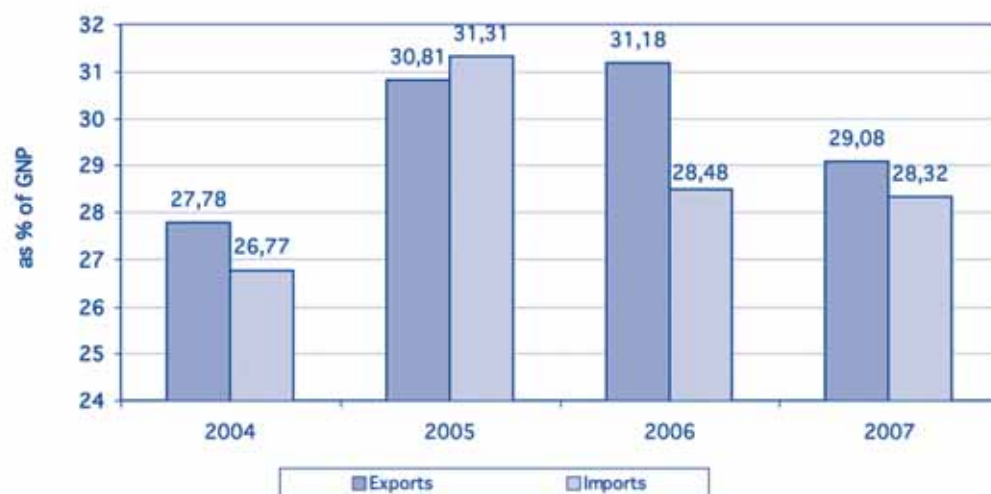
Syria has also made a fiscal agreement with **Italy** to avoid the imposition of double taxation. The document was signed in November 2000 and ratified in Italy on April 2004 (with Law no. 130) to come into effect in January 15th, 2007. This agreement, based on reciprocal tax sovereignty, establishes that businesses or citizens resident in one of the two countries but operating in the other are free to pay taxes in only one of the two and thus avoid double taxation.



Graph 1: Foreign trade – goods / Source: UN Comtrade data, statistical database



Graph 2: Foreign trade in goods – annual variation / Source: UN Comtrade data, statistical database



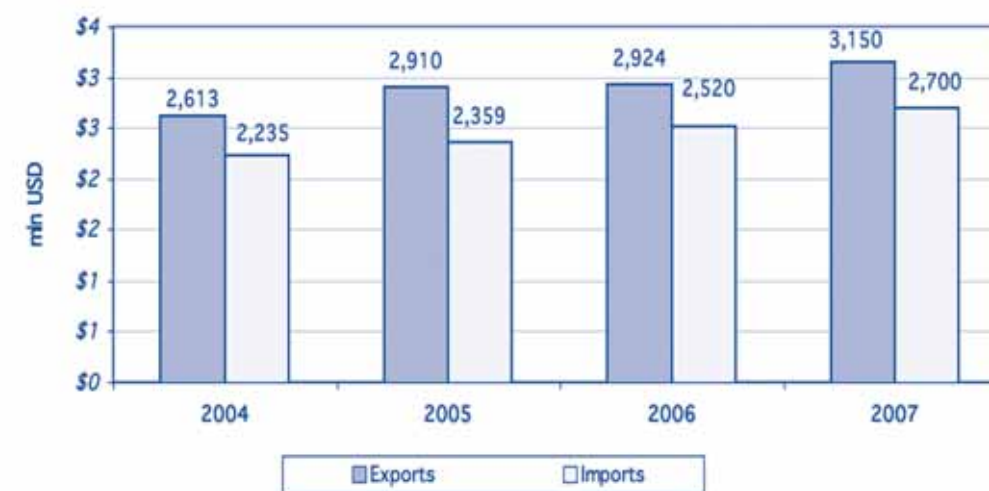
Graph 3: Trend of Foreign Trade – Goods / Source: UN Comtrade data, statistical database

In regards to regional economic relations, Syria is part of the **GAFTA** (Greater Arab Free Trade Area), a free-trade area composed of Arab countries, established by the Arab League. In 1997, the 17 countries decided to abolish the customs tariffs previously applied to all entering goods and therefore created a zone of free imports and exports. Actually, in 2001, Syria began to use the Brussels Tariff, joining the Harmonized System (HS) but that did not affect its participation – and its privileges – in the Arab association. Every member country agreed to lower its tariffs in order to be able to create an intra-GAFTA flow of exchange and to increase trade in its own goods. Logically, as in every association, there are exceptions: every country has the right to protect its own products against competition in markets where free trade would have a strong negative impact on the country's national economy.

Besides Syria, the following countries are members of GAFTA: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Tunisia, UAE, and Yemen. Soon, new GAFTA members may be Djibouti, Mauritania, Somalia and the Comoro Islands.

Also on the regional level, Syria has maintained good relations with **Turkey** since the Sixties – with the exception of the crisis of the late nineties – and in 2004, the two countries made an agreement for the creation of a free trade area, due in part to the large amount of commercial trade between them as well as due to the strong presence of Turkish businesses in Syria.

It is important to mention another strategic partner for Syria: the **People's Republic of China**. As of 1956 – the year that initiated diplomatic relations between the two countries – bilateral relations have always been positive, increasing above all in the last decade, thanks to a growth in



Graph 4: Foreign trade – Services / Source: UN Comtrade data, statistical database

trade. Relations were strengthened in 2000, with the succession of Bashar to his father, Hafiz al-Assad. In 2004, the first official visit to China by a Syrian President took place, and in 2006, there was an official celebration of 50 years of diplomatic relations between the two countries. From a commercial point of view, in 2004, Syria and China made numerous agreements directed towards bilateral cooperation in many areas, which were directly related to dealings in the previous years. Attention has been focused primarily on foreign trade, due to the immense amount of trade over the last years. Furthermore, Syria supports the “One China Policy” and does not have commercial dealings with Taiwan, to demonstrate its “fidelity” to Beijing. Cooperation has concentrated above all in the areas of energy, electricity, transportation and telecommunications. For example, some important Chinese giants, like the China National Petroleum Corporation and ZTE (Zhong Xing

Telecommunication Equipment Company Limited) have signed important contracts for projects in Syria and an agreement on tourism; Syria has become an important destination for Chinese tourists. Products with the “Made in China” label have a strong presence on the Syrian market, to the detriment of Italian products.

In conclusion, it is important to note that Syria is a member of numerous international organizations, among which the International Chamber of Commerce (ICC), the International Monetary Fund (IMF), the International Labour Organization (ILO), the United Nations Conference on Trade and Development (**UNCTAD**) and the Multilateral Investment Guarantee Agency (MIGA).

This last agency, which guarantees multilateral investments, plays an interesting role in Syria. **MIGA** is a member of the World Bank and represents an important tool for foreign investments since it guarantees projects against political and

social risk, ranging from privatization to nationalization, environmental disasters to war, protecting profits and ensuring that international agreements are respected, besides acting as a mediator in the event of disagreements between members.

Global Trade

In this section, we analyze Syria's trade: starting with an overview and then breaking it down by commodity and individual country with reference to economic relations with the European Union and Italy.

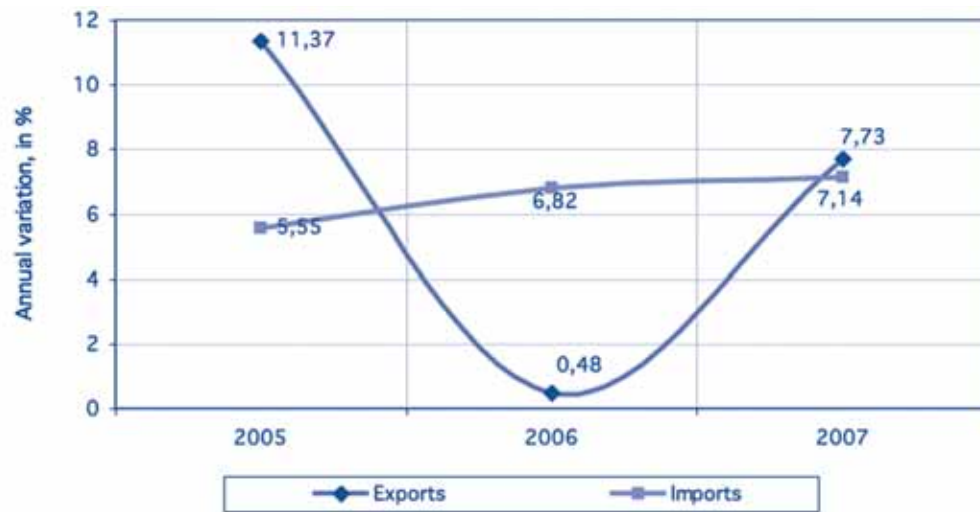
Imports and exports can be divided into two macro categories: goods and services. In relation to goods, we see that the trend has been variable over time. Considering the period 2004-2008 (see graph no. 1), in 2004 exports of goods reached 7,220 million USD while imports were 6,957 million USD, demonstrating a positive trade surplus of 263 million USD. However, this positive value varied in 2005,

with an import (its value was 8,742 USD) surplus of 140 million dollars, therefore creating a negative trade deficit. Over the next two years, instead, the trade balance is once again positive: in 2006, exports reached 10,245 million USD surpassing imports of 886 million USD, while in 2007 they were 10,782 million USD surpassing total imports, which were only 282 million USD. The data shows that there has been variable growth of exports and imports (see graph no. 2). In 2005, exports grew by 19.14 percentage points compared to the values of the previous year, which was confirmed also in 2006, with similar growth in percentage points (19.10), which was then followed by a sudden drop with only a slight increase of 5.24% in 2007.

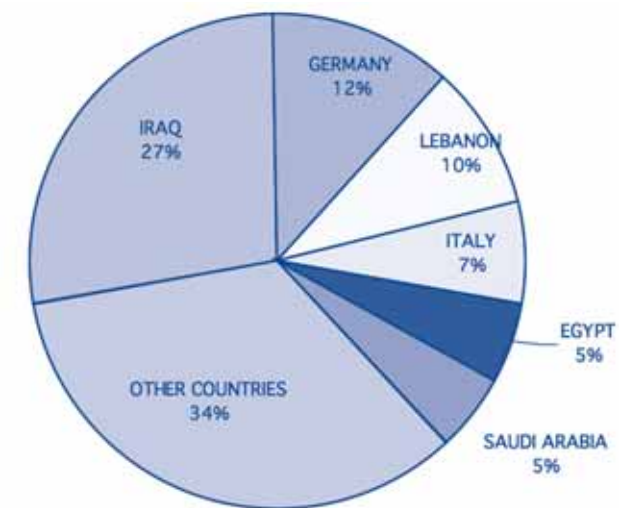
The year 2005 was a glorious year for imports, due in part to the political conditions of the period and the market liberalization. The values

of imports grew, with respect to 2004, by 25.66 percentage points, but after only 12 months the enthusiasm decreased and values came down to 7.06. The year 2007 instead showed a new rise of imports and new interest in Syria on the part of international exporters. The growth of Syrian imports in the period 2006-2007 was 12.19% and in 2008, data should be similar. Nevertheless, the importance of exports in regards to GDP shows the level of globalization of the country (see graph 3). Here, also, the values are variable: analyzing the ratio of exports to Gross Domestic Product we see that in 2004 it was 27.78%, which then grew in 2005 and in 2006 (by 30.81% and 31.18% respectively) but fell in 2007 (29.08%). In reality, these values can be seen positively in the light of a new fact: in Italy, in 2007, the ratio reached 29.2%. This means that Syria has an export tendency similar to Italy, the unquestioned homeland of foreign recognition of the Italian brand.

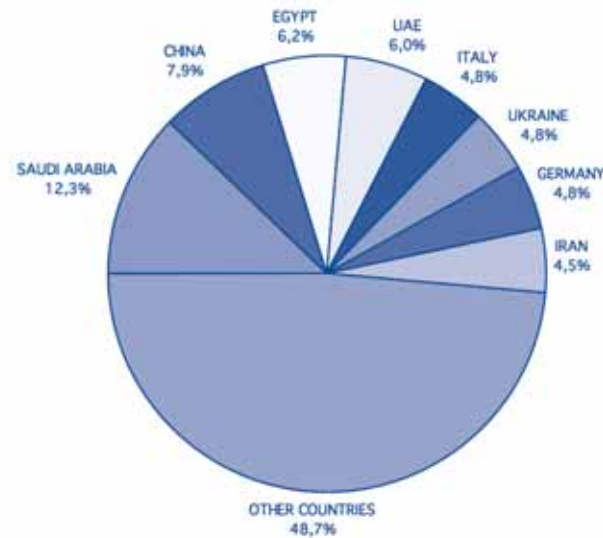
In regards to the import and export of services from and to Syria at the global level (see graph 4), values are not as high as they are for goods. In the years analyzed, 2004-2008, the trend remained constant: in 2005, the export of services amounted to 2,613 million dollars and reached 3,150 in 2007, with a total growth of 20.55 percentage points (during this period). The trend in the level of imports is very similar, with a 20.81% rise in 2007 whereas in 2004, service imports totalled 2,235 million dollars, and in 2007, 2,700 million dollars. These are not remarkable figures but what should be noted is their positive impact: although Syria has only been a part of the international economic community for a few years, the current level of foreign services shows that foreign trade is already quite integrated in the country. It will be necessary therefore to wait a few more years to see this in the data. Yearly growth of service exports and imports is illustrated in Graph 5. In 2005, Syrian exports of



Graph 5: Foreign trade in services – annual variation / Source: UN Comtrade data, statistical database



Graph 6: Customer Countries / Source: CIA World Factbook



Graph 7: Supplier countries / Source: CIA World Factbook

services grew by 11.37 percent, then fell in 2006 (growth of only +0.48%) and rose again in 2007 (7.73%). On the other hand, the importing of services has been slightly less than exporting values, but has been marked by constant moderate growth: 5.55% in 2005, 6.82% in 2006 and 7.14% in 2007. Detailed examination of where these flows of goods come from show that, taking into consideration the customer and supplier countries, in 2007, with reference to Syrian exports, Iraq was the main country purchasing services, making up 27.4% of importers. Immediately after comes Germany, followed by Lebanon, with 12.1 and 9.5 percent respectively. Italy is the fourth largest importer of Syrian services, with 6.6 percent, Egypt is fifth and Saudi Arabia sixth (5.3 and 4.8 percent respectively). All other countries have a lower weight on the total composition and therefore we can say that, apart from the aforesaid six customers, the rest of the world accounts for 34.3% of the total (see Graph no.6).

On the other hand, the supplier countries (see Graph no.7) are more numerous and detailed but have a lower percentage weight compared to the values of the customer countries. The first among them is Saudi Arabia, whose exports of goods and services to Syria account for a 12.3% slice of the whole pie. In second place is China, with 7.9%, followed by Egypt and then the UAE (6.2 and 6 percent). Italy comes fifth and is therefore one place behind compared to its position as a customer country and accounts for the same percentage as Ukraine and Germany. Surprisingly, Iran supplies 4.5% of Syria's imports. The remaining 48.7% represents the rest of the supplier countries, all with a lower percentage weight than the 4.5% of Iran.

Opportunities for Made in Italy

Among supplier and customer countries, Germany and Italy both occupy important positions. Specifically let us examine the trade between Syria and the European Union-27 and analyze the five-year



Graph 8: Trade EU - Syria / Source: EUROSTAT data

trend of imports and exports (see Graph no. 8). The pattern of European imports into Syria in the period from 2003 to 2007 was variable. In 2003, the value of EU imports reached 3.1 billion euros, but decreased the following year, coming down to 2.56 milliard, and then increased to 3.48 billions in 2006 and stopped at 3.38 in 2007. However, exports over the five-year period grew at an average rate of 7 percentage points. Going from 2.32 milliards in 2003 to 3.2 in 2007, they show positive growth. Syria not only confirmed its interest in "Made in Europe" products every year but keeps increasing imports from that continent. Focusing on just trade relations with Italy, in exchanges between the two countries (see Graph no.9) which have grown in the last four years, Italian exports have gone from 552 million Euros in 2004 to 942.5 in 2007 (a 73% increase). However, the growth of Italian imports from Syria has teetered, growing in 2005, decreasing in

2006, and soaring to high values in 2007 (927 million euros). The latest available data (from April 2008) show that trade is continuing to grow positively. In only four months, exports exceeded one-third of the total growth rate in 2007. The same is true of imports, where encouraging preliminary values show that, if the trend continues, both items could reach 1 million Euros in value by the end of the year. Therefore the statistics show that trade between the two countries has followed a rather linear course, with the exception of the year 2006, when the growth rate of foreign trade decreased for imports as well as exports (see Graph no. 10). Growth decelerated more with Italian exports rather than imports; therefore, reading the data from another perspective, Syria in the period from 2005-2006 not only exported less to Italy, but imported 21.77% less goods and services from it. Market analysis of trade between the two countries shows that. in the five-year period

from 2003-2007, with the exclusion of fuels, Italy had higher import values than exports. If we eliminate “energy” from Italian imports and exports (for reasons of graphic representation) it can be seen in Graph no. 11 that the highest amount imported was a little over 80 million Euros. Instead, exports (see Graph no. 13) were at an average of 100 million Euros but in one case even exceeded 275 million. With the exception of fuels, Syria mainly exports finished goods to Italy (metal, paper, leather, rubber and non-metallic minerals), oils and fats, raw materials and processed foods. Instead, it imports much more machinery than anything else, and this has been a constant trend over the years. Italian exports to Syria also have high values in areas like chemicals and finished products, making up 80 million Euros of exports annually, and Syria also imports Italian fashion and design articles (other finished products).

As one can see in Graph no. 12, in which fuels have been included, Italy imports from Syria over 770 million Euros worth of energy, representing 83% of total imports. Fuels are followed immediately by finished products, food products and oils/fats (5.8, 4.6 and 3.8% respectively). Exports, instead, are slightly different (Graph 14): the first item is always fuels, accounting for 48% of total exports, followed by machinery (28%). The remaining 25% of exports is divided into various areas, like the export of chemical products and finished products, accounting for 9 and 10 percent respectively.

Analyzing the various commodity categories we see the weight in percentage points of Syrian and Italian imports. From Graph no. 15 it is evident that food products make up a high percentage of imports into Italy than to Syria, whereas raw materials are almost equally important in trade

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between the two countries. Oils and fats are an Italian import while Syria does not import them. Chemical products, instead, are an important Syrian import, making up 90% of total exchanges, as are machinery (92%) and other finished products (90%).

Regulation of Exportation

Once the business opportunities for “Made in Italy” products have been analysed, it is neces-

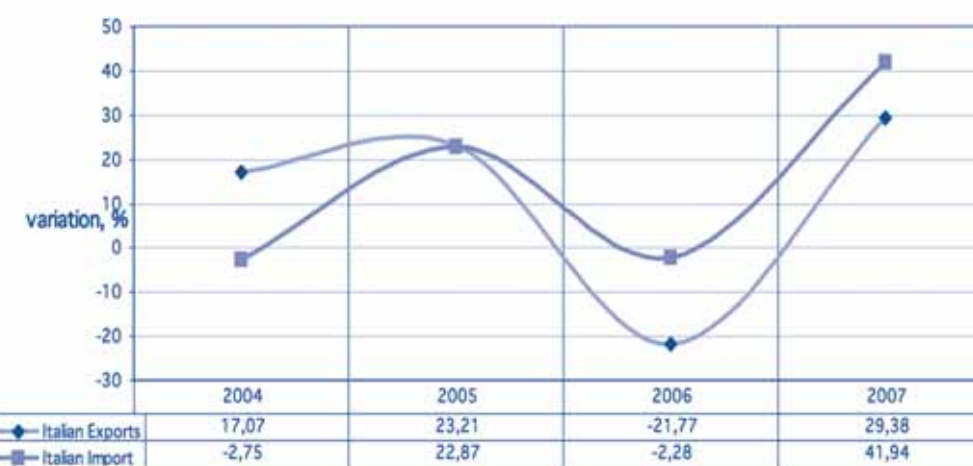
sary to procure all the technical documentation required for exporting to Syria. The procedures are detailed and require the preparation of a long trail of accompanying documents. First of all, the exporting business must become listed on the Register of the Exporters of the Italian-Arab Chamber of Commerce, which requires payment of an annual membership fee, payable in cash or by check (new regulations as of June 2008). It

Euro value	2004	2005	2006	2007	Jan/Apr 2008
Italian IMPORTS	745,675,088	916,276,069	716,838,389	927,478,667	381,008,403
Italian EXPORTS	552,047,910	680,215,863	664,034,410	942,554,446	337,935,979
TOTAL for Italy	-193,627,178	-236,060,206	-52,803,979	15,075,779	-43,072,424

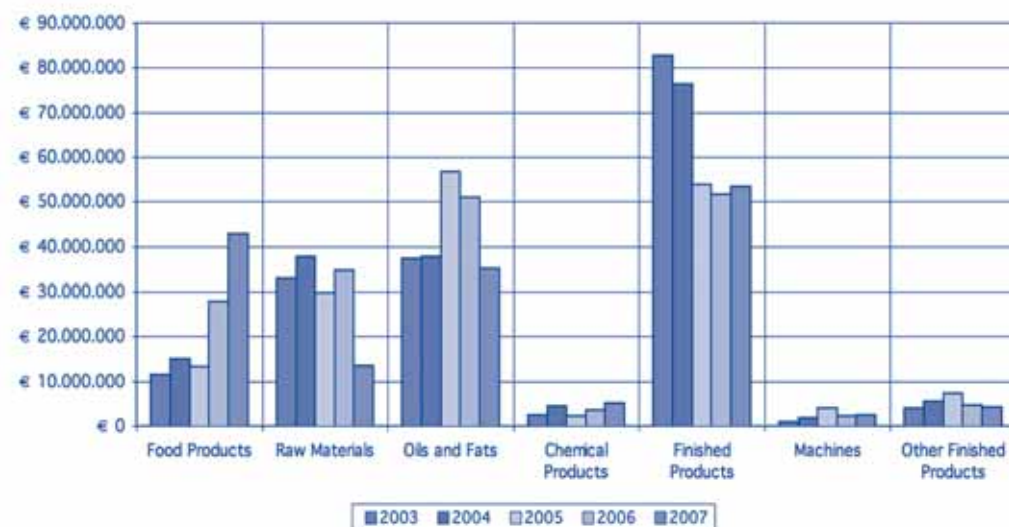
Source: ISTAT data, last updated April 2008



Graph 9: Trade Italy – Syria / Source: ISTAT data



Graph 10: Trade between Italy and Syria / Source: ISTAT data



Graph 11: Italian Imports from Syria – excluding fuels / Source: ISTAT data

also requires the submission of a questionnaire, in duplicate. This questionnaire is available at the Chamber of Commerce of your province: all the accompanying documents of the goods being shipped to Syria have to be authenticated at the Italian-Arab Chamber of Commerce.

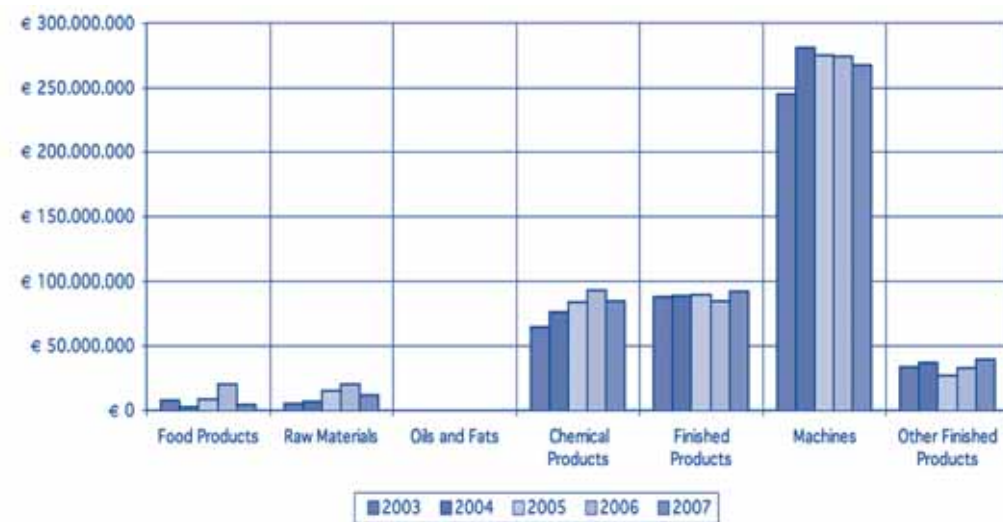
A customs declaration, called the DAU, must also be filled in and must accompany the goods with the invoice (four copies, made out in English and French), certifying that it is an authentic invoice, specifically granted for those goods, and that the value shown is correct. It must also certify that the goods were manufactured by the declarer or other producers specified. If the company has an agent in Syria, its name and address should be given.

If instead, it has no agency, this should also be specified, pointing out that no agent will be earning a commission on the products

imported. All the specific wording can be found in the documentation available at the Italian-Arab Chamber of Commerce.

The invoices will need triple authentication, by three authorities: the local Chamber of Commerce, the Italian-Arab Chamber of Commerce and the Consulate of Syria.

The Certificate of Origin of goods – obligatory for food products – should be submitted on the EC form and first endorsed by the local Chamber of Commerce and then by the Italian-Arab one and by the Consulate. The same authentication procedure applies for food and plant safety certification, for fruits, vegetables and seeds. A food and plant safety certification is also needed for wood packaging, because of the possible presence of parasites or other forms of contamination that could affect the local ecosystem, in order to avoid damaging the flora



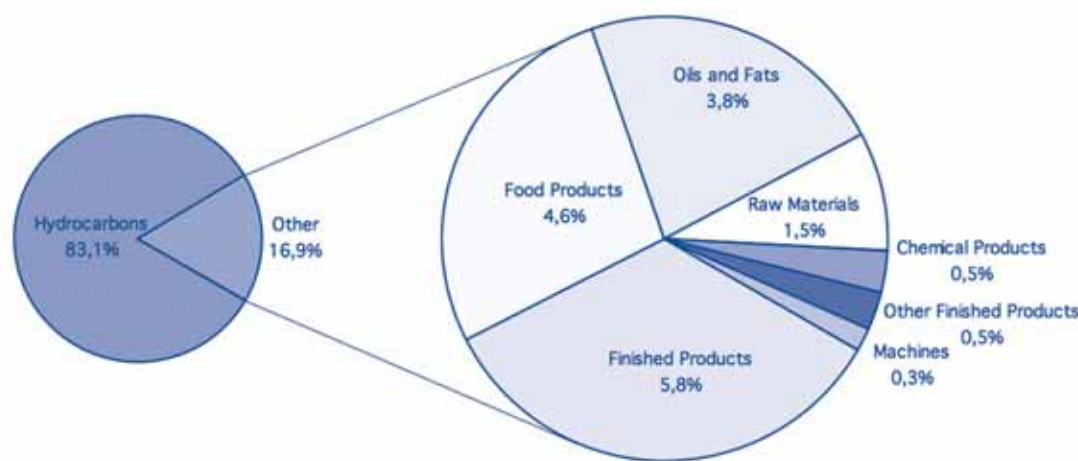
Graph 13: Italian Exports to Syria – excluding fuels / Source: ISTAT data

Values in Euros, 2007	Imports 2007	Exports 2007
Food Products	42,738,870	4,086,153
Beverages and Tobacco	0	396,072
Non-food raw materials	13,562,811	12,060,738
Fuels	770,978,541	442,356,113
Oils and Fats	35,019,214	5,074
Related Chemical Products	4,976,670	84,792,515
Finished Products	53,361,838	92,120,351
Machinery	2,521,615	267,642,231
Other Finished Products	4,288,683	39,095,199

Table 1: Made in Italy, import and export values / Source: ISTAT data

and fauna. For other types of goods, certification of origin can be simply attached to the invoice. Origin marking serves simply to avoid the entry of goods into Syria from countries with which trade is not allowed. With reference to the transportation of goods, a document of transport is required (a bill of lading (B/L) for shipments by sea and an airway bill (AWB/L) for shipments by air), along with a list of the packages and a copy of the transportation insurance (insurance with a local Syrian company is obligatory). For temporary exports there are some problems, however, because Syria did not adhere to the Convention of Brussels (1961) regulating the ATA carnet (“Admission Temporaire/Temporary Admission”). The purpose of the Convention is to favour the international transit of defined types of goods. The customs formalities are simplified and the goods can enter the country upon inspection of the ATA carnet properly completed. The ATA carnet is used

for professional and scientific materials, for samples and for goods for exhibitions at fairs and events and for films. It is for temporary import, but also for transit, guaranteeing the country’s customs that goods will not remain or be sold in the country. This, however, does not apply to Syria because the country did not sign the Convention even though, in its international context of liberalizing, soon Syria will also most probably join the ATA group. Syria has nevertheless adhered to the TIR (*Transport International Routier*) Convention, adopted in Geneva on 14.11.1975, which says transportation of goods on roadways shall be “without disruption of load”; in other words, it is authorized to cross the country, without having to be checked by customs, unless in special or “suspicious” cases. Also motor vehicles in transit have to have the Carnet De Passage en Douane, issued in Italy by the ACI (automobile club). If the driver



Graph 12: Italian Exports to Syria – excluding fuels / Source: ISTAT data

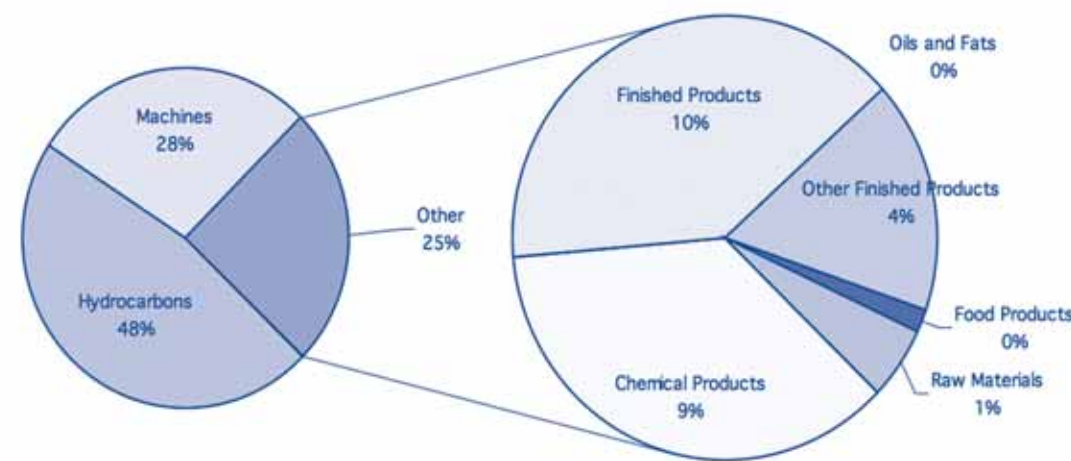
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does not have the document, he/she will have to pay 100 dollars and take out compulsory insurance, for a period of up to 30 days driving.

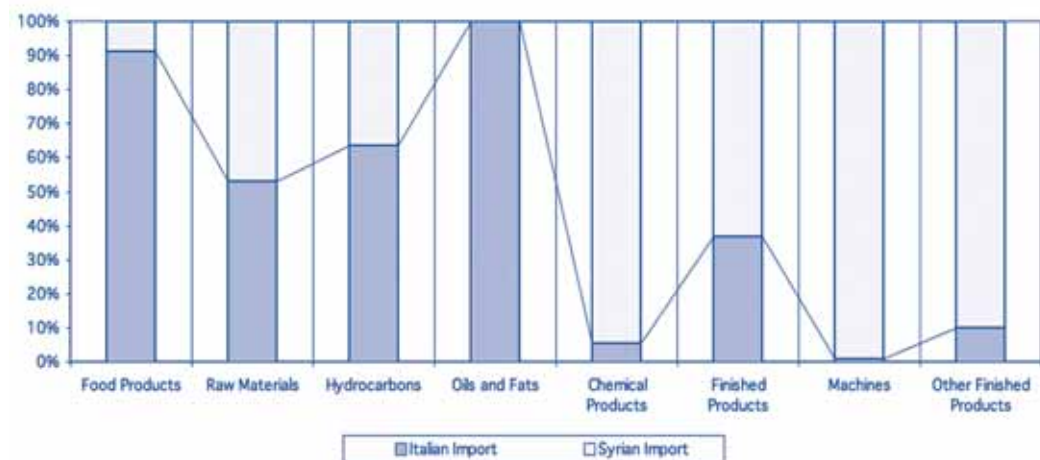
The Customs System

Before 2001, Syria followed the terms of the Gulf Cooperation Council, and applied the so-called Arab tariff. From July 1st 2001, the country adopted the Harmonized System nomenclature and so it is much simpler to consult the Market Access Database to find out the rate of duty applied to the goods on entry. It is important to note that in the past few years, coinciding with the adoption of the HS system and with liberalization of the country to foreign trade, duties have been reduced significantly and many previously forbidden products are now allowed entry. On average, tariffs were cut by 50% for industrial products, 40% for agricultural products and by 80% for fish products. The rate of duty, nevertheless, varies from 0 to 100 percent: according to a governmental poli-

cy aimed at fostering development in the country, all products needed for investments – unless they are importable freely as part of an investment project, as we shall see later – are charged a minimal duty. Therefore a tariff no higher than 10% is applied to chemical, machinery, mechanical, and transportation products; on raw industrial materials, for example, according to the decree 76/06, a duty of 1% of the CIF (Cost Insurance and Freight) value is applied. There are three customs categories: first, one that does not exceed 10% and pertains to the goods mentioned above; a second one that does not exceed 20% and is applied to industrial equipment, and a third one that does not exceed 15% and is applied to food products. Obviously, duties on luxury goods can be as much as 200%, as well as on goods that can be produced locally and need to be protected from foreign competition. The duty is also a tool of defence. Therefore, it is illegal to import goods that can be produced within the country. In any



Graph 14: Italian Exports to Syria / Source: ISTAT data



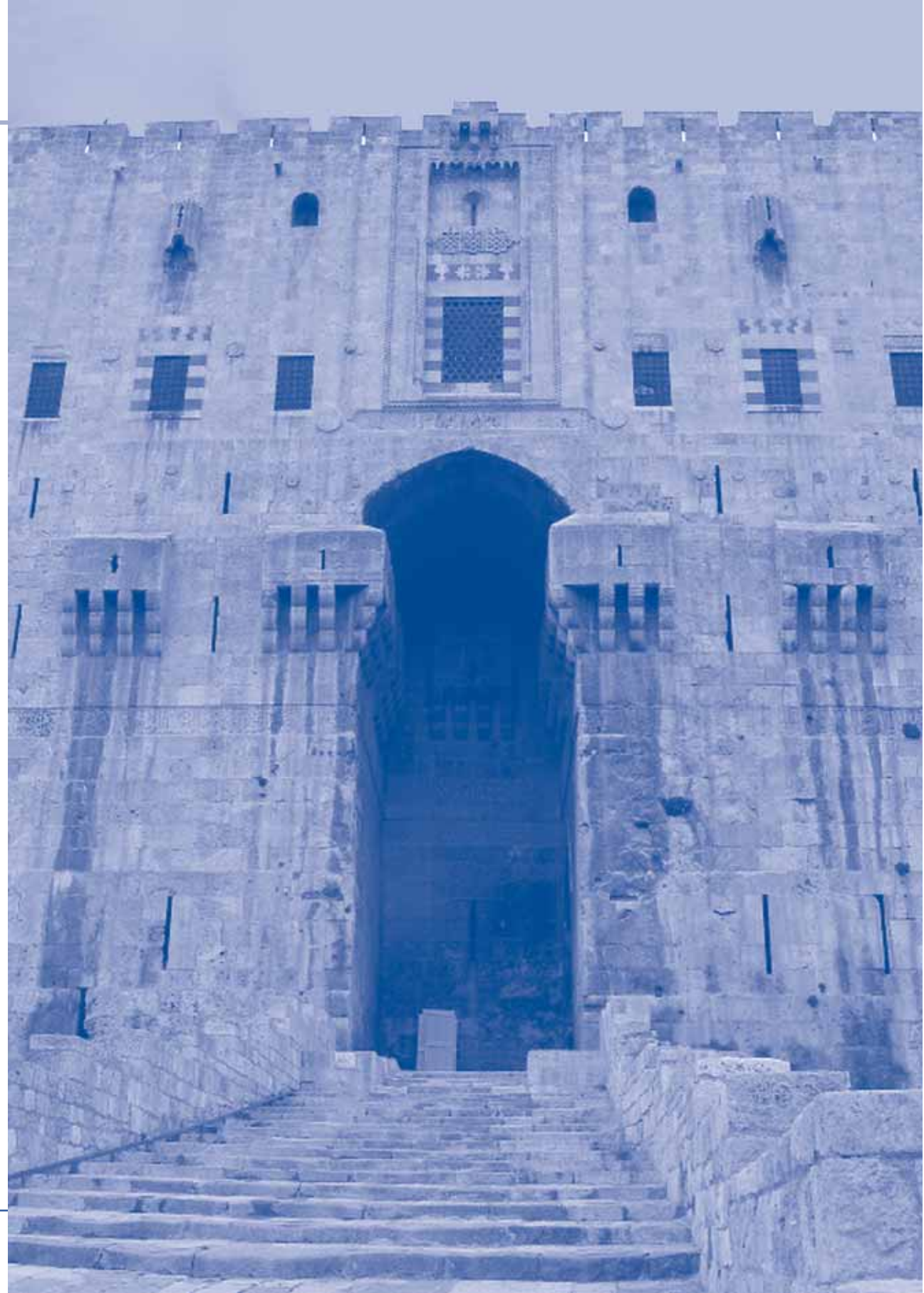
Graph 15: Trade Italy-Syria / Source: ISTAT data

case, it is not profitable to try to import goods that would have to compete with well established and well known local products.

Besides, an additional tax (from 6 to 35 percent) is levied on goods sold to military barracks, schools and local bodies.

The list of forbidden goods is gradually becoming shorter and duties are often modified and therefore it is always advisable to watch out for changes.

Furthermore, the practice of countertrade is sometimes used in Syria. This is a system of trading involving payment by exchange, used at the international level. In other words, a foreign country that imports Syrian products receives the “partner’s” goods in exchange. It is a sort of international barter system, regulated by contracts. This could also be a type of business for Italian exporters.



CHAPTER 7 - INVESTMENTS

(Marianna Capasso)

After 30 years (1960-1991) of very tight restrictions in the area of private investments, and after 15 years of a transitional period that brought about a relative opening up, Syria can, since 2007, be fully considered a country with a good degree of openness towards the outside world, together with a legislative regime in favour of foreign investments.

The General Picture

January 2007 was the start of a period of complete commercial opening up by issuing new specific legislation substituting some of the laws of 1991 passed at the beginning of the transitional period. Thus if 1991 represents the beginning of the intermediate period, 2007 represents the end of this period and at the same time a new era of international trade for the country.

In past centuries, Syria's geographic location contributed positively to its international trade, as it represented a passageway between East and West. One can thus speak of the country's flourishing past, which later, however, gave way to complications, even of a commercial nature, starting in the 1940's, which date can be considered the start of the country's shutting down towards foreign markets.

As a consequence of global movements and in order to avoid becoming isolated in an autarchy damaging to the country, the government has adopted a more tolerant position and tried encouraging exchanges through freedom of export and cuts in export duties and encouraging the agricultural sector, which is the basis of the country's economic sustenance.

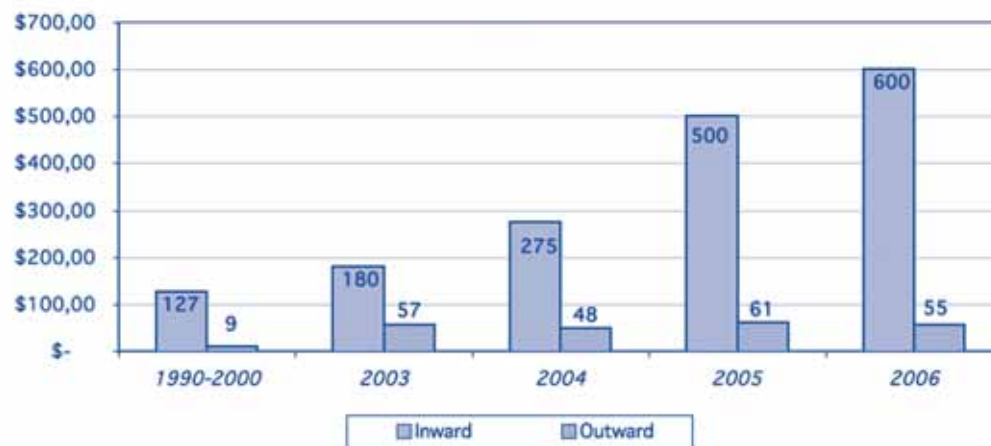
Import duties have been reviewed and, generally speaking, a diversified lowering of import

duties has been adopted, thus the country will also benefit from preferential treatment on entering European markets.

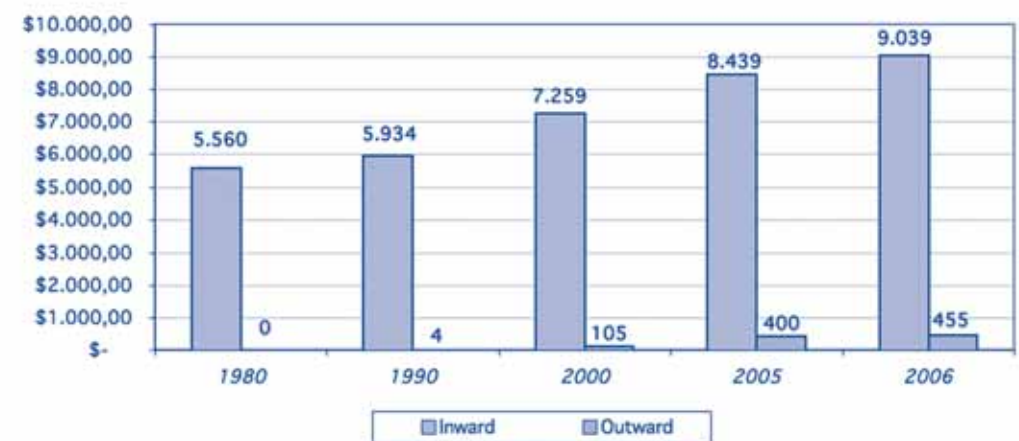
The decision to liberalize investments has been of fundamental importance, and a new point of view has been adopted, considering investments as equivalent to the country's progress and forbidding the entrance of foreign capital as being equivalent to blocking the economy's growth. Until 2007 "Law 10 of 1991" was the law in force favourable to investors. The government felt, however, that it was necessary to provide other legislative instruments, in keeping with global economic movements. This approach led to the issue of two Decrees in January 2007, repealing the earlier 10/91 law. The decrees are expected in the short term – more or less around 24 months from the date of issue – to bring about an increase in the foreign capital invested in the country, by introducing a more encouraging system and creating greater trust in the market.

Furthermore, especially in order to continue opening up to international trade, in 2001 the country explicitly applied for membership of the WTO, this request was renewed in 2005. Currently even though Syria is not a member of the Organization, it is aligning its trade policies to the established directives.

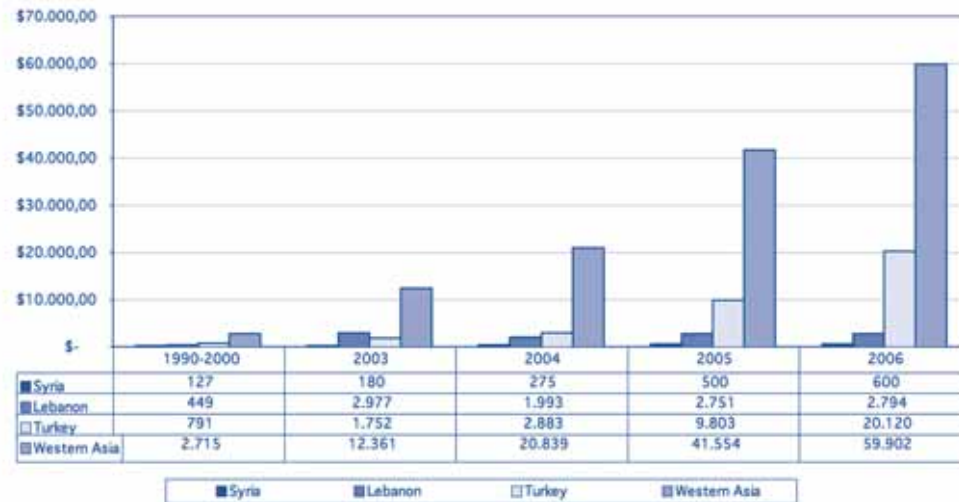
The countries that most invest in Syria, according to the World Bank's reading of the FDI (Foreign Direct Investments) figures are: the United Arab Emirates, Bahrain and Saudi Arabia. At the production level (greenfield), the investments still come from Saudi Arabia and from Lebanon, Jordan and Turkey, but also from Europe. The figures, however, are below the country's potential, although they are expected to increase in the coming months thanks to the new Legislation. Western businesses operating in Syria include Nestlé, Mobil and the Korean Samsung; furthermore there are also some Italian brand names both with regard to manufacturing and through franchise arrangements.



Graph 1: FDI Flow (millions of U.S. dollars) / Source: UNCTAD data – World Investment Report 2007



Graph 2: FDI Stock (millions of U.S. dollars) / Source: UNCTAD data – World Investment Report 2007



Graph 3: FDI Flow Comparison – inward (millions of U.S. dollars) / Source: UNCTAD data – World Investment Report 2007

These include, according to the data of the ICE Office in Damascus, updated on 31 August 2007, Benetton, Fiat, Diadora, Stefanel and Alitalia. Thus it mostly includes investments and business in the fashion sector.

The most recent data, however, come from the Syrian Investment Authority (SIA), an institution created for this purpose in January 2007. According to the SIA, during the period from 1991 to 2006 the projects approved and then carried out in Syria were 2,450 of which 222 with foreign participation, for a total investment equal to 24, 8 milliard dollars. The countries that submitted the largest number of projects were Turkey and Saudi Arabia, but also Lebanon and Jordan. In the year 2006 alone, the projects were 700, reached 9.4 milliard dollars and showed an increase of the Iranian presence in the country. Of the amount mentioned above, well over 2.5 were of foreign origin.

The real boom, however, occurred in 2007, the year in which the SIA was set up. The figures of

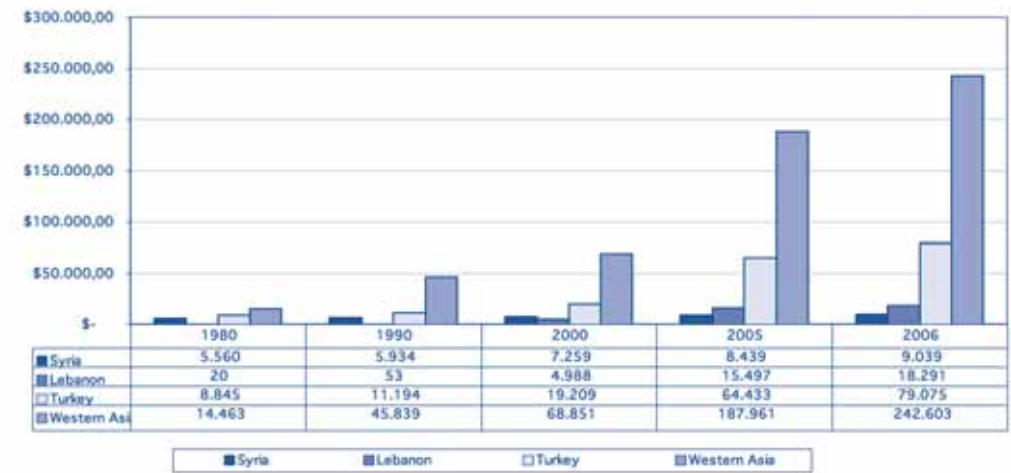
the SIA are quite different from those published by UNCTAD exactly because manufacturing investment (greenfield investment) is favoured over that represented by financial and share capital resources (UNCTAD figures), both because of the actual return on capital – profits from industrial investments are often more tangible than financial ones, even though the initial expenditure is greater – and the government’s preference, considering manufacturing investments as a contribution towards national wealth and growth.

Investors in Syria concentrate especially on industrial projects, and the agro-industrial, textile, chemical and pharmaceutical sectors.

Let us examine in detail the trends of the FDI and the forthcoming development of the country.

FDI Flows and Stocks

UNCTAD publishes yearly in the World Investment Report the FDI values of the individual countries but the data should be



Graph 4: Comparison FDI Stock – inward (millions of US dollars) / Source: UNCTAD data – World Investment Report 2007

read very carefully in order to avoid misinterpretations. The FDI figures according to UNCTAD are represented only by the acquisition by foreigners of shares in Syrian firms; these shares must be above 10% of the entire block of shares. This means that the 787 million US dollars in FDI coming into the country in 2007 are really share quotas purchased by foreign investors, they are investments “in the share capital of a foreign firm to obtain control of it and have a significant influence on the direction of its activities”.

In the same way, the 55 million dollars of the year 2007, of outgoing FDI are represented by investments made by natural persons /corporate bodies of Syrian nationality, around the world, purchasing shareholdings in foreign countries.

By analyzing the FDI stock (the sum of the different annual flows), with reference to the outgoing investments – that is to say those that are Syrian outflow – it was only in 2005

that the figures reached were above 100 million dollars: in 1990 the value was 4, and later, after 10 years, it reached 105. The performance improved in the five year period 2000-2005, which marked an increase of 280 percentage points, reaching 400 million dollars, followed in the next 12 months (2005-2006) by a 13.7 % increase, reaching 455 million in outflow. The outgoing FDI represents an interesting picture of the internal economic situation of a country: the greater the country’s FDI outflow, the greater the economic strength of that country. With regard instead to FDI income in the 10-year period 1980-1990, it increased only by 6.73 percentage points, going from 5,560 to 5,934 million dollars. Better performances instead for the 10 year period 1990-2000, with a growth of 22.3% and an increase of 1,325 million: 1,180 million dollars, instead in FDI in the five-year period 2000-2005 (+16.26%).

Thus, according to the data, one sees in the country a growth of foreign interest and greater foreign stock participation.

The figures shown are however low, in income and especially in outflow, in comparison with those of neighbouring countries and the countries of the entire Western Asian region. Analyzing the FDI in income: Lebanon, for example – a country in the region that comes right after Syria with regard to its FDI figures – reached 2,794 million dollars of FDI income in 2006, a much higher figure than Syria. This thus represents, at least at first sight, a view of the state of affairs: FDI are few, probably still in the light of the old policy not fully favourable to foreigners. Instead, by analyzing the stock of the FDI outflow, between 1980 and 2006, one can see how the economic conditions of Syria have remained practically unchanged, unlike two other neighbouring countries, Lebanon, already mentioned, and Turkey. The first shows a growth starting from the year 2000 and in a six year period (2000-2006) exceeds and even doubles the figures for Syria. Even the outcomes for Turkey are more positive and faster in growth: in 1980 Syria showed a stock of FDI equal to 5,560 million dollars and Turkey only around 3,300 more. With the passing of time the gap between the two countries continued to increase, reaching a ratio of 1:9. The FDI figures for Turkey have grown very fast; in the ten year period 1980-1990 they show +26%, and in the following decade (1990-2000) +71%. In only five years, between 2000 and 2007, the stock increases by 235 percentage points, while in the single year 2005-2006, they show a growth of 22%.

The reason for this is that Turkey focused its attention on promotional policies and attracted foreign investments, also thanks to its favourable political situation.

Analyzing the same period with reference to the Syrian FDI stock, the values are not nearly so positive; in the decade 1980-1990 they show +6.7% while from 1990-2000 +22%, thus an encouraging growth. Equally positive is the value for the five-year period 2000-2005, with a growth of 16 percentage points. In the single year 2005-2006, instead, the stock grew by 7 percentage points. The values are not as outstanding as those for Turkey; nevertheless, one can see a positive trend, encouraging and in a growing phase. With serious attention on the part of the government, as demonstrated lately, Syria should reach interesting goals.

The Doing Business Report by the World Bank

According to one study by the World Bank on business opportunities in Syria, the country is ranked at mid-to-low levels in terms of attracting foreign investment. This is in the light of the events of recent years and is especially due to the lack of a strong law that protects investors, prior to the decrees of 2007. The comparative document is the *Doing Business Report*, a benchmarking study that analyzes 178 economies and draws up charts according to various indexes.

The 178 countries analyzed are those primarily interested in manufacturing investments: 46 are in Sub-Saharan Africa, 31 in Latin America and the Caribbean, 28 in Eastern Europe and Central Asia,

24 in the Far East and the Pacific region, 17 in the MENA region (Middle East and North Africa), 8 in south East Asia and 24 in the OECD countries. There are ten items where these countries are positioned according to the greater or lesser simplicity of carrying out one aspect of business. We quote these steps as shown by the World Bank.

- Starting a business
- Dealing with licenses
- Employing workers
- Registering property
- Getting credit
- Protecting investors
- Paying taxes
- Trading across borders
- Enforcing contracts
- Closing a business

Table 1: Doing Business 2008 World Bank Report

Index	Ranking (of 178 countries)
Ease of Doing Business	137
Starting a Business	169
Dealing with Licenses	86
Employing Workers	126
Registering Property	89
Getting Credit	158
Protecting Investors	107
Paying Taxes	98
Trading Across Borders	127
Enforcing Contracts	171
Closing a Business	77

Source: World Bank, Doing Business Report 2008

The data generally refer to foreign investors that operate in the most important cities in the country and choose the legal status of a *limited liability company* (Ltd. Co.).

In particular, we choose to analyze – with a comparative study – five of the ten indexes, in order to have a global idea of Syria's ranking, especially regarding countries that are competitive in attracting foreign investment.

According to the "Ease of doing business" index, meaning investment in the country, Syria ranks 137th out of 178 economies, after five countries in the area that appear to be the real competitors as far as level of attractiveness is concerned (we are referring to Israel, Turkey, UAE, Jordan and Lebanon).

Analyzing the possibility of starting a business, Syria ranks 169th out of 178, thus a not very attractive ranking. Instead – for bureaucratic issues – specifically regarding the possibility of obtaining licenses for a business, Syria holds a better ranking. In fact in this case, the country ranks halfway, at 86, above Israel, Lebanon, and Turkey, but just after UAE and Jordan.

The next two indexes are also interesting: protecting investors (in the business context), and regarding Closing a business (liquidation of assets). The index about protecting investors is equal in value, 107/178, to those of Jordan and UAE. New Zealand is the country that offers the most guarantees, according to the World Bank.

Instead, with regard to the liquidation of company shares, Syria seems to protect investors

and not create any particular problems – it ranks 77th out of 178, better than its regional competitors – with the exception of Israel.

The Regulatory Situation

According to the tenth five-year plan, Syria needs an estimated investment of 37 billion dollars. Up to 2007, the law that was in place was the 10/91, and greenfield investments were concentrated primarily in the free trade zones. In January 2007, two new decrees were enacted that replaced the old law.

The reasons for the new regulations spring from the government's desire to make Syria a single territory favourable to investments and avoid creating a gap between more attractive and less attractive areas. Of course all projects approved under 10/91 will be transferred to the regulations contained in the new decrees.

The two new decrees, besides “unifying” Syria on the level of attracting FDI, authorize duty-free import for products to be used together with the investment, therefore ranging from raw

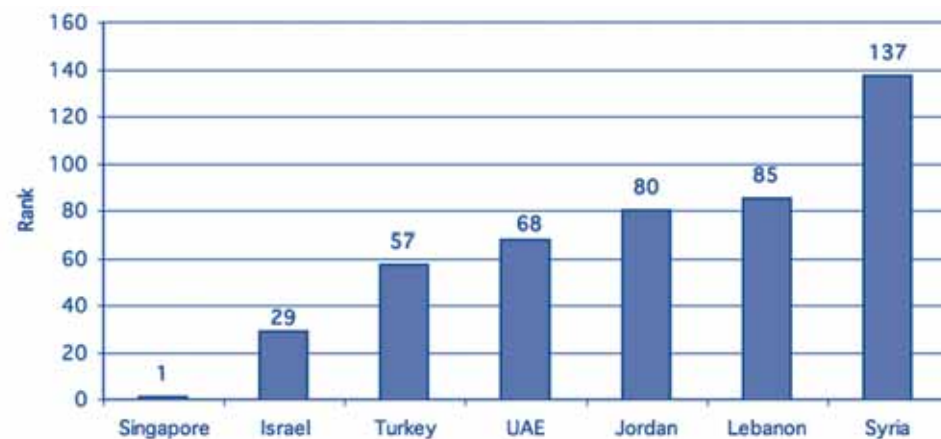
materials to modes of transport, mechanics, etc. However, a majority shareholding in Syrian hands is still foreseen: in joint ventures the foreign partner may hold a maximum of 49% of the share capital. This compulsory shareholding setup, similar to Iran's, is intended to control the market, which according to these provisions should remain in the hands of the Syrian people. However, this choice does not have a positive effect on foreign perception of investment. Going back to the parallels with the Islamic Republic of Iran, in that very country until 2002 (the year when the government decided to simplify the shareholding setup by passing a law on investments formally authorizing even 100% of foreign ownership) foreign investment was limited to 49%. After that date investors felt very well protected and established businesses there.

In any case, governmental progress with new decrees in 2007 should be appreciated, since there are clear signs of openness and of an interest in attracting foreign investors to the country.

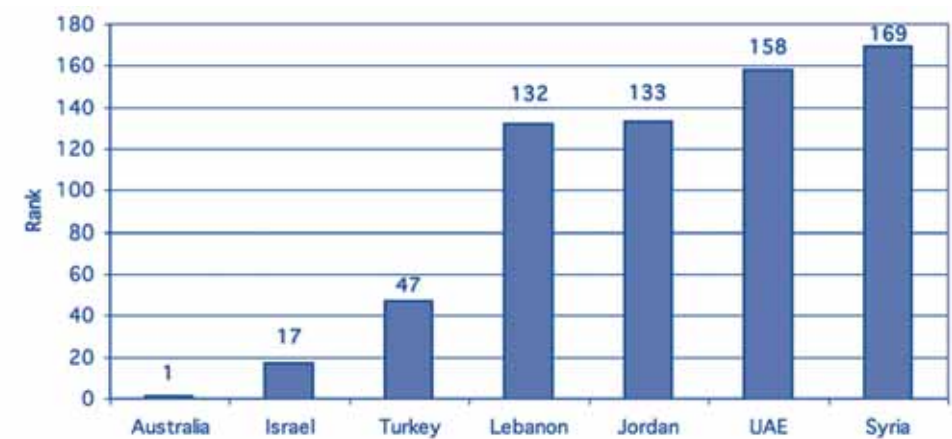
A further limit to productive investment is the exclusion of certain areas of strategic business, reserved only for the state. This type of exclusion is quite common everywhere in the Middle East. The manufacture and sale of arms, military equipment, transportation (train and air) and communications all fall within the untouchable state-controlled sphere.

Thus, the decrees of January 2007 repealed the historic law on foreign investment that dated back to 1991 (Law 10/91). They are Decree no. 8/2007 and Decree 9/2007. The first annuls all tax exemptions, as laid down in the laws passed in 2003 (amended in 2006) and will also be applicable to all investments made after Decree 8/2007. The novelty in Decree n.8 is the possibility of repatriation of profits (repatriation, at the end of each financial year, of all the operating profits); under Law 10/91 this was foreseen only in the case of export revenue. Article 24 of the aforementioned law established that foreign investors could transfer to their countries of origin the net value of their shareholding, but

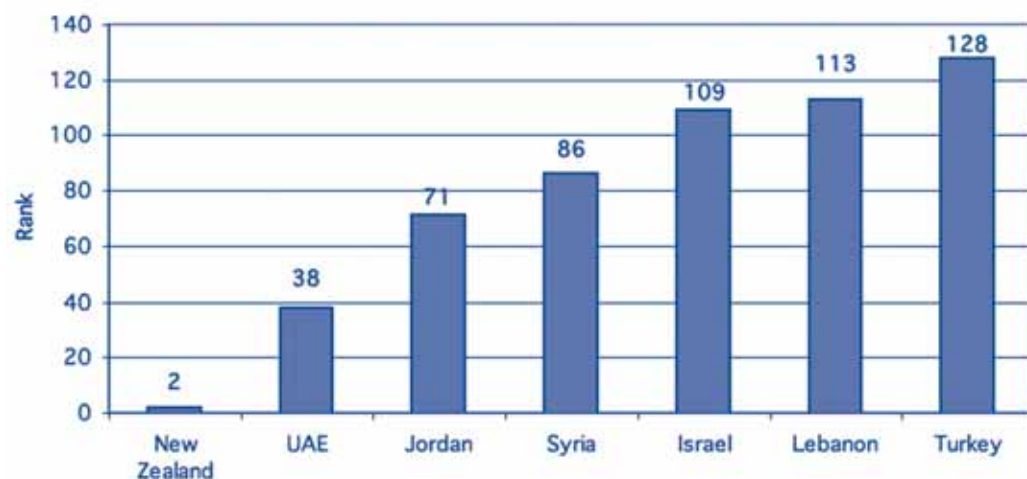
only after five years had passed from the start of the investment, and only if the profits did not exceed the total capital invested by them in the project. A waiver of the five-year period was foreseen if special cases occurred, outside the control of the investor; only in this way, after six months had elapsed from the beginning of the activity, was it possible to repatriate the funds. In any case, the profits could be repatriated in the initial currency or in foreign currency, subject to the consent of the Central Bank. All of this, therefore, did not amount to true and total freedom to repatriate capital, but was still quite a complicated process. Many operators got around this by making use of a regulation according to which profits earned from exports could be freely repatriated. Often, operators went to Syria to manufacture and therefore the revenues from exported products could have represented profit *ex export*. Investors that did not sell their products abroad had greater difficulties. Regarding the import of goods used during the investment, law 10/91 allowed all the



Graph 5: “Ease of doing business” Index / Source: World Bank, Doing Business Report 2008



Graph 6: “Starting a business” Index / Source: World Bank, Doing Business Report 2008



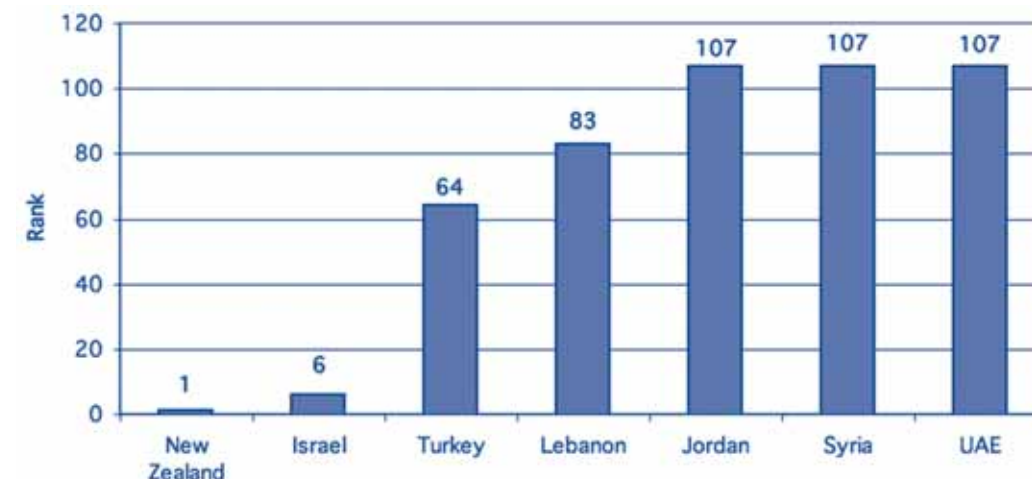
Graph 7: "Dealing with licenses" Index / Source: World Bank, Doing Business Report 2008

goods needed for the investment project to be imported into the country – otherwise import of goods was not permitted. Subsequently, once the project had been completed, the goods could not be sold to third parties without the *licet* of the Supreme Council for Investment, subject to payment of the taxes. Under that system the goods that could be imported freely included machinery, all types of equipment, raw materials, and everything utilizable according to the project. With the new decrees, instead, entrance of these goods is free and subject to only a low customs tax. In fact already from 2000, the government has been adopting this open policy, thanks to the reduction of customs taxes, and many products, and also services previously blacklisted, are now able to freely enter the country. As recently as 2006, there were 20,000 entries on the list that are no longer on it today. Presum-

ably by the end of 2008 a thousand products that are still "banned" will also be able to be freely imported – but nevertheless with high customs duties.

With this liberalization of foreign business, products that were once banned in Syria can now enter freely, including those needed for investment purposes. If the government had acted differently it would have been in contradiction with the opening of the market and incentives for the country's economic growth. Decree no.8 of 2007 regulates several sectors, including industry, energy, gas, the environment, agriculture, transportation, services and information technology. Still excluded are the financial and tourism sectors, since both fall under different regulations issued *ad hoc*, being sectors of particular interest for the Damascus government.

In the **tourism sector**, the regulation falls under the provisions set forth in Commu-



Graph 8: "Protecting investors" Index / Source: World Bank, Doing Business Report 2008

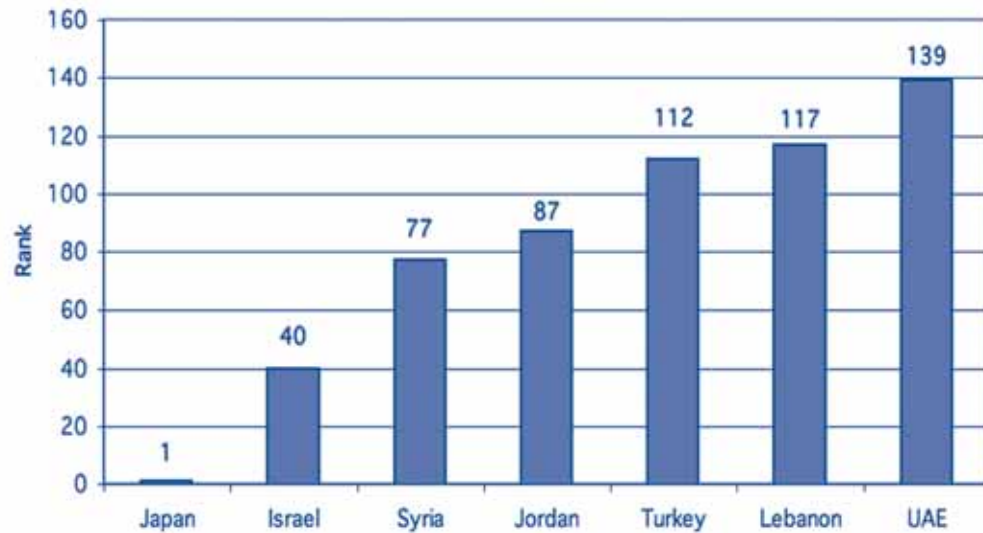
niqué 186/85 by the Council of Ministers. There are several benefits for investors working in this sector, from the exemption from income tax to free importation of all materials *et similia* usable for the purposes of a productive investment in the tourism sector. The tourism sector, in fact, represents an important source of capital for the country, and this was what brought Parliament to pass new legislation following Law 186/85. In 2002, Law number 65 created a Chamber of Tourism. In 2004, this was organized into a federation, with headquarters in Aleppo. Every year, trade fairs and events are held in this sector, precisely to encourage foreign investment. In 2002 Italy, for its part, signed an agreement with this Asian country (which came into force in 2004), for greater collaboration in this sector.

Even in the tourism sector – and especially here – investors will be able to enjoy all the

benefits typical of a protected and guaranteed investment, thanks to the liberalized importation of all goods and machinery used for the project. The only restriction is the import quotas. For example, the value of material used for building various types of hotel cannot exceed 50% of the total value of the investment (if a luxury hotel – five stars – is being built) and 30% for more modest hotels (four stars). There are tax privileges also. In fact, import and franchise taxes are exempt from payment.

The latest novelty in Decree n.8, as we shall see later, is the possibility given to foreign investors to be able to acquire property for the purposes of their investment.

The other Decree, no. 9/2007, plays a fundamental role because it founds the SIA – Syrian Investment Agency, a government body coming under the Office of Prime Minister – which will supervise investment activities in



Graph 9: "Closing a business" Index / Source: World Bank, Doing Business Report 2008

the country. The SIA will represent the direct contact between investors and the government. It will create a road map for investments, provide data and statistics, follow all the import procedures and even speed up the bureaucratic aspect of the investments.

In particular, a "one-stop-shop" has been established: a very fast process that practically eliminates all the red tape involved in establishing companies, as long as the investment is of a certain level, with a minimum capital of 200,000 US dollars

THE LAW ON FOREIGN INVESTMENTS

Law No. (10) of 4 May 1991 and its amendments as per the Legislative Decree No.7 of 13 May 2007

Article 1:

This law bears effects on the money invested by Syrian Arab citizens, both residents and expatriates, and citizens of Arab and foreign countries, in investment projects within the framework of the State general socio-economic development plans and the general policy of the State.

Article 2:

The following terms, used in the application of the rules of this law, shall mean the following:

- a) Council: Higher Council of Investment.
- b) Council Chairman: Chairman of the Higher Council of Investment.
- c) Bureau: Bureau of Investment
- d) Project: Project undertaken by a natural person or a legal person with a local or foreign capital, or both, and governed by the rules of this law
- e) Investor: Natural or legal person who obtains a license to set a project in accordance with the rules of this law.
- f) Authority: Competent public authority concerned
- g) Foreign Fund: Fund primarily supplied from abroad by Syrian, Arab or foreign citizens

Chapter I - Fields of Investment

Article 3:

Rules of this law shall be applied to economic and social development projects approved by the council in the following fields:

- a) Agricultural projects, both vegetation and livestock, including various agricultural products manufacturing projects.
- b) Industrial projects allowed to both private and joint sectors.
- c) Transport projects

d) Projects approved by the council to be governed by the rules of this law.

Article 4:

When approving projects, the following points shall be taken into consideration:

- a) to be in line with the aims of the State development plans
- b) to use as much as possible the local resources available for the national economy
- c) to contribute to increasing the gross national product and employment opportunities
- d) to lead to increasing exports and rationalizing imports
- e) to use up-to-date machines and technologies which, are suitable for the national economy needs.
- f) that the fixed assets which would be invested in the project, including machines, tools, equipment, apparatus, means of transport (non-tourist) and all other production means definitively imported to be used exclusively in the project, shall not be less than ten million Syrian Pounds. This amount can be modified by a decision passed by the Council of Ministers.

Chapter II - The Higher Council of Investment

Article 5:

A higher council of investment shall be founded, comprising:

- The Prime Minister as chairman
- The Deputy Prime Minister for Economic Affairs as vice- chairman
- The Deputy Prime Minister for Services Affairs
- The Minister of Agriculture and Agrarian Reform

- The Minister of Transport
- The Minister of Supply and Internal Trade
- The Minister of Economy and Foreign Trade
- The Minister of Industry
- The Minister of State for Planning Affairs,
- The Minister of Finance as members,
- The Director of Investment Bureau as secretary

b) The chairman of the council may invite to the council's meetings experts and other people concerned with the subjects under discussion by the council, provided that they have no right to vote.

Article 6:

The council shall have the following powers:

a) Approving for the natural and legal persons to initiate development projects governed by the rules of this law and the competent authority charge shall subsequently issue the relevant licenses.

b) Specifying the state's contribution to the capitals of the joint-stock companies.

c) Issuing licenses for setting up joint stock, share holding and limited liability companies governed by the rules of paragraph (a) of this article, as per a decision passed by the prime minister.

d) Entrusting concerned authorities with preparing initial economic feasibility studies for the development projects falling within the fields specified by this law.

e) Adopting the assessment of foreign funds, prepared by the competent authority.

f) To license for the Arab and foreign investor to own and lease the lands and real estates necessary for the establishment of the investment projects or expansion thereof within the limits of the area and period of lease estimated in light of the actual need of the project and excess of the ownership ceiling defined in the laws and regulations in force according to the proposal of the concerned authority contrary to any text in force.

Upon the cancellation of the project or its final liquidation, the investor shall have to relinquish to others, according to the laws and regulations in force, his property in excess of the ceiling

defused legally. In this case, the Arab and foreign investor shall have to relinquish to others his ownership of the lands of the project and the buildings constructed thereon provided that he obtains a prior approval from the council if the relinquishment is for the interest of a non-Syrian person, period of two years shall be defined for this execution of said waiver process.

Article 7:

The council shall convene at a call by its chairman once every two months, at least, and whenever necessary.

Article 8:

By a decision by the prime minister, an investment bureau affiliated to the Deputy Prime Minister for Economic Affairs shall be set up and assigned with preparing and referring to the council the projects submitted to it by the concerned authorities. It shall also be assigned with following upon the implementation of decisions passed by the council, receiving the investor's complaints and working to settle them. It shall also discharge all tasks entrusted to it by the council.

Article 9:

All statements and special data offered by the investors on their projects shall not be for publication or circulation

Chapter III - Exemptions, privileges and facilities**Article 10:**

According to rules of this law, all projects approved enjoy exemptions, privileges, facilities and guarantees.

Article 11:

Projects approved to be set up according to the rules of this law may import:

a) All requirements of machines, vehicles, apparatus, equipment, means of transport, buses and mini-buses, that are needed to serve the projects

and other materials necessary for setting up, expanding and developing these projects.

b) Cars.

c) All materials and requirements necessary for running these projects.

The competent authority determines the quantity and sort of various means of transport mentioned in paragraphs (a) and (b) of this article and according to the rules determined by the council. The import processes mentioned in the previous paragraphs are carried out irrespective of the rules prohibiting and restricting imports and irrespective of the rules of importing directly from the country of origin and the rules of hard currency regulations.

Article 12:

a) Imports quoted in paragraph (a) of Article (11) of this law are exempted from all taxes and fiscal stamp, local and customs duties and otherwise, provided that they are exclusively used to serve the goals of the project, and that they cannot be relinquished to a third party except by the council's consent and after paying the taxes and duties levied on them in their present condition.

b) The project's imports specified in paragraphs (b) and (c) of Article (11) of this law cannot be relinquished or used in service of other purposes than the project, except by an approval by the council.

Article 13:

a) Joint-stock companies approved according to the rules of this law, together with their shares, funds, profits and dividends, are exempted from all taxes levied on income and real estates owned by the companies to achieve their purposes and fulfill their tasks, for seven years right from the date of actual production or investment according to the nature of the project.

b) Projects related to individuals or non-joint stock companies licensed according to rules of this law, together with their profits and dividends, shall be exempted from all taxes imposed

on income and from the real-estate taxes on the building owned for realizing the project's objectives and tasks, for five years right from the date of actual production or investment, according to the nature of the project.

c) The investment project licensed according to the provisions of this law, after the elapse of the two exemption periods stipulated in paragraphs a & b of this article, shall be subject to the taxation exemptions and other privileges stipulated in the laws and regulations relevant thereto which are applied to the non-licensed similar projects according to the provisions of this law, namely the following:

- Provisions of the Legislative Decree No. 174 of 16 Feb. 1952# that exempt the natural persons and legal persons who deal with the marine transportation from the tax imposed on income of profits.

- Paragraph No. /3/ of Article /4/ of the Legislative Decree No. 85 for the year 1949 and its amendments applied to the establishments, companies and the agriculture projects.

Article 14:

a) In case the time spent on establishing the project approved according to the rules of this law exceeds three years, then this period shall be deducted from the duration of tax exemption quoted in paragraphs (a) and (b) of Article (13) of this law.

b) The Higher Investment Council -in exceptional cases up to its discretion- may grant the investment projects a period or additional consecutive periods so that the initiation period of the project licensed under this law provisions does not exceed five years. Not be deducted from the original tax exemption period stipulated in Paragraph "a" & "b" of Article /13/ of this law.

Article 15:

By a decision from the Council, an additional exemption period shall be added to the two-tax exemption periods stipulated in paragraph. A& B

FILE 5

of Article /13/ of this law for the new project that will be licensed by the Council according to the provisions of this law as follows:

- a) Two years if the total commodity or service project exports, the value of which actually transferred to SAR, whether in cash or in kind, exceeds 50% according to the currency regulations in force, of the total production value during the original exemption period.
- b) Two years if the project is one deemed by the Council that it is of basic importance to the national economy in light of its capital investments or the extent of its contribution to the development of the national product, export promotion, increasing work opportunities and its employment of a high standard of the scientific technology and technical one, or its contribution in the maintenance of environment as maritime transport projects, heavy industries, fine instruments of high technology, fertilizers, etc.
- c) Two years if the industrial or agricultural investment project is established in one of the developing governorates: Raqqa, Hassakah, Deir Ez-Zor.

Article 16:

a) In addition to the facilities given by the rules and regulations in force on foreign currencies, the investor may open in favour of his project, which is approved according to the rules of this law, an account in foreign currency at the Commercial Bank of Syria, recording on the credit side:

- Payments made 100% in foreign currencies of the project's capital and of the loans granted to the project in foreign currencies.
- 75% of the total foreign currencies released from the revenues of exports and services of the project.
- On the debit side of the aforementioned account, are recorded funds necessary for covering the project's liabilities, requirements and needs of foreign currencies, including the payments allowed to be transferred to the favor of Syrian expatriates,

citizens of Arab and foreign countries and non-Syrian persons or the like, working in the project, according to rules of this law.

- a) Regardless of any text in force, the investor may use his foreign currency funds in financing projects licensed to be set up according to the rules of this law, or contribute to the capital or buy shares of these projects.
- b) It shall be permissible, by a decision from the council, to exceed the percentage allowed for the exporter to retain from the outcome of foreign currencies generated from the export returns according to foreign currency regulations in force.
- c) It shall be permissible, by a decision from the council, according to the requirements of the project's nature of activity, to allow the companies and projects licensed under this law to open banking accounts abroad to secure their requirements, settle their obligations and collect their dues provided that the amounts deposited in these accounts do not exceed 50% of the capital paid in foreign currency.
- d) It shall be permissible, by a decision from the council, to allow the projects and companies licensed under this law provisions to transfer upon need part of their assets in foreign currencies deposited duly at the Syrian banks to the Syrian currency to cover their needs and local liabilities through these banks at the prevailing exchange rate in the neighboring markets.

Article 17:

- a) The Bank shall put the investor's funds deposited at it according to the rules of paragraph (a) of Article (16) of this law at the disposal and at the request of the investor, and the Bank shall take necessary procedures to achieve this.
- b) The Bank shall calculate interest for the foreign currency deposited at it in favor of the project's account and in harmony with the current interest rates.

Article 18:

Investor may borrow local currency from the state's banks in favour of his project and against guarantees of his own funds according to the rules in force at these banks.

Chapter IV - Joint - Ventures

Article 19:

- a) The joint projects licensed under this law, in which the public sector contributes by a percentage not less than 25% of their capital, shall take the form of a closed shareholding company or a company of limited liability. It shall be permissible when needed, upon a decision from the Council, to have the public sector participation either in cash, or in kind in the form of real estates, accessories, and equipment, new or second hand machinery.
- b) The founders shall set the charter of the joint company in a way consistent with the nature of its work and form of its structure. It shall be permissible to specify in this charter the nationality of the chairman, and board members, their number, ages, their bonuses, remuneration, method of their election or recruitment, ratio of the non-Syrian representation in the board of directors, mechanism of work in the board, defining the company's capital, value of the share in the Syrian currency and its equivalent in foreign currency without abidance by the laws and regulations in force namely the Trade Law No. 149 for the year 1949. This charter shall be issued by a decision from the premier after the council's approval thereof.
- c) It shall be permissible to the council, by a decision therefrom, to apply the provision of paragraph (b) of this Article on the shareholding or limited liability companies which are non-joint and crated under this law to execute projects licensed according to its provisions, in light of their importance in terms of its various objectives, projects, volume of their capital or the nationality of the founders.

Article 20:

- a) The joint-stock company will have a board of directors in which shareholders are represented according to the percentage of their subscription in the company's capital; the concerned authority shall name the public sector representatives at the board of directors at the same percentage of this sector's share in the capital.
- b) The board of directors shall appoint the company's director-general, who cannot hold his post together with the chairmanship or membership of the board of directors.

Article 21:

- a) With exception from the rules of Law No. 134 of 1958 and the Legislative Decree No. 49 of 1962 and their amendments, the board of directors shall draw out the company's personnel bylaws taking into account the rules of the Labour Law No. 91 of 1959 and its amendments. This bylaw is issued by a decision by the prime minister.
- b) The board of directors shall issue the financial bylaws and the accounting system for the company, according to the relevant models prepared by the minister of finance.
- c) The company's other regulations shall be issued by a decision by the board of directors.

Article 22:

- a) The joint companies licensed under this law shall be exempted from the stamp fee due on the issue of the shares according to the provisions of Law No. 15 for 1993.
- b) The new non-joint closed shareholding companies that launch their shares for the public writing by a percentage of not less than 50% of their shares, which will be licensed under this law, shall be exempted from the stamp fee due on the issue of their shares according to Law No. 15 for 1993.
- c) The holding companies that launch stocks of their projects and companies for the public writing

at the ratio of not less than 50% of their stocks and that will be licensed under this law, shall be exempted from the stamp fee due on the issue of their stocks according to the provisions of Law No. 15 for 1993.

Chapter V - External Funds

Article 23:

External funds shall include:

- a) Foreign currency transferred from abroad by Syrian citizens, Arabs or foreigners through Syrian Bank or in a way approved by the Foreign Currency Bureau.
- b) Machines, vehicles, equipment, means of transport, buses, mini-buses, and materials necessary for setting up or expanding, renewing or developing these projects, as well as materials imported from abroad, necessary for operating these projects.
- c) Profits, revenues and reserves realized from the investment of the external funds in investment projects, if they were added to the capitals of these projects or were invested in other projects approved according to the rules of this law.
- d) Moral rights utilized in projects, as well as patent rights and trade marks registered in a member state of the international federation for industrial property, or according to the international rules of registration included in international agreements concluded in this regard.

Article 24:

- a) Investors of Syrian expatriates and citizens of the Arab and foreign countries, after the elapse of five years of project investment, shall be permitted to retransfer the value of their net share in the project in foreign currency abroad, on basis of the actual project value on the date of relinquishment according to the executive instructions issued by council in this respect.
- b) External funds may be re-transferred abroad after six months from their entry and in the same way as they were brought in, should any difficulties or any circumstances beyond the

control of the investor, and at the council discretion, stand hindrance against the investment of these funds. The council, in special cases, may approve the re-transfer abroad of external funds without consideration of the aforementioned period of time.

c) Profits and revenues realized annually by the investment of the external funds may be transferred abroad according to the rules of this law.

Article 25:

According to rules of Article (23) of this law, the Central Bank of Syria shall allow the transfer abroad of the external funds invested in the project, together with the profits and revenues, in the same currencies brought in, or in any other transferable currency.

Article 26:

a) Projects and investments licensed under the provisions of this law shall enjoy non-confiscation, expropriation or limitations in the disposal of the investment ownership or its returns unless it is for the purpose of the public interest for a fair indemnity. It shall also be impermissible to put them under seizure except by a jurisdictional decision. Disputes in all of these cases shall be settled by resorting to the competent Syrian jurisdiction.

b) Investment disputes between investors of Arab and foreign countries citizens whose projects are covered under the provisions of this law and the public Syrian bodies and institutions shall be settled according to the following:

- Through amicable solution
- Should both parties fail to reach an amicable solution within six months of the data of submitting a written notice for the amicable settlement by either parties of the dispute, either of them shall have the right to resort to one of the following methods:
 - Resort to arbitration

- Resort to the Syrian jurisdiction

- Resort to Arab investment court formed under the corporate Agreement for the Investment of Arab Capitals in the Arab countries in 1980.

- Alternatively, that dispute is settled according to the provisions of Investment Protection and Guarantee Agreement concluded between S.A.R. and country of the investor.

c) Investors of the Arab or foreign countries' citizens may insure their money invested in the approved projects with the Arab Establishment for Guarantee of Investment or with any other establishment through the approval of the competent authority.

Chapter VI – General Rules

Article 27:

a) Investor shall apply to the competent ministry for approval of his project and get it covered under the rules of this law. Papers and documents that indicate the prerequisites, elements, aims of the project, its economic feasibility and the legal form it will take, shall accompany application form.

b) The competent ministry shall study the project, give its opinion about it and refer it to the council within a period of 30 days from the date of application.

c) The council's decision on the project shall be issued within 30 days as of the application receipt from the competent authority.

d) The council may cancel the decision of approval, if the project operator fails to take serious measures to initiate his project within one-year period from the date of issuance of decision of licensing, unless there are justifying reasons accepted by the council to extend the implementation period.

Article 28:

The operator of the approved project shall have to:

- 1) Keep trade books stipulated as per the commercial law.

2) Present an annual sheet and a statement of profit and loss ratified by a legal accountant, within a four- month period from the end of the fiscal year of the project.

3) Keep a special register in which all details relating to the project funds, which, as per the rules of this law, enjoy exemptions, privileges or facilities, are taken down, together with the movement of these funds and competent actions taken thereon.

4) At the request of the council and the concerned authority, the investor shall present all data and statements about the project.

Article 29:

By a decision taken by it, the council may suspend the validity of exemptions, privileges and facilities given to the project, wholly or partially, in case the project operator violates the rules of Article (28) of this law, and until these rules are implemented.

Article 30:

a) Customs fees and fines, according to customs rules and regulations in force, shall be imposed on the project in case the materials mentioned in Article (11) of this law are used to serve purposes other than the project itself or were abandoned to a third party without the council's consent.

b) In case the offence quoted in the previous paragraph is repeated, the council may cease the project's enjoyment of the exemptions, facilities and privileges specified in this law.

Article 31:

It shall be permissible, by a decision from the council, to grant the privileges and facilities stipulated in this law in the exemptions from the taxes and fees relieving to any of the projects existing prior to its date of effectiveness or those that are established after date of effectiveness and which are not licensed under it. All commitments stipulated therein shall be applicable to it including the tourist projects

FILE 5

and Article /34/ of this law shall be considered amended ipso facto, in line with the provisions of this article.

Article 32:

In case the ownership of projects approved is transferred, wholly, or partially, to a new owner, then the new proprietor shall replace the old one in rights, obligations and duties he had to fulfill as per the rules of this law and the regulations and instructions issued in this regard. Capital profits ensued by the sale of the fixed assets are subject to profit income tax according to rules and regulations in force.

Article 33:

Rules of the Legislative Decree No. 10 of 1986 regarding joint- stock agricultural companies shall continue to be in force.

Article 34:

Tourist projects are governed by the rules and regulations in force and relating to them.

Article 35:

Rules of the Legislative Law No. 348 of 1969 shall remain in force as regards the projects affected by it before this law is put in effect.

Article 36:

Projects approved shall be subject to the rules of commercial law No. 149 of 1949 and its amendments, if these rules are not in contradiction with the rules of this law.

Article 37:

Experts and technicians of Arab and foreign nationals working in any of the approved projects are allowed to transfer abroad in foreign currencies 50% of their net wages, salaries, remunerations and 100% of their compensations at the end of their services.

Article 38:

The prime minister, chairman of the higher council of investment, shall issue the instruc-

tions necessary for the implementation of the rules of this law.

Article 39:

a) The holding companies shall be added to the companies stipulated in the trade law. They shall be subject to the provisions applicable to the closed shareholding companies stipulated in said law, provisions of the amended article /19/ according to this law and provisions of article /21/ of Law No.10 for 1991.

b) Projects created by the holding companies stated in paragraph. (a) of this article or in which they share in their capital by not less than 51% may be covered by Law No. 10 for 1991 and according to its provisions, they shall also be subject to the provisions of paragraph (b) of Article 19, Article 21 of Law No. 10 for 1991.

c) The license establishing these companies shall be issued through a decision from the premier.

d) Net profits registered to the accounts of the holding companies from their newly created projects or from the companies they are contributing therein according to the provisions of this article shall not be subject to the tax of industrial profits, commercial and non-commercial profits.

Article 40:

a) Provisions of items (1, 2, 3, 5, 8, 9, and 10) of first article of this law shall be applicable to the agricultural, industrial and marine transport investment projects licensed or shall be licensed under Law No. 10 for 1991.

b) Provisions of the two items (4&7) of article one of this law shall be applicable to the new projects that will be licensed by the council as of the enforcement date of this law.

Article 41:

a) Ratio of income tax on net profit realized by the shareholding companies that announce their shares for general writing in the private and joint sector that have their headquarters in

Syria for all activities shall be determined for 25% inclusive contribution in the military effort. This tax shall be excluded from the addition to the interest of local administration.

b) Provisions of article 3 of Law No. 20 of 6 July 1991 concerning the definition of income tax ratio on profit of said companies shall be definitely amended according to the provisions of this article.

c) Provisions of paragraph (a) of this article shall be applicable as of tax impositions of 2000 turnover.

Article 42:

This law shall be published in the Official Gazette.

13/05/2000

President of the Republic

Hafiz al- Assad

LEGISLATIVE DECREE /8/

President of the Republic, pursuant to the provisions of the Constitution, Decrees the following:

Article 1:

In the context of applying the provisions of this Legislative Decree, the following terms are hereby defined:

Supreme Council: Supreme Investment Council.
Agency: Syrian Investment Agency (SIC), established according to the provisions of the Syrian Investment Agency Law.

Board: the SIC Board of Directors.

Investment: Establishing, expanding, developing or upgrading enterprises.

Investor: Natural or artificial person investing in Syria pursuant to the provisions of this Legislative Decree.

Enterprise: Any economic activity operated by an investor pursuant to the provisions of this Legislative Decree.

Assets: the machines, tools, equipment, apparatus and non-tourist transportation means (local

and imported) those are new and not renewed.
Foreign Capital: any capital duly incoming from abroad by Syrians, Arabs or foreigners.

Chapter 1: Investment Guarantees

Article 2:

It shall be permissible for investors to possess and lease lands and real estates required for establishing or expanding investment enterprises, even if the area exceeds the ownership ceiling defined by the effective laws and regulations, provided that they are exclusively used for the enterprise.

When an enterprise is cancelled or completely dissolved, the investor shall have to cede to others, of Syrian Arab citizenship, pursuant to the effective laws and regulations any extra ownership beyond the legally defined ceiling. A non-Syrian investor shall have to cede the ownership of the enterprise's lands and buildings. In case the cession is from a Syrian or foreign investor to a non-Syrian investor for the purpose of establishing an investment enterprise, an in advance approval shall be obtained from the Board, and a deadline of 2 years max should be set to carry out the relevant cession.

Article 3:

Enterprises and investments licensed pursuant to the provisions of this Legislative Decree can't be seized or expropriated, neither could there be any limitations with regard to their ownership or revenues disposal, unless for public utilisation and in return of an immediate and just compensation that is equal to the enterprise current value just before appropriation. Payment should be in a convertible currency for foreign capital. With no violation to the provisions of the Public Funds Collection Law No. 341 of 1956, it shall be impermissible to seize the enterprise but via a judicial ruling.

Article 4:

A non-Syrian investor and his family shall have work and residence licenses during the enterprise execution and operation life.

An investor shall have the right to get work and residence licenses for the enterprise non-Syrian workers in accordance with effective laws and regulations.

Article 5:

An investor shall have the right to re-transfer the outcome of dealing with his/her share of the enterprise in a convertible currency and after settling the taxes due on that dealing.

Pursuant to the provisions of this Legislative Decree, an investor shall have the right to annually transfer abroad the profits and interests resulting from the invested foreign capital in a convertible currency after settling the taxes due on those profits and interests.

Six months after the foreign capital transference, an investor shall have the right to retransfer his foreign capital abroad, if difficulties and conditions beyond the investor's ability prevented him from investing that capital. Those conditions are assessed by the Board, which shall have the right, in special cases, to approve retransferring the Foreign Capital abroad without having to adhere to the above mentioned period.

Arab and Foreign experts, workers and technicians working for any approved enterprise, shall have the right to transfer abroad 50% of their net wages, salaries and bonuses, and 100% of their end-service allowances, in a convertible currency, provided that they settle the taxes due on those wages, salaries and bonuses.

Transference shall be through the properly licensed banks.

An investor shall have the right, upon the Board approval, to enter and take out the tools used for the installation of the enterprise assets.

Article 6:

Provisions of international bilateral and multi-lateral investment and investment insurance-related agreements effective in Syria and signed with other countries or Arab and international organisations, shall be taken into consideration. An investor shall have the right to insure his enterprise at any of the insurance companies licensed in Syria.

Article 7:

Investment-related disputes between an investor and Syrian public bodies and institutions shall be settled amicably. If the disputing parties could not reach a solution amicably in three months from the date of making a written notification for an amicable settlement by one of the disputing parties, each of them shall have the right to take the case to one of the following:

- 1) Arbitration.
 - 2) Competent Syrian Courts.
 - 3) Arab Investment Court created pursuant to the Unified Agreement for the Investment of Arab Capitals in the Arab states in 1980.
 - 4) Investment Insurance and Protection Agreement signed by Syria and the investor's country, or any Arab or international organization.
- All investment-related disputes shall be considered by the competent court as summary proceedings.

Chapter 2: Investment Advantages & Incentives**Article 8:**

Any enterprise of the following sectors shall benefit from all the exemptions stipulated in the effective Income Tax Law and its amendments as well as all advantages and guarantees stipulated in this Legislative Decree:

- 1) Agricultural and land reclamation enterprises.
- 2) Industrial enterprises.
- 3) Transport enterprises.
- 4) ICT enterprises.
- 5) Environment enterprises.

6) Service enterprises.

7) Electricity, Oil and Mineral Wealth enterprises.

8) Any other enterprises the Supreme Council decides to cover with the provisions of this Legislative Decree pursuant to a recommendation from the Board.

The Board shall issue the necessary instructions to identify and define the sectors mentioned in Item (a) of this article.

Article 9:

Enterprises, licensed pursuant to the provisions of this Legislative Decree, shall have the right to import all their needs, without being restricted to the provisions of import suspension, prohibition or restriction, direct import from the country of origin system and exchange system provisions. And against any other effective stipulation, the imported assets shall be exempted from customs duties and that include the machines, tools and equipment used in production process and non-tourist transportation means, provided that they are used exclusively for the enterprise and can not be ceded without the Board approval. The Supreme Council shall issue, following a Board recommendation, a system that defines the relevant principles, provisions and procedures.

Article 10:

For the purposes of this Legislative Decree, investment zones and the minimum value of each investment developmental zone assets shall be defined by a decision from the Cabinet.

Article 11:

Following a justified suggestion from the Board, the Supreme Council shall have the right to decide granting the investment facilitations, guarantees and advantages stipulated in this Legislative Decree, as well as any other additional advantages and guarantees, to any other enterprise.

The Supreme Council shall have the right to use discount bases other than the ones mentio-

ned in the effective Income Tax Law and its amendments for the enterprises of special importance for national economy.

Chapter 3: General Provisions**Article 12:**

Any investor in an approved enterprise shall have to:

Inform the SIC in writing, as soon as the assets are installed and prepared, of the date of the enterprise's operation commence or actual production.

Keep systematic accounts for the enterprise in accordance with the international accounting standards and provide the SIC with a copy of the enterprise balance sheets ratified by a licensed accounts auditing company or office.

Keep a detailed record of the enterprise assets. Submit any information, data or documents required by the SIC and allow any officer authorised by the SIC to compare the data and information with the reality.

Article 13:

Any enterprise approved pursuant to investment legislations in effect before the validity of this Legislative Decree, shall benefit from all exemptions and advantages it has until the end of the exemption period stipulated in those legislations and their terms.

Article 14:

In case an approved enterprise ownership is transferred, totally or partially, to another, the new owner shall replace the previous one in rights, liabilities and obligations pursuant to the provisions of this Legislative Decree and the provisions and instructions thereof. Capital profits generated by the sale of fixed assets shall be subject to income tax according to the effective laws and legislations.

FILE 5

Article 15:

Details of the private data and information provided by investors on their enterprises shall not be publishable or circulatable.

Article 16:

Approved enterprises shall be subject to the provisions of the effective Companies Law or Joint-Companies Law with no contradiction to the provisions of this Legislative Decree.

In the context of applying this Legislative Decree, no other stipulation of any other legislation shall be used if it contradicts its provisions.

Law 10 of 1991 and amendments is abolished.

Article 17:

This Legislative Decree shall be published in the Official Gazette and put in force as of 01/01/2007.

Damascus, 27/01 /2007
President of the Republic
Basher Al-Assad

LEGISLATIVE DECREE /9/

Syrian Investment Agency (SIC)

President of the Republic, Pursuant to the provisions of the Constitution, Decrees the following:

Article 1:

In the context of applying the provisions of this Legislative Decree, the following terms are hereby defined:

Supreme Council: Supreme Investment Council.
Agency: Syrian Investment Agency (SIC), established according to the provisions of this Legislative Decree.

The Board: SIA Board of Directors.

The Board Chairperson: SIC Board Chairperson.

General Manager: SIC General Manager.

Investment: Establishing, expanding, developing or upgrading enterprises.

Investor: Natural or artificial person who

invests in the SAR.

Enterprise: Any economic activity operated by an investor pursuant to the provisions of the Investment Law.

One-stop Shop: one of the SIC departments where all ministries and public bodies concerned with investment according to the provisions of the Investment Law are represented.

Articles 2:

The Supreme Investment Council shall be formed as follows:

Prime Minister
President

Deputy Prime Minister for Economic Affairs
Vice President

Minister of Finance
Member

Minister of Transport
Member

Minister
of Local Administration and Environment
Member

Minister of Industry
Member

Minister of Economy and Trade
Member

Minister of Agriculture and Agrarian Reform
Member

Minister of Tourism
Member

Minister of Housing & Construction
Member

Minister of Social Affairs & Labour
Member

Head of the State Planning Commission
(SPC)
Member

SIA Board Chairperson
Member

SIA General Director
Member/rapporteur

The competent minister shall be invited to

attend the Supreme Council meetings when considering issues related to his ministry or its subsidiary bodies.

The Supreme Council President shall have the right to invite specialists he deems adequate to attend the meetings.

The Supreme Council shall meet at least twice a year, and whenever necessary, following an invitation by the President, it shall perform the following tasks:

- 1) Lay out the general investment strategies and policies in Syria.
- 2) Study investment-related Laws and Regulations.
- 3) Adopt Syria's Investment Map.
- 4) Study reports of included investment enterprises' implementation follow-up, and evaluate the results of SIC activities.
- 5) Issue the SIC-related regulations upon proposals by the Board.
- 6) Discuss the issues referred to it by the Board and take the necessary measure with regard to them.

Article 3:

Pursuant to this Legislative Decree, the Syrian Investment Agency shall be formed. The Agency shall be located in Damascus, have a legal personality and enjoy financial and administrative independence; it shall be affiliated with the Prime Minister.

SIC Branches and bureaus could be created in/outside Syria, whenever necessary, by virtue of a decision by the Prime Minister following a Board recommendation.

Article 4:

The Agency aims at implementing national investment policies, and developing and promoting investment environment in Syria. To fulfil the aforementioned, SIC shall have the right to: Lay out the investment-related principles and standards to simplify and facilitate the procedures. Prepare the Investment Map in coordination with the relevant bodies, within priorities that

take into consideration projects of strategic importance, and work on promoting them locally and internationally.

Provide consultation, information and data to the investors and issue manuals on that.

Take part in preparing investment-related draft conventions and protocols.

Follow up on project implementation and overcome the obstacles hindering their execution and continuation.

Undertake every possible promotional activity to attract and promote investment, including seminars, conferences and organizing visits and meetings.

Article 5:

The SIC will be managed by:
The Board
The General Manager.

Article 6:

The Board chairperson shall be appointed by a decree.

Article 7:

SIA Board of Directors shall consist of:

- 1) Board Chairperson
President
- 2) General Manager
Vice President
- 3) Deputy General Manager
Member & rapporteur
- 4) 3 Managers from the SIC
Members
- 5) 3 representatives of chambers of industry, commerce and agriculture
Members

The Board members shall be nominated by virtue of a decision from the Prime Minister, upon a recommendation from the competent body. Other members could be added to the Board by virtue of a decision from the Prime Minister.

Board Chairperson and members' bonuses shall be determined by virtue of a decision from the Prime Minister.

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The Board shall meet at least once every two weeks or whenever necessary, following an invitation from the Chairperson. Meetings shall be deemed legal with the attendance of two thirds of the members, provided that the President or Vice President attends. Decisions shall be made by the attendants' majority; should votes turn equal the president side shall win.

The provisions and procedures related to regulating the Board works and meetings as well as all other relevant issues shall be drawn up by virtue of instructions issued by the Board for that purpose.

The Board shall be allowed to invite any specialists and concerned persons it deems adequate, to attend the Board meetings and provide consultation, without having the right to vote. The workers representative shall be invited to attend the meetings addressing workers-related issues.

The Board shall have the right to create committees deemed necessary by it to help fulfil its duties, provided that their creation decision includes their tasks and meeting quorum.

The Board Chairperson shall nominate the Board secretary out of the SIA members of staff.

Article 8:

The SIA Board shall:

- develop the SIC plans and programs in coherence with the government's overall plan;
- implement the SIC policies and plans;
- propose the establishment of SIC branches or offices in Syria and abroad;
- appoint SIC branch managers and office heads in Syria and abroad;
- enable non-Syrian investors to lease or own real estates within the real needs of their enterprises according to investment laws;
- consider investor objections related to the projects authorized under the Investment Law without breaching the investor right to refer to the competent judiciaries.;
- approve the SIC budget and annual report

and submit them to the Cabinet;

- propose the acceptance of donations, grants and gifts in accordance with the regulations in place;
- propose the fees to be imposed on the services provided by SIC.

Article 9:

The SIC General Manager shall be appointed by a decree and shall have the position of a deputy-minister. He shall be responsible before the Board and represent the SIC before the others and the judiciary. The General Manager shall:

- prepare the Board meeting agendas and attend these meetings;
- implement the Board decisions and any other decisions made according to the provisions of this Legislative Decree;
- manage the SIA activities and supervise its staff and administrative, financial and technical affairs;
- prepare the necessary plans and programs for the SIC to carry out its duties, submit recommendations on that to the Board and follow up their implementation after approval;
- prepare the SIC draft budget and submit it to the Board;
- prepare the annual report on the SIA activities during the foregoing year and submit it the Board;
- he shall be the paymaster, expenditure and clearance concluder;
- offer promotional bonuses and impose punishments for SIC staff in accordance with laws and regulations in place;
- contract with specialists and local and foreign experts for limited periods of time and specific tasks, when necessary and upon the Board approval; the provisions of the Fundamental Law for State Workers shall not be applied in those cases;
- appoint, promote, transfer and second workers in accordance with the effective laws and regulations;
- any other SIC-related tasks assigned by the Board.

Article 10:

A One-Stop Shop shall be created in the SIA and branches thereof to provide services to investors, representing the relevant Ministries and public bodies, whose representatives shall have full authorities to fulfill their tasks pursuant to the SIC bylaw.

The One-Stop Shop shall provide services to enterprises through representatives entrusted by different public bodies with all the authorities required to register, authorize, and grant the approvals, certificates and licenses required, pursuant to the provisions of this Legislative Decree and the Legislations in force, follow up the current enterprises, identify obstacles and make recommendations and solutions.

The One-Stop Shop workflow, along with the different public bodies represented, shall be organized pursuant to a regulation that shall be issued by the Supreme Council for this purpose upon a recommendation from the Board.

Article 11

An investor, who would like to invest pursuant to the provisions of this Legislative Decree and benefit from the privileges decided by virtue of it, shall have to apply in writing to the SIC, according to the form prepared for this purpose, attaching all the documents and information as defined by the instructions issued by virtue of this Legislative Decree.

The SIC shall issue a decision approving the application within 15 days maximum as of its submission, provided that the enterprise meets the stipulations defined in this Legislative Decree. In case of disapproval, the SIC shall have to inform the investor of the reasons behind delaying the approval, and the requirements still to be met for approval.

In all cases, investors shall be allowed to challenge the SIC decisions at the Board, which makes a decision in two weeks of challenge application date.

Article 12:

The SIC shall have an independent budget with special branch within the state general budget; its financial resources shall consist of: Funds allocated in the state budget.

Grants, donations, contributions and local and foreign loans according to the laws and regulations in force.

Fees on the services that SIC provides pursuant to the provisions of this Legislative Decree and to the regulations issued by virtue of it.

The revenues of SIC funds.

Article 13:

The Board shall have the right to charge the Chairperson with some of its authorities stipulated in this Legislative Decree and its regulations.

Article 14:

The Prime Minister shall issue the SIA bylaw and workers regulation according to a recommendation from the Board.

All standing workers at the Investment Office shall be transferred definitely to the SIA on the date of this Legislative Decree validity maintaining the same situations, categories, salaries and promotion seniority. They shall form the current SIC personnel.

The SIC personnel shall be issued by a decree.

Article 15:

This Legislative Decree shall be published in the Official Gazette.

Damascus 27/01/ 2007

President of the Republic

Bashar AL-Assad

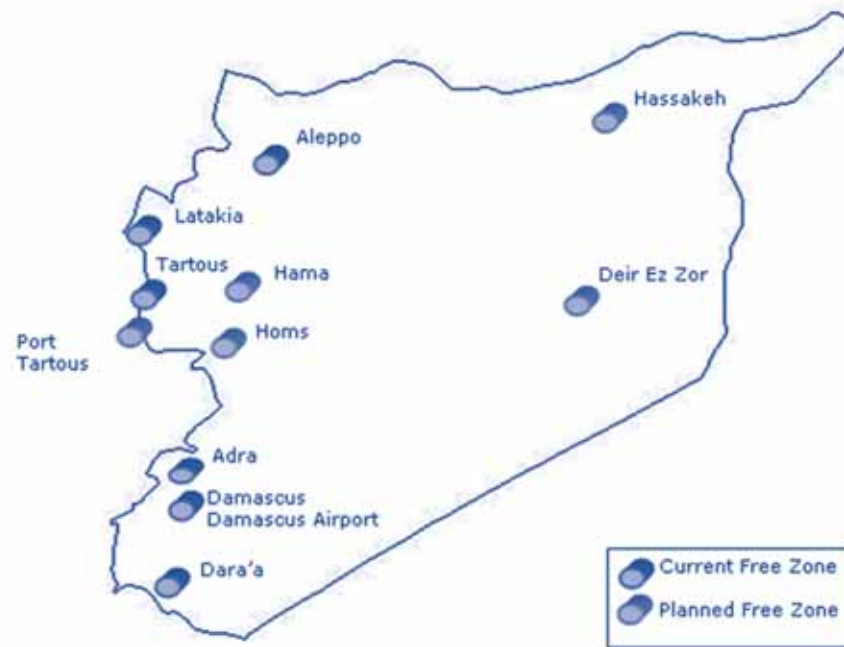


Figure 1: Free Trade Zones

The Allocation of Investment: Free Trade Areas and Opportunities

For those investors who are interested in re-exportation, Syria can be an attractive point of arrival, thanks to its seven free-trade zones. These areas were established with Law no.84 of 1972, a time when Syria did not foresee any opening abroad. In 2003, following an international “rebirth,” a new law was ratified (no.40) to regulate investments in these zones, increasing the privileges and exemptions that already existed. The seven zones are located in Damascus (near the Customs Department), at the Damascus international airport, in Adra (30 km north of Damascus), Dara'a (by the bor-

der with Jordan, a joint venture by both governments), Tartus, Latakia (both the city and the port) and at Aleppo. These areas are managed by the Organization of Free Zones, a body that comes under the Ministry of the Economy and Foreign Trade.

The benefits provided to investors are mainly aimed at the free importation of goods (without the need for any special licenses) but they also foresee tax exemptions, re-exportation of capital and various banking facilities in the area.

Nevertheless, the government is interested in attracting as many investments as possible, and in addition to issuing these decrees in 2007, is planning to establish additional free trade zones soon. Reliable rumours have it that in the next

few years, more free trade zones will be established in the port of Tartus, in Homs and Hama, in Hassakeh and in Deir ez Zor.

Foreign enterprises interested in making investments in these free zones must simply fulfil certain requirements: above all, the business they wish to conduct must not be in competition with domestic Syrian businesses, unless a joint venture agreement is made. There is therefore a form of protection for local enterprises. In addition, it is necessary to have a subsidiary in Syria in order to operate in the free zones. Otherwise, it suffices to appoint a Syrian national as agent. Of course, in the process of approving businesses' requests to work in the area, a company that shows it can contribute technology and know-how to the country is always favoured – with a view to increasing expertise on the market.

Benefits in the free trade zone:

- Freedom to re-export capital and dividends
- Tax exemptions
- Simplified procedures for importing and exporting materials and machinery
- Free temporary importation of machinery and means of transport
- Free import of 25% of production into the mainland
- “Made in Syria” certificate for products
- Foreign currency accounts

Apart from the free trade zones, the SIA has mapped all investments, in order to orient the investors towards determined areas of the country, according to the various needs.

Regarding, for example, investments in the **agricultural sector**, there are excellent possi-

bilities in the provinces of Aleppo, Idleb, Hama, Homs and in the Damascus area along the border with Lebanon. Also in Aleppo, near Lake Buhayrat al Asad and on the Euphrates River, it is possible to operate in the fishing industry. In the lake area, the government encourages investment in the growing of fruit and vegetables.

There are also good opportunities in the **energy sector**, in the rural areas of Damascus, where the extractive industry is developing, while the number of refineries is increasing in the region of Raqqa, by the Turkish border, near the area between Aleppo and Hama, at Der Ezzor and along the coast of Tartus. Electric power stations are concentrated in the region of Homs, in Qunaitra and in Daraa. The production of natural gas is concentrated in the centre north and the country's electrical and hydro electrical plants are being expanded and wind power is being developed.

There are many opportunities in the domain of **infrastructures**. There are plans to construct two super highways, which will practically connect the country. The first links the western part of the country, north to south, for a total of 500 km – from the region of Aleppo to Daraa. The other one runs 375 km across the country, starting at the coast of Tartus and reaching the Iraqi border, in the region of Homs. It is also planned to expand air transportation services with the construction of new airports in Damascus, Homs and Raqqa and the port of Tartus is also to be enlarged. There is also a project in the works to expand railway connection between Damascus and Rioq. Keep in mind that Der Ezzor is quickly becoming an industrial pole

and emphasis is on the best connections with the rest of the country and the region.

There are various types of investment in the **manufacturing industry**, covering practically the entire country, with the exclusion of the maritime zones (Tartus and Latakia). Therefore, there is a wide range of choices for investment in this sector, in relation to the chain of production in Italy and the availability of raw materials in Syria. The most sought-after industries are the production of cotton, textiles, white sugar, cement and glass.

Tourism is another developing sector where the government is working to attract more

investments. There are numerous archaeological sites but not enough luxury hotels or hotels catering to foreigners. Moreover, the development of this sector could contribute to increasing the GDP of the country, creating more jobs and drawing in indirect capital through a greater influx of tourists.

Corporate Forms

In spite of the new laws of 2007, it is still impossible for foreign firms to set up a company with a shareholding greater than 49% of the total. However, this limitation should not be considered a deterrent for investors, because the

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amount of shares that can be held by foreigners is expected to be increased soon and because there are legal loopholes by means of which the desired corporate setup can be achieved.

Recently, on March 13th, 2008, the President of the Republic issued a new decree regulating business matters in Syria. Company law had not changed since the commerce law of 1949 and a need was felt to modernize this area.

Law no.3/2008, containing 277 articles, establishes new types of legal status, including holding and offshore, and authorizes conversion from one type to the other, with new simplified procedures. In the light of the strong pres-

ence foreign businesses, the new law allows companies to have capital in foreign currency and to hold board meetings outside Syrian territory. The aim is to facilitate companies with foreign shareholding.

Former requirements concerning minimum share capital are eliminated. With this new law, it will be up to the Minister of the Economy or the Prime Minister to fix the minimum proportions for limited liability companies or joint stock companies.

Companies registered in Syria will have Syrian nationality, even if their main shareholders are not Syrian. Nonetheless, this will protect foreign

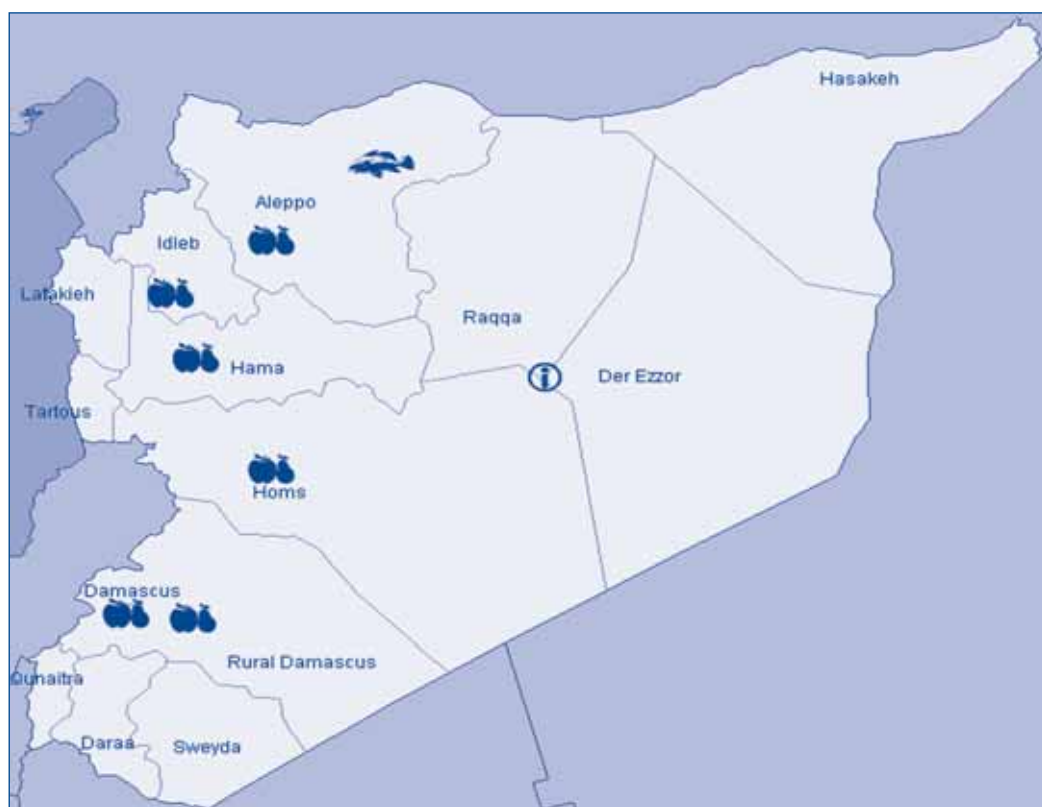


Figure 2: Agriculture

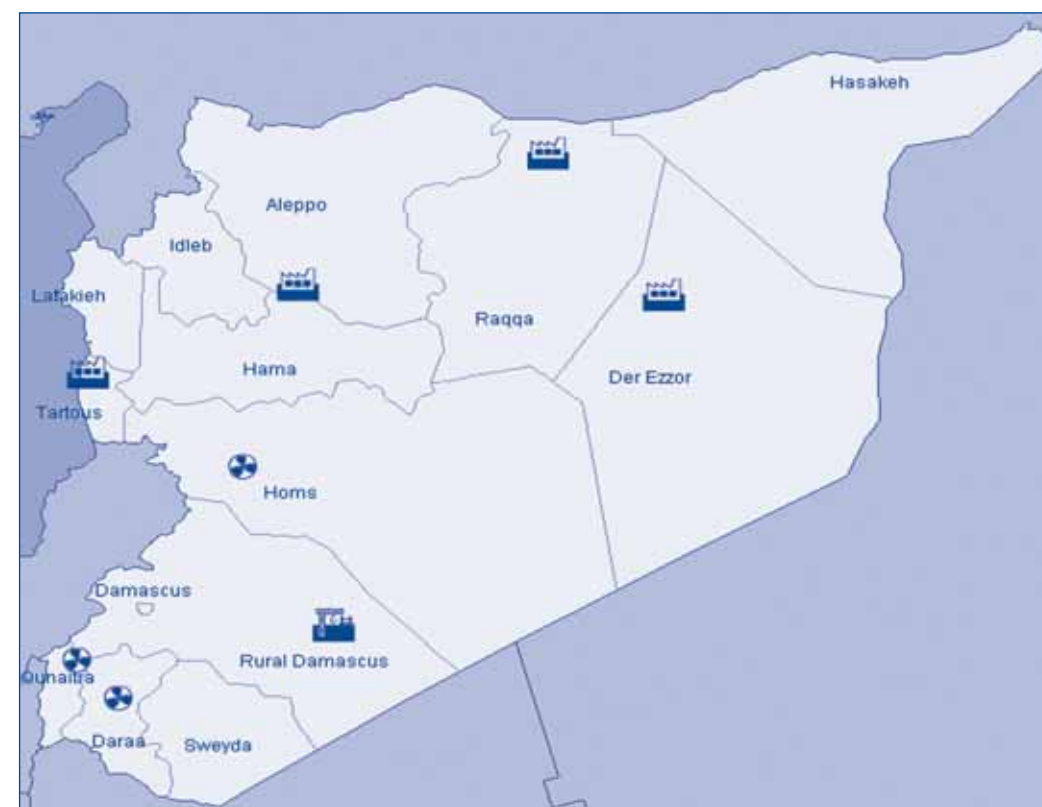


Figure 3: Energy

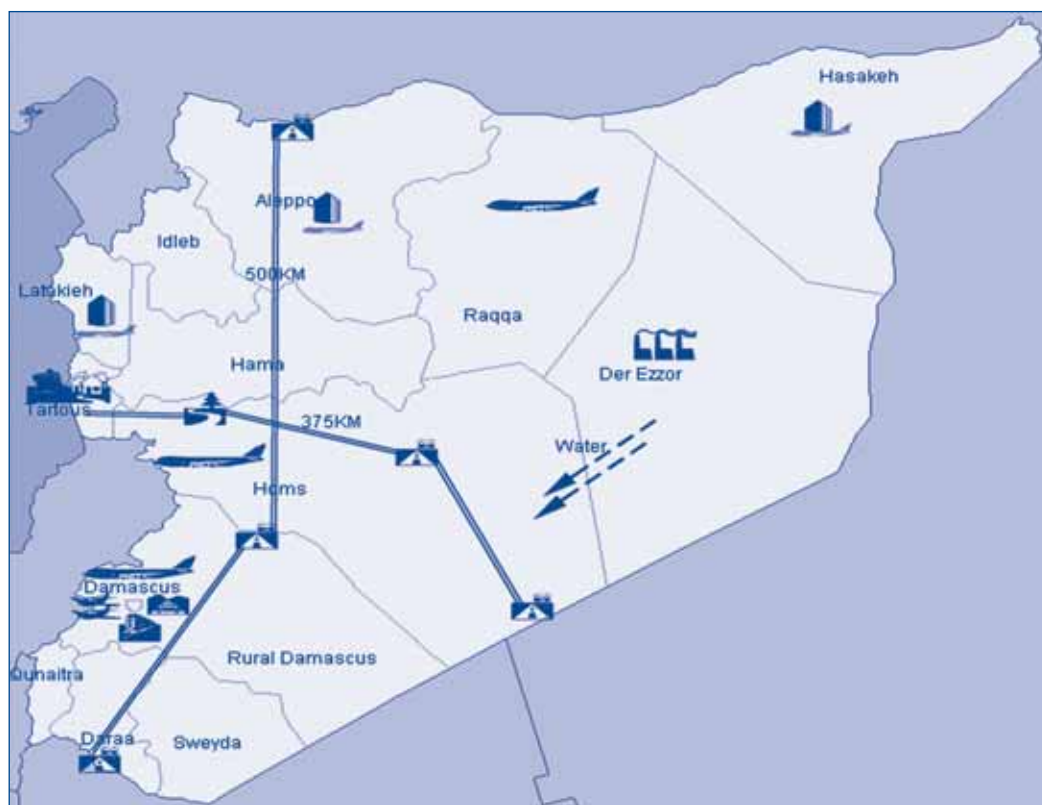


Figure 4: Infrastructure

investors and they will be entitled to the same treatment as local citizens, along with the same rights and obligations.

The company categories used in this Middle Eastern country are very similar to European ones. Investors can choose a corporation (joint stock company or limited liability company) or a partnership. The first type is always advisable and, based on the needs of the project, investors can opt for a JSC or a Ltd. Co.; both also called “commercial companies” precisely because of the commercial nature of the activity. Firms that operate in the free zones are known as “free zone companies” and always opt for the corporation form.

Syrian corporations that operate outside the country are known as “offshore companies” and operate abroad. “Holding companies” instead are limited liability companies that control other corporations, very similar to the Italian institution. Companies with State participation are known as “Semi-public Companies” but this subject is still in a developing stage. The last category foreseen by this new commercial law is the “civil company,” a non-commercial company that unites professionals.

Therefore these categories can have different types of legal status, depending on the intentions of the investors.

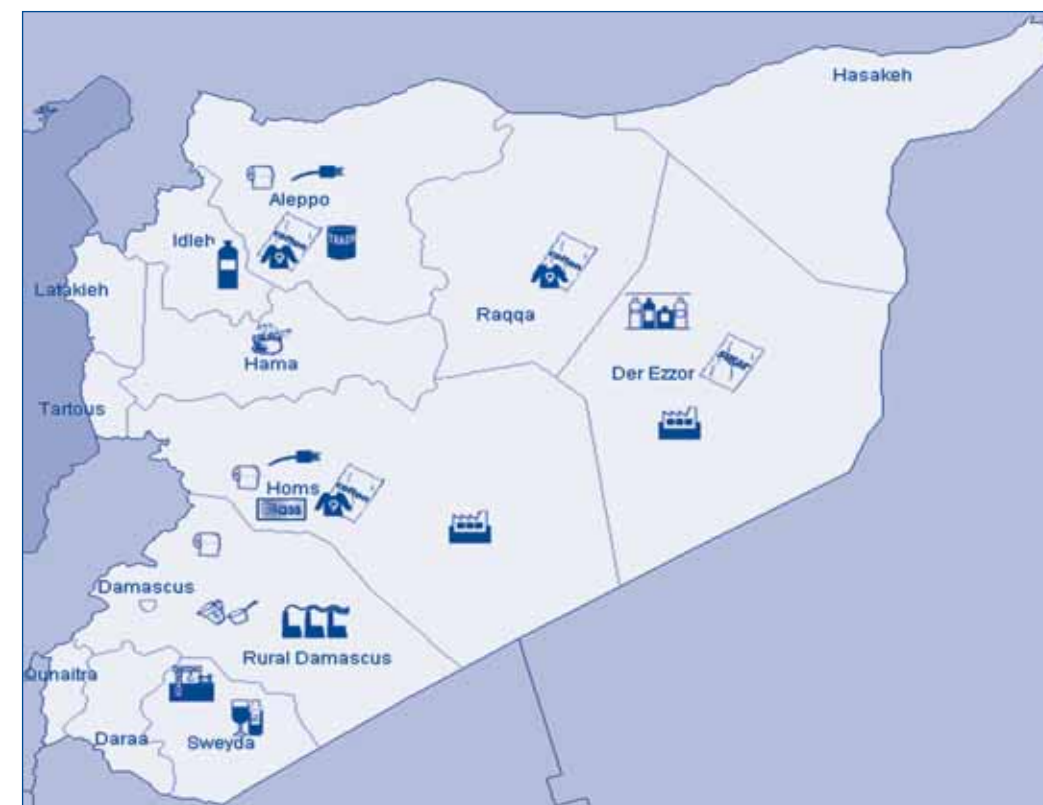


Figure 5: Manufacturing Industry

Corporations and partnerships: The rules regarding joint stock companies allow for a minimum of five founding partners, with a **minimum capital of 50,000 Syrian Pounds**. The application for registration is submitted to the Ministry of Supply and Internal Trade not more than 30 days after its establishment. Since there will also be a foreign capital share, the authorization of the Ministry of the Economy and Foreign Trade is also needed. A whole set of documents must be presented to these two Ministries, in addition to the request for registration; it will also be necessary to draw up the articles of incorporation

of the company, with a description of a whole series of items requested.

If it is decided to have the company quoted on the stock exchange, which is likely, the procedure becomes more complicated. Unless there are particular reasons to the contrary, it is always advisable to take a gradual course, so as not to move the business too fast and be unable to turn back.

Ad hoc reserves have to be created to which 10% of the company profits is allocated annually until 50% of the share capital is reached. The members of the board of directors are elected from among the shareholders and the

number of members varies from a minimum of three to a maximum of seven. The rest is delegated by the decisions of the bylaws: the board appoints a Chairman and Vice-Chairman and must meet once a month, whereas the Shareholders' Meeting is held once a year.

A limited liability company is much simpler to establish, with a structure very similar to the Italian model and with a **minimum capital of 25,000 Syrian Pounds**. Each partner is only responsible for his/her shareholding and

managers are appointed, from among the partners or even outsiders, who are responsible for seeing that the bylaws are obeyed.

Even in the case of a Ltd. Co., all the documentation must be sent to the Ministries mentioned above and a copy of the articles of incorporation and all the licenses and authorizations already held by the company must also be attached. Approval by the ministries counts as registration. However, a copy of the articles of incorporation must be submitted to the civil

court, in order to formalize the registration, passing through both the ministry and judicial channels not more than thirty days after the company is established.

Both these types of company – corporations – must draw up a budget, a profit and loss account, a balance sheet, and annual reports on the company's activities. It is advisable to choose a Syrian lawyer to help register your company. This lawyer has to take an oath in the local court that the contract has been made.

If a partnership is to be established, the procedure is identical to that of the Ltd. Co.. The only difference is in the responsibility of the partner, which in this case, is total and covers that of all the other partners also. Obviously, this form of legal status is definitely not recommended.

Branch office: Another option would be to create a foreign subsidiary of the mother company. Foreign firms can establish branch offices in Syria that act on their behalf and report to the mother company. This type of presence is permissible for every kind of company, with the exception of banks and insurance companies or companies of a foreign financial nature. The branch office must have a share **capital of more than 500,000 Syrian Pounds** (today a little more than 6,500 Euro) and must in any case be registered with the Ministry of the Economy and Trade, presenting detailed documentation: articles of incorporation and bylaws of the mother company, various budgets, registration of the mother company on the commercial register, documentation of the decision made to set up a branch office abroad, and certification that the company is private and not

state owned. In this last case, if there is state participation, authorization must be requested from the office of the Prime Minister.

For the purpose of legalization, all the documents presented must be authenticated by either the Italian Chamber of Commerce, the Italian Ministry of Foreign Affairs, the Syrian Embassy in Italy or the Syrian Ministry of Foreign Affairs. It will then be necessary to have everything translated into Arabic by an accredited translator. The limitation of a foreign branch office is in the fact that the director must be a Syrian citizen, unless the Presidency of the Council of Ministers authorizes a foreigner to fill the post.

The form usually adopted by foreign firms is the **joint venture**, a cooperation agreement made with a local firm: joint ventures can be either contractual or equity. In the first case two (or more) partner firms decide to form a partnership while remaining separate entities and cooperate in relation to the contractual subject of their agreement. In the case of an equity joint venture a new body is created to which the two (or more) partner firms belong, and therefore a third company exists governed by the first ones. The form to be given to the new company is decided in the joint venture agreement if it is an equity joint venture, opting for one of the types listed above.

Usually foreign companies invest in joint ventures, an entity formed with a local company. Joint ventures can be contractual or corporate. In the first case, the two (or more) company partners can agree to enter into partnership while still remaining separate entities, working

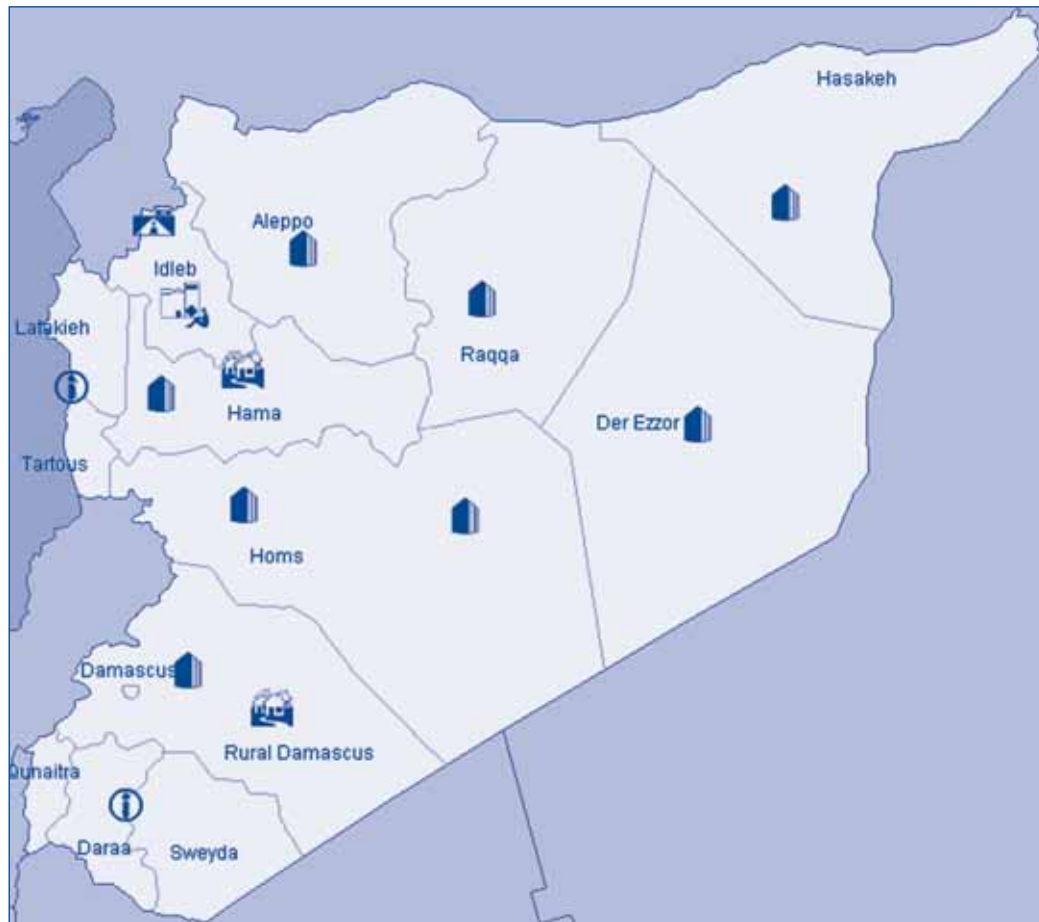


Figure 6: Tourism

together according to the contractual terms of their joint venture agreement. In the case of a corporate joint venture, the two (or more) partners become part of the new legal entity that is formed, thus a separate business entity exists to achieve jointly a specified business goal. In the case of a corporate JV, the joint venture agreement establishes what type of company will be formed, choosing among the types listed above.

The agency contract: For a joint venture contract – an arrangement that is much more flexible but depends on operative choices – there are specific types of choice: a joint venture contract is chosen when it is decided to transfer technology, grant licenses to local businesses, or when an agency, distribution or franchising contract is opted for.

An agency contract must fulfil a series of requirements. First of all, it must deal with a relationship that will last over a period of time and not just for one mandate and be the only one for Syria. In other words, the Syrian agent must be the only one responsible for the territory. The business of the agency contract – and the agency itself – must operate in the Syrian territory.

The contract must truly reflect all the agreements between the parties, leaving nothing to chance or to verbal agreements. In this way, the Syrian agent acts as liaison and mediator between the foreign company and all the Syrian counterparts it deals with for the purposes of the business.

Although the agency contract is subject to registration with the Ministry of the Economy and Foreign Trade, the procedure is much simpler

than for companies. It only involves filling out some forms and making a sort of statement that the business has started, for information purposes. The form should contain the following information:

- Trade name and brand name of the foreign company;
- Address and headquarters;
- Nationality of the foreign company;
- Type of agency;
- Duration of agency;
- Commission and/or compensation of the agent;
- Time limit of the agency;
- Products and services covered by the contract;
- Agent's references (attaching the certificate of residence and registration on the trade register)

Real Estate

Law number 11 of June 2008 changes the real estate sector, which was previously off limits for foreigners.

A person who is not a Syrian citizen can purchase and own real estate for business purposes. Arabs who are not Syrian citizens – and foreigners in general – can buy real estate at the same time as they invest in the country, as long as it does not exceed 200 square meters and is the permanent residence of the investment or the investor. This real estate must also not be resold within five years following the date of purchase. In addition, the Ministry of the Interior must approve the bill of sale. However it must be highlighted that, once real estate is purchased, if the company has to go into liquidation the property can only be transferred to a Syrian citizen. Therefore, before liquidation, it is always necessary to

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hand over the real estate in exchange for payment and get your money back.

On one hand, these legal provisions on real estate are a way to prevent Syria from becoming a sort of “monopoly” in foreign hands – where selling and buying causes prices to go up for Syrians while others earn money. On the other hand, this opening satisfies the needs of people in Syria who decide to invest and need a property where they can conduct a non-real-estate business.

Rental contracts are unregulated but cannot exceed a fifteen-year term, not renewable. Yet there are legal ways to get around this issue. The last provision of this recent law concerns inheritance: when a non-Syrian citizen inherits real estate he/she must transfer it (either with or without payment, at his/her choice) to a Syrian citizen within one year from the start of the legacy. If this is not done, he/she loses the property and it is taken over by the State.

Dispute Resolution

The judicial system in Syria is not particularly fast and therefore it is always best to opt for arbitration rather than the national courts of jurisdiction, whenever possible. Some problems could arise if one of the contracting parties is the Syrian government: disputes between Syrian citizen/bodies and foreign ones should be resolved through arbitration; if the government is involved in the dispute it is not always easy to identify the appropriate judge. On March 25, 2008 Law number 4 on arbitration was approved; it provides for the creation of an Arbitration Centre in the country, overseen by

the Ministry of Justice, where a special list of all the accredited arbitrators will be established.

For international or national contracts, arbitration before the State Council can be requested. If possible, it is better to submit the arbitration to the International Chamber of Commerce in Paris and reference should be made to this institution when drawing up and signing the contract.

In particular, with regards to the Law on Investments (the decrees of 2007), foreign investors are protected against any confiscation, expropriation and limits on the real estate, as long as public interest needs are not involved. If one of the above-mentioned cases does occur, or if a dispute arises between investors and companies, the parties must first attempt a friendly settlement before any sort of legal action. If this does not bring about results in the six months following written notice of the start of negotiations, the parties can then turn to an arbitrator, appeal to a local court or appeal to the Arab Investment Court.

Intellectual Property

Patents and trademarks can be registered with the Patents and Trademarks Office. Syria is a signatory to the International Convention on Intellectual Property, the Paris Convention for the Protection of Industrial Property of 1947 and the Madrid Agreement concerning the suppression of false statements of origin.

In addition, following Syria's request to become a member of the WTO, the country must demonstrate during this “trial period” that it abides by the legal provisions of free trade and

intellectual property rights (TRIPS – Trade-Related aspects of Intellectual Property Rights). For international purposes it is necessary to protect yourself against violations of intellectual and industrial property rights: a country that does not protect these rights will have a hard time attracting foreign investors or entrepreneurs because the possibility of personal rights violations will always be lurking around the corner. Therefore Syria's decision to align itself with international standards is also in line with the governmental program to attract FDI.

The law in force until April 12, 2007 was decree number 47 of 1946. On March 2, 2007 a new law was proclaimed and substituted the old decree. The new law (no.8/2007) regulates “trademarks; geographical indications; industrial designs and models; unfair competition; and the profession of Intellectual Property Agent” but patents that are not regulated under Law number 8 will remain under the legal provisions of the old decree number 47.

Law number 8 is divided into 7 chapters (*trademarks; geographical indications; industrial designs and models; the temporary protection of markets and demonstrations in Syria and abroad; industrial and commercial prizes; unfair competition; and sanctions connected to defending the protection of the abovementioned rights*).

A new aspect in the new law is the change in the registration process, which now becomes a “preventive check”. Previously, industrial property rights were protected by registering with the Directorate of Commercial and Industrial Property Protection (DCIP) of the Ministry of Economy and Trade, after a fairly superficial check.

Thus the registration certificate was valid but it did not guarantee the legality and complete validity of the industrial property right, precisely because the check was not thorough enough. As can be imagined, the protection of industrial property became relative, especially regarding industrial designs or trademarks.

Therefore, with Law number 8 of 2007, the Directorate of Commercial and Industrial Property Protection can, after very scrupulous research, decide whether or not to register the trademark or design, once they have passed the numerous checks. One of the innovative aspects is in the publication of trademarks, designs and models before final registration, because it allows time to every party interested for possible opposition. The Court of First Instance and the Court of Appeal preside over all cases.

Law number 8 also regulated geographical indications, which were not previously regulated in the country: geographical indications define a local product meeting certain functional requirements that depend on the place where it is made and are thus related to its geographical characteristics. There are types of Syrian products that must be protected because of their uniqueness and particular characteristics. Confidential information is also protected, in line with international standards; this is secret information the distribution of which is considered unfair competition and can cause commercial damage.

Law number 8 also protects industrial property from the very start, by regulating the specific measures applicable by customs authorities to block the entrance of products that violate these patent rights.

Trademarks are protected for 10 years and a request for renewal must be made six months before the end of the 10-year term. If this is not done, then the protection expires. Patent rights last 15 years but – in order for the protection to be valid – the patent must be used at least once during the two years after registration.

A two to five-year prison sentence punishes the violation of patent rights if intellectual property rights are violated by repeat offences or if the trademarks are forged (even in the case of a deceptive trademark). However, this punishment method is not excessively harsh, considering that the maximum prison sentence is five years with aggravating circumstances.

Taxation

Unlike many other Islamic countries, the fiscal year in Syria starts on January 1 and finishes on December 31. In November 2000, Italy and Syria signed an agreement for the prevention of double taxation. Under this treaty, companies operating in both countries can decide in which country they wish to be taxed.

In particular, in regards to this company legislation, a maximum tax rate of 28% is applied to profits over 3 million Syrian Pounds: if instead the profits are less than 3 million but over 1 million the tax rate drops to 24%, and to 20% if the profits are between 1 million and 500,000 Pounds. For profits less than 500,000 Syrian Pounds but over 200,000, the tax rate is 15%; the last and lowest tax bracket is 10% for profits less than 200,000 Syrian Pounds.

For investors who operate under the legal provisions of the Law on Investments there is

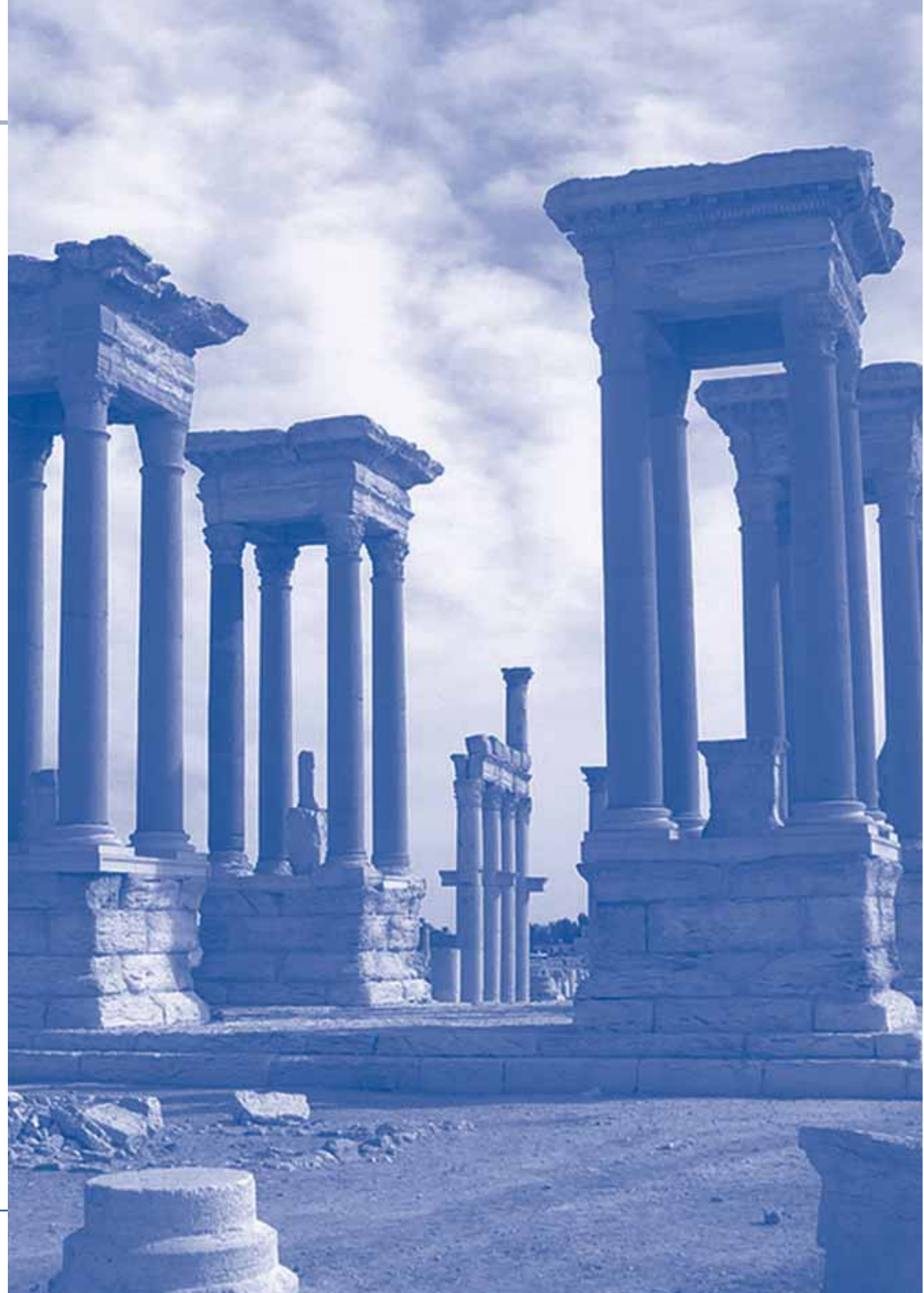
a special rate of 22% on profits – as long as they come under a more favourable legal provision than the classic one. Instead, state companies are taxed 28% on profits. If instead a company is listed on the stock exchange and at least half of its capital is publicly subscribed, the taxation rate is 14% and local taxes are not applicable. Fines for tax evaders are fairly high and can reach even twice the evaded amount, in addition to paying the amount due, and in the most serious cases tax evaders are sent to prison. Thanks to a law of 2003 (number 25) the tax evasion problem seems to have diminished and the State coffers are filled with tax revenue. The situation has not only been improved by the punishment factor, but also more effective management of debt collection has decreased tax evasion.

A particularity of the Syrian taxation system is the lack of value added tax: in fact the VAT will most likely be applied in 2009 at a rate of 10%, not including food items. According to calculations by the International Monetary Fund the VAT should increase state revenues and bring the GDP up 4 percentage points by 2012. In 2007, revenue from taxation equalled 17% of the GDP, thus the adoption of the VAT will contribute to the Treasury's financial needs.

In order to anticipate the VAT system, in 2007 a decree was emanated to protect consumers by ordering that all goods and services must be sold with an invoice. In this case also, evaders will be punished by a prison term ranging from 10 days to a year, and a fine ranging from 10,000 to 200,000 Syrian Pounds (from 123 to 2,460 euro).

Table 2: Tax scales in Syria

Tax scale	Up to December 31, 2006	From January 1 st 2007 (Decree No. 51/06)
Up to 200,000	10%	10%
From 200,000 to 400,000	15%	15%
From 400,000 to 500,000	20%	15%
From 500,000 to 700,000	20%	20%
From 700,000 to 1 million	23%	20%
From 1 to 2 million	26%	24%
From 2 to 3 million	29%	24%
From 3 million and above	35%	28%



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Acronyms

- AKP – Adalet ve Kalkınma Partisi (Justice and Development Party)
- CNPC – China National Petroleum Corporation
- EIB – European Investment Bank
- ENI – Ente Nazionale Idrocarburi
- EU – European Union
- FAO – Food and Agriculture Organization
- FDI – Foreign Direct Investments
- FOB – Free On Board
- FTZ – Free Trade Zone
- FZ– Free Zone
- GDP– Gross Domestic Product
- IAEA– International Atomic Energy Agency
- IMF – International Monetary Fund
- ISO – International Organization for Standardization
- MEDA – Mesures d'accompagnement (Technical and financial program related to the Barcelona Process)
- NCRC – National Council of the Revolutionary Command
- NPF – National Progressive Front
- OECD – Organisation for European Cooperation and Development
- OPEC – Organization of Petroleum Exporting Countries
- PKK – Partiya Karkeran Kurdistan (Kurdish Workers' Party)
- PLO – Palestine Liberation Organisation
- SEZ – Special Economic Zones
- SPC – Syrian Petroleum Company
- SSNP – Syrian Social Nationalist Party
- STE – Syrian Telecommunications Establishment
- SYP – Syrian pound
- TIR – Transports Internationaux Routier

- UNCTAD – United Nations Conference on Trade And Development
- UNDP – United Nations Development Programme
- UNIDO – United Nations Industrial Development Organization
- USA – United States of America
- USCRI – U.S. Committee for Refugees and Immigrants
- WHO – World Health Organization

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