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**FOREIGN DIRECT INVESTMENT IN SYRIA  
AN ANALYSIS OF INVESTMENT LAW NO 10**

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**CHRISTIAN L BARKEI  
GRADUATE SOCIETY**

**THESIS SUBMITTED FOR THE DEGREE OF PHD**

**CENTRE FOR MIDDLE EASTERN AND ISLAMIC STUDIES  
UNIVERSITY OF DURHAM  
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**06 DEC 2005**

## Abstract

This thesis examines the economic situation in Syria during the 1980's and 1990's and assesses the reasoning behind the introduction of Investment Law No. 10. It discusses the validity of the general assumption that Investment Law No. 10 marked the first step in the opening-up of the Syrian economy. It firstly examines the structure of the Syrian state to ascertain whether the regime would have any particular interest in promoting such legislation apart from a general wish to increase the economic well-being of its population, placing the discussion of investment vehicles within a more general economic framework. It then places the economic and political situation in Syria at the time of the introduction of the legislation within its particular political and economic historical context and then examines the legislation and its actual implementation and operation in detail to try to obtain an accurate picture of projects operating under Investment Law No 10. This is of particular relevance as prior to this study no overarching view of the actual implementation of Investment Law No 10 has been attempted. The wider economic picture in Syria is then scrutinized to evaluate the overall economic situation for investment projects operating under Investment Law No. 10. In conclusion, the links between economics and politics in Syria are examined in order to establish the actual motives and reasoning of the regime in introducing this particular piece of legislation.

### Acknowledgements

My grateful thanks are due to all those individuals, in the Syrian Arab Republic and elsewhere, who gave so freely and willingly of their time during the period of research. Due to the nature of the research, it is impossible to single out anyone for individual mention, however rest assured that my sincere thanks and thoughts are with you. In the United Kingdom, my thanks must go to my supervisor Dr Emma Murphy who with patience and good humour criticised, encouraged and guided me through the minefield of PhD research. Additional thanks go to Professor Timothy Niblock and Dr Gareth Stansfield for unquestioning support and friendship. The research was made possible by a grant from the Economic and Social Research Council and I am particularly grateful to Ms Jill Maslem of that institution.

### Declaration

I confirm that no part of the material offered has previously been submitted by me for a degree in this or any other university. If material has been generated through joint work, my independent contribution has been clearly indicated. In all other cases material from the work of others has been acknowledged and quotations and paraphrases suitably indicated.

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## **Introduction**

### **1. The Ontological Position**

#### **1.1 Economic Operational Reality of Investment Law No. 10**

From the start of the operational work on the thesis it was clear that it was necessary to examine the operation of companies under Investment Law No. 10, the actual framework of legislation and the execution of legislation in the creation of companies operating under the framework of Investment Law No. 10, then to examine the opinions of the legislation, experiences of the legislation and the overall patterns and frameworks that emerge from the operation of the legislation

#### **1.2 What Represents Evidence?**

Evidence for answering the research question was provided by interview data, by external and internal economic data, by primary sources inside the Syrian Arab Republic, and secondary academic sources.

#### **1.3 With Which Topic is the Research Concerned?**

The research is concerned with the actual operation of Investment Law No. 10 in Syria and the reasoning behind its introduction.

#### **1.4 Research Questions**

A series of questions were formulated to provide a framework for the development of the thesis.

1. What was the political-economic situation in Syria at the point of introduction of Investment Law No. 10?
2. Why did the regime introduce Investment Law No. 10 at that time and in that form?
3. How has the view of Investment Law No. 10 changed since that time among domestic and international investors?
4. What influence has the political system had on the operation of Investment Law No. 10?
5. How did the research question change with the developing analysis of the topic over the duration of the thesis ?

## **2. Research Methodology**

### **2.1 Data Sources and Methods of Data Generation**

Data sources for this project can be split into four areas; individual interviews inside and outside Syria, official documents relating to legislation and the legislative document itself, private or commercial documentation relating to the operation of companies under Investment Law No. 10 and academic commentaries on Investment Law No. 10 and the economic structure of Syria. The research question could only be answered if a variety of sources of evidence were examined. These included interviews with Company Managers and Directors of companies operating under Investment Law No. 10, the examination of legal and executive documents pertaining to Investment Law No.10, a critical examination of the legislative measures taken by the Syrian government, a series of interviews conducted with those affected by the legislation and with those interested in the validity of the legislation and overall an analysis of the qualitative and quantitative data collected. The particular issues with individual interviews in Syria were that a number of interviewees requested anonymity before being interviewed. That in itself presented difficulties, as this option had to be given to all interviewees if they requested it also. In the case of government employees interviewed in an official capacity, anonymity was not an option, nor was it expected or requested with interviews taking place outside the Syrian Arab Republic. The particular issue interviews raise is that an over-reliance on interview material alone could lead to an imbalance regarding the validity of the research. To counter that point, the researcher made sure that material was clearly identified as originating from an interviewee and that if possible the

content of the interview and the information was cross-referenced with another interviewee. To facilitate this all interviews followed a pattern of questions adhered to in interviews. An exemplar pattern is set out below:

1. Name of company/ organisation
2. Sector of operation in Syria
3. Role of organisation regarding Investment Law No 10
4. Role of company regarding Investment Law No 10
5. If company was investing under Investment Law No 10, why had this been chosen over any other legislative framework (such as Tourism or Agriculture) ?
6. If company was not investing under Investment Law No 10, why not ?
7. What advantages or disadvantages had the company experienced with regard to Investment Law No 10 ?
8. What other experiences had the company found particularly difficult or easy regarding the investment situation in Syria ?
9. What had motivated the company to invest in Syria in the first place rather than other similar countries such as Egypt or Jordan ?
10. What in the opinion of the interviewee had motivated the Syrian government to pass such legislation ?
11. Would the company have invested in Syria without the legislation being in place ?

The above questions were not necessarily adhered to narrowly in the above order. In addition, if the interviewee was a journalist concerned with the legislation or a representative of a government agency or academic, the

questions were by necessity amended to reflect their particular circumstances and situation. The advantage of choosing a semi-structured or flexible approach rather than a fully structured or fully unstructured approach to the conduct of the interviews was that it allowed a degree of flexibility during the conduct of the interviews (in some cases triggering a repeat interview if all areas were not covered in the initial interview) and it also allowed a deviation from the original pattern if it was deemed appropriate. In all cases however the interviewee was questioned at length regarding Investment Law No 10, and in particular its operation. The particular concern the researcher had was to gather a representative sample of interviews from a wide range as possible from all sectors of the Syrian economy. The interview is probably the most commonly used tool in social research, but the interviewer was concerned to avoid a one-sided approach which could show bias.<sup>1</sup> As the interviews were all conducted by one researcher, the additional issue of consistent bias had to be addressed.<sup>2</sup> In this respect, awareness of the possibility of bias lead the researcher to develop deliberately open questions in order to avoid a 'leading' question – a particular problem in interviews.<sup>3</sup> One example of this approach was the deliberate inclusion of the advantages/disadvantages question regarding Investment Law No 10. If the interviewee was of the opinion that Investment Law No 10 had advantages (if they were the Minister tasked with its operation eg) this question allowed a detailed discussion of the merits of Investment Law No 10 to develop. If it was a businessman who had decided that Investment Law No 10 had too many disadvantages (the Middle East

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<sup>1</sup> Researching Society and Culture, ed. Seale C, London 1998, p 203

<sup>2</sup> Doing Your Research Project, Bell J, OUP, Maidenhead 1999, p 139

Area Manager of Siemens eg) it allowed an equally detailed discussion of the disadvantages to develop. In addition to the actual information content received during the interviews themselves, the researcher was eager to discern in which areas of questioning interviewees were willing to engage in detailed discussion and which areas they possibly wished to avoid. According to Pritchard, the interview as a social event in its own right is worthy of observation<sup>4</sup> and the semi-formal structure of the interviews allowed the researcher to adopt the interview according to the reactions of the interviewee to particular aspects of the questioning process. As this approach is closer to the concept of the 'depth' interview<sup>5</sup>, this allowed the researcher a greater degree of flexibility during the interview itself. The researcher could intensify his questioning on a particular area of interest to the interviewee, or could, according to the wishes of the interviewee, discuss different aspects of Investment Law No 10. The advantages of this approach are obvious;

An interview is a complicated, shifting social process occurring between two individual human beings, which can never be exactly replicated. There cannot be definite rules about the use of open-ended questions, leading and loaded questions, disagreements with respondents and so on [...] What is crucial is that researchers choose their actions with a self-conscious awareness of why they are making them.<sup>6</sup>

The way in which the interviewee provided the information (or not) could also provide information. A reluctance on the part of an interviewee to discuss a particularly sensitive area of Investment Law No 10 could manifest itself in tone of voice, facial expression or hesitation that written responses to a questionnaire would simply conceal. A response in a semi-structured

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<sup>3</sup> Doing Your Research Project, Bell J, OUP, Maidenhead 1999, p 140

<sup>4</sup> Researching Society and Culture, ed. Seale C, London 1998, p 204

interview (unlike a questionnaire response) can be further developed and clarified whilst the researcher had to avoid alienating or antagonizing the interviewee by insisting on continuing a line of questioning the interviewee was reluctant to continue.

Selection of the 35 interviewees was made on the basis of the criteria that all sides relevant to the issue needed to be interviewed. This meant that the SBI themselves, Syrian private investors, foreign investors both in Syria and abroad, academic observers in Syria, political representatives, and interested foreign observers all needed to be contacted in order to ascertain whether they wished to be interviewed. The format took the form of an introductory letter stating the aim of the research, and setting out a proposed interview time and date. Interviews were generally conducted at the interviewee's workplace, although in some cases the interviewee suggested an alternative venue.

Access to interviewees was granted in the vast majority of cases without difficulty. A number of Syrian officials were eager to discuss the operation of the Investment Law in detail and in depth. A number of private investors in Syria set parameters of confidentiality. To ensure the sample of interviews was representative the researcher secured interviews with all of the parties involved in the operation of the Investment Law (in particular the ministry and agencies charged with the operation of the Law) as well as with a cross sample of foreign and Syrian investors in Syria. This cross sample was

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<sup>5</sup> Researching Society and Culture, ed. Seale C, London 1998, p 205

<sup>6</sup> Researching Society and Culture, ed. Seale C, London 1998, p 206

constricted by virtue of the fact that only a small group of foreign investors were operational in Syria under Investment Law No 10. To gain access to the larger group of Syrian investors operating under Investment Law No 10, the researcher concentrated on the areas of tourism, pharmaceutical products, and apparel.

The languages the interviews were conducted in were English, French and German. In one case an interview was conducted in Arabic with the assistance of a translator from the British Embassy in Damascus.

## **2.2 What Information Can These Sources Provide?**

These sources can provide personal and subjective assessments of the impact of Investment Law No. 10, the formal and official frameworks for legislation as a basis for interpretation i.e. how the law *should* work and what its aims *should* be, anecdotal evidence and specific examples of operational realities of Investment Law No. 10, and an overview and discussion of the Syrian economy and its political interface. They can also provide a wider interpretation of the economic situation in Syria according to the individuals most concerned with the operation of the law.

## **2.3 Type of Research Methodology**

As the instruments used to assess the validity and operation of Investment Law No 10 are essentially that of economic risk assessment, the thesis is essentially that of a standard economic assessment rather than a political economy assessment.

### 3. General Remarks

After decades of indifference from 1991 onwards Syria began to appear on the list of possible countries for Western investors. The Syrian government under President Hafez al-Assad had passed Investment Law No. 10, apparently allowing a certain degree of economic freedom. Private investors, both Syrian and foreign, were allowed to begin to invest in a number of previously state-controlled economic sectors. The official aim of the Syrian Arab Republic in introducing Investment Law No. 10 was to encourage investment in “economic and social development projects”<sup>7</sup>. Many foreign and domestic observers began to view Syria as a worthwhile, or at least interesting, area for consideration and saw the apparent opening-up of the economy as a first step towards further reforms within the Syrian economy. Indeed, Syria, according to a number of foreign sources as late as 1996 “has been going through a period of cautious, but continuous economic reform”<sup>8</sup>. Syria was seen as being able to “further modernise its economy [...], liberalise foreign exchange regulations and fulfil its repayment obligations towards its Western creditors”<sup>9</sup>, following the current path of reform. The view of Western analysts of the *infitah* or ‘opening process’ that had begun in 1986 and culminated in 1991 with Investment Law No. 10, was that this was the beginning of a gradual and incremental reform process which would ultimately lead to further economic liberalisation and

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<sup>7</sup>SAR, *Investment Law No. 10*, article 3

<sup>8</sup> Bankgesellschaft Berlin, *Country Report Syria*, March 1996, p. 19

<sup>9</sup> Bankgesellschaft Berlin, *Country Report Syria*, March 1996, p. 19

commercialisation of the Syrian economy, culminating in the establishment of a fundamentally open, free-market economy. Commentators outside Syria were overwhelmingly positive about the direction events were taking. Opinion in the media was initially very optimistic: “Syrian business makes a comeback”<sup>10</sup>, as “applications for foreign investment flow into the Prime Minister’s office”<sup>11</sup> - typical comments from financial journalists. In academia, reactions were more measured but authorities such as Hopfinger and Boekler asserted that “Syria is de facto exchanging the model of a centrally planned economy for that of a free market.”<sup>12</sup> With Investment Law No. 10, the Syrian government had apparently given the signal for the country to follow a new path of pragmatic, cautious development, moving towards liberalisation throughout the 1990’s. Heydemann in particular argued that Syria’s policy of economic reform had been an “implicit stabilisation package”<sup>13</sup>, allowing Hafez al-Assad to take political considerations into account when deliberating on a course of action for Syria into the 1990’s and beyond, without the necessity of recourse to the International Monetary Fund or the World Bank. In 1988 Lawson had already identified three stages of development in Syria, firstly the relaxation of state control between 1969-1981; secondly the reassertion of central direction between 1981-1985, and thirdly controlled liberalisation between 1985-1987.<sup>14</sup> Although Lawson’s

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<sup>10</sup> MEED, 20 May 1994

<sup>11</sup> Marlowe, L, *Freer Economy Pays Syria Bid Dividends: The flow of investment that has followed reform*, *Financial Times* 5 November 1992

<sup>12</sup> Hopfinger H and Bokler M, *Step by Step to an Open Economic System: Syria sets a course for Liberalization*, in *British Journal of Middle Eastern Studies* (1996) 23 (2) p. 183

<sup>13</sup> Heydemann, S, *The Political Logic of Economic Rationality: Selective Stabilisation in Syria* in Barkey, H (ed), *The Politics of Economic Reform in the Middle East*, New York, St Martins Press 1992, p. 17

<sup>14</sup> Lawson, F, *Political-Economic Trends in Ba’athist Syria: a re-interpretation*, in *Orient*, Vol 29, No 4, December 1988, pp. 579

article predated Investment Law No. 10, most observers in 1991 agreed that the new legislation seemed to fit his assessment of a gradualist approach towards liberalisation. Coverage of Syria by international economic observers seemed initially optimistic<sup>15</sup> and prompted a wave of interest amongst academics.<sup>16</sup> Foreign investment was supposed to solve Syria's acute foreign-exchange crisis of the early 1990's by encouraging the influx of foreign capital to the domestic economy. The official intention of Syria in introducing Investment Law No. 10 was to attempt to tap into the large funds available to the expatriate Syrian community abroad and encourage these funds to be invested in Syria.<sup>17</sup> However, in plain language, this gradualist approach has simply not materialised. A decade after the introduction of Investment Law No 10, no other major changes in the legal, economic or financial structure of the Syrian economy have occurred. The only further liberalisation measures that the government has since undertaken have been the gradual economic rapprochement with the European Union, the implementation of a number of minor amendments to Investment Law No. 10, and the continual tweaking of the official exchange rates. Although "Investment Law No. 10 of 1991 did succeed in attracting increased flows of private Syrian funds from abroad in the first half of the 1990's"<sup>18</sup>, it nevertheless seems to have fallen short of the high expectations with which its arrival was greeted in 1991. Moreover, it

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<sup>15</sup> MEED 20 May 1994

<sup>16</sup> Pölling, S., *Investment Law No 10: Which Future for the Private Sector ?* in Kienle, E., *Contemporary Syria*, London, British Academic Press, 1994. See also Hinnebush, R., *Syria: The politics of economic liberalization*, in *Third World Quarterly*, Vol 18, No 2 (1997), pp 249-265, and Hopfinger, H. and Böckler, M., *Step by Step to an Open Economic System: Syria sets a course for Liberalization*, in *British Journal of Middle Eastern Studies* (1996) 23 (2) pp 183-202

<sup>17</sup> Interview 8, Damascus, 13<sup>th</sup> March 1998

<sup>18</sup> David Butter, *Syria turns over a new leaf*, MEED 5 September 1997, p 4

“has become painfully apparent that the economic system is not geared up to sustain any serious private investment programme.”<sup>19</sup> Generally, attracting foreign or expatriate private investment is accepted to be only one of a series of inter-related measures in a policy of economic liberalisation. To sustain a sufficient and adequate level of private investment, further steps beyond an Investment Law must be taken. An Investment Law by itself is not sufficient to attract long-term and sustained investment. Nevertheless, the Syrian government seemed to assume that Investment Law No. 10 was indeed enough to attract investors. Syria was apparently following a course of extreme caution (perhaps understandably) given the painful example of the Russian Federation from 1991. The expectation and impression of foreign commentators was that Investment Law No. 10 marked the first step in a carefully-thought-out plan to liberalise the economy and to bring Syria into the mainstream of developing liberalising economies. This however does not seem to have occurred.

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<sup>19</sup> David Butter, *Syria turns over a new leaf*, MEED 5 September 1997, p 4

#### 4. Unique Features

A number of unique features distinguish the Syrian Arab Republic from other economies in transition. These features should be considered when trying to formulate an opinion of the achievements of Syria during this period. The usual sources of economic data and knowledge are economic figures covering the various aspects of an economy. When examining the Syrian case these figures have to be treated with caution at best, and *in extremis* disregarded. The Syrian economy is split along a basic faultline - the official economy and the black (or unofficial) one. Reliable sources within Syria put the size of the black economy at least 30% of the official one. Unemployment figures, inflation figures, GDP, growth estimates and other figures from official Syrian sources are unreliable and often bear no relation to economic reality. Figures from international organizations such as the World Bank are frequently no more reliable, as they are often based on the statistics produced and supplied by the Syrian authorities themselves. Economic forecasting, at best an inexact science, is thus reduced to the level of guesswork. A number of scholars, both Syrian and foreign, have drawn attention to the fact that Syrian statistical data, as published by Syria's Central Bureau of Statistics (CBS), and that of various Ministries and Government Agencies, are often inaccurate, sometimes contradictory, incomplete, or retrospectively corrected or amended. The comparative lack of data of course reflects reality. For example, there can be no official or real data on smuggling between Syria and Lebanon, and if smuggling is extensive, then the official figures for foreign trade will not reflect the true picture. Lack of data in such a particular case will by necessity then reflect a particular problem rather than constitute one

and from the lack of data certain inferences can then be drawn. Data on social developments within Syria are particularly patchy and weak. Agricultural census data and official statistics on employment do not represent an accurate picture of the rural and urban situation. There is no accurate data on the distribution of wealth, income or the taxation situation. The issue of the lack of accurate data should not however lead to the assumption that no relevant statements concerning Syria's development or situation can be attempted.

The assumption that if more figures and data were available, a deeper and more accurate understanding of the Syrian economy could be achieved represents a too simplistic belief in statistical figures. Statistical data can help us interpret social, political and economic realities, but they cannot fully represent or explain societal processes. It has to be emphasized that all available data has to be handled with care. This includes data from international sources including World Bank and IMF figures, as well as data from private commercial sources. An additional issue worth bearing in mind when assessing the value of official Syrian data, in particular when it reflects apparent achievements of the regime, is the simple fact that economic research in Syria is directly linked to politics. The ruling regime under first President Hafez al-Assad and his successor Bashar al-Assad is all-pervasive and exerts pressure in all areas of life, including the economic one. The actual constraints on private investment within Syria are extremely complex and difficult to determine. The limits on the bureaucracy's ability to determine the outcome of foreign investment plans or proposals are not clearly defined at all and are often subjectively interpreted in favour of the status quo. Independent control

of the bureaucracy by an independent authority is impossible and impractical, whilst internal controls are non-existent. Given the fact that the state apparatus is guarding its status quo, the question of private investment must be treated with caution. Investment by the private sector is not omnipresent, in fact it is confined to those areas where the state system is not present. State-controlled firms do not compete on an equal basis with private firms; rather they continue to inhabit a monopolistic position within the state economic structure. In addition, in areas where private firms do operate, the majority are owned by individuals with close political/economic interests in the state system, and thus with a disincentive to support wholesale reforms<sup>20</sup>. There are some notable exceptions, in particular the long-established Sunni trading families (although most of these have also developed a useful *modus vivendi* with the regime). Privatization of state firms or the creation of shareholder companies (as practiced in the Russian Federation since 1991) are still out of the question. The government intends to continue to control the “commanding heights of the economy”<sup>21</sup>; and to allow the private sector to operate within the strict frameworks of the state’s choosing. The reduction of the involvement of the state in economic affairs can be ruled out for the foreseeable future. The policy of the government is to continue to control the strategic areas of the economy, whilst allowing the private sector a limited amount of room to manoeuvre within clearly defined parameters. In this sense, a problematical and instable economic status quo is achieved and the amount of flexible forward planning can be considered negligible. The question of

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<sup>20</sup> One example is Riyadh Seif, owner of an Adidas manufacturing company under licence, yet at the same time a member of the People’s Assembly.

economic priorities is a delicate one, and obviously one that carries with it a great deal of political interpretation, but it is fair to say that “the economy is about fourth on the list of the governments’ priorities at the moment”.<sup>22</sup> Part of the problem is the almost obsessive control the regime exerts over the economic sphere, let alone the political area. Criticism of government economic policy is allowed within clearly understood limits but criticism of the regime’s (as opposed to government’s) economic direction is automatically seen as putative political criticism. This can be attributed to a mentality carried over from the socialist ideology of the Ba’ath Party, in which economic policy is not seen as a way of increasing the prosperity of the state and its population, but is seen as a tool to further the political interests of the regime. If the regime is serious about reform, then legislation since 1986 should have shown a concerted and determined drive towards a comprehensive package aimed at opening up the economy. But if the economy is a low priority, then the regime would naturally prefer incremental change and a slow controlled transition to a market economy.

Paradoxically, the authoritarian nature and the stability of the regime, the absence of a critical political opposition and a stable non-political structure can be positive attractions for investors. However to attract substantial investment, more drastic economic reforms are needed, but economic reforms that drive Syria towards an open economic structure will increase the pressure on the disadvantaged and poor in Syrian society. This in

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<sup>21</sup> Hafez al-Assad, Speech to the Popular Congress of the Ba’ath Party, 1996

<sup>22</sup> Interview 1, Damascus 10<sup>th</sup> May 1998

turn will widen the wealth gap already evident in Syria<sup>23</sup> and could lead to the re-emergence of a viable political opposition. Even if Syrians are disenchanted with the current state of affairs and their political leadership, it could be said that it is “better the devil you know”<sup>24</sup> if they look to examples of recent internecine conflict (the former Yugoslavia or, much closer to home, the Lebanon civil war) arising out of allowing minority groups to express ideologies deviating from the norm. In addition, the civil war in Algeria and the continuing conflict in other Arab nations send clear signals to the disenchanted of Syria in that despite struggling with the regime, the alternative of Islamic opposition parties or parties based along overtly sectarian lines are not attractive scenarios either. The regime is thus faced with the welcome prospect of having no concerted opposition group to contend with. The only real organized resistance within Syria came from the Muslim Brotherhood, which was crushed effectively in Hama in 1982. The regime is reasonably secure for the foreseeable future in terms of control and containment of unrest. The current economic situation for Syrians remains acute and difficult, in particular with the added uncertainty of a relatively young and inexperienced President, with the prospects for future prosperity and advancement uncertain.

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<sup>23</sup> Interview 3, Damascus 17<sup>th</sup> February 1998: “The society is corrupt, Damascus is ridden with suspicion and people like us go hungry, whilst the government spends the people’s oil wealth.”

<sup>24</sup> Interview 2, Damascus 30<sup>th</sup> January 1998

## 5. The Aim of the Research

The aim of this thesis is to examine the economic situation in Syria during the 1980's and 1990's and to assess the reasoning behind the introduction of Investment Law No. 10.

The aim of the research into Investment Law No. 10 is as follows:

to ascertain whether Investment Law No. 10 was essentially an attempt to assuage and pacify elements of the Syrian military and economic structure close to the President (in particular those tribal networks of Alawi origin and the wider family structures of the leading elite; in particular the second generation) and to examine critically the still commonly held international assumption that Investment Law No. 10 was the first step in the liberalisation of the Syrian economy; to thus put forward the argument that the enactment of Investment Law No. 10 was not a long-term economic strategy to attract external investment but in contrast a short-term expedient initiated by specific interest groups within the regime. These *subgroups* will be shown to have been motivated by the need to legitimise their foreign business interests.

This thesis will postulate that the limited economic liberalisation effects of Investment Law No.10 are merely a side benefit to regime supporters within the Syrian economy who were able to extend their business interests and were therefore able and willing to provide increased support for the regime.

Finally, the actual motives of the regime in Syria had to be examined and established in order to understand why this particular legislation was

introduced at this particular time. The hypothesis of this thesis provides a diametrically opposed argument to the general western view of Investment Law No. 10 as an initial step in a programme of economic liberalisation in the Syrian Arab Republic.

This thesis is therefore divided into the following sections: Chapter One deals with the theoretical background to the economic and political composition of the current Syrian state in order to place Investment Law No. 10 within an economic and political framework. Chapter Two offers a concise overview of internal political and economic development in Syria from 1953 to 1991 in order to provide a historical background to the political and economic situation that existed at the point of Investment Law No. 10 being introduced. Chapter Three follows on from this in addressing the implementation of Investment Law No. 10 itself, including its actual introduction, the workings of the various bodies set up as a result of the legislation, and the experiences of various parties operating within the boundaries of the legislation. Chapter Four deals with the broader economic framework and outlook for the Syrian economy, taking into consideration both internal and external factors. In conclusion, Chapter 5 examines the links between politics and the economy regarding Investment Law No 10 and offers an assessment of the efficiency and effectiveness of the legislation, as well as a considered insight into the motives behind its introduction.

This study relies both on scholarly literature on Syria, and as much as possible on primary source material from the country. These include newspapers and pamphlets, commentaries and legislative documents, published and unpublished statistical material and a series of interviews conducted with politicians, officials, unionists, workers, investors, managers and a number of other individuals, conducted over the period October 1995 to June 1998. As a rule, the statistics and the data supplied in this project analysis should be regarded as representing approximate values and as representing tendencies, rather than absolute values. Where possible official Syrian figures have been cross-checked with international data or data from other sources, however this (as shown above) is not a guarantee of absolute accuracy. The system of transliteration in this study follows the format used by the International Journal of Middle East Studies. Well-known personal names are presented as they generally appear in English usage.

## **Chapter One: The Syrian State**

### **1.1. Introduction**

The composition of the Syrian state is of utmost importance in trying to ascertain the reasons for the introduction of Investment Law No 10. To be able to make an informed judgement on the actual motivation of the regime in introducing the legislation, we first need to examine the relationship of the various power structures within the Syrian state to each other. This first chapter will therefore focus on a structural analysis of the economic, social and political system of Syria. This approach will reflect the notion that these aspects are mutually interdependent and in principle are equally important for an understanding of the socio-economic and political dynamics of Syria.

## 1.2. Overview

Syrian political and economic structures have undergone tremendous changes since 1963, the year the Ba'ath Party came to power, and in particular since the assumption of power by the Correctionist Movement under Hafez al-Assad in 1970. The reality of Syria in the 1990's can hardly be grasped utilising the categories and concepts prevalent for the pre-Ba'athist or even early Ba'athist period. Syria is no longer the basically rural country, ruled by a small elite of landowners that it was after independence. There is no longer a 'struggle for Syria' between political opponents as there was in the turbulent 1950's<sup>1</sup>, nor does Syria exhibit the characteristics of the unstable political system it had during the first years of the Ba'ath Party rule (until 1970). It has over the years evolved into a system of considerable stability and complexity. This chapter will attempt to address and define the current interpretations of these complex political and economic structures within contemporary Syria. The study of Syria and its political changes offers an example of a political entity in which external political influences have certainly had some effect upon domestic policy considerations. Although policy and political changes within Syria have to be viewed as primarily resulting from the interaction of internal forces within the state, rather than arising directly from international actors or events, the changing international environment, in particular the Arab-Israeli Peace Process and the collapse of the Soviet Union, has no doubt had a major influence on the economic and political environment of Syria. The influence of these external factors however should not be over-estimated, and oversimplifications which directly link Syria's economic changes since 1991 to a changing international and regional environment without the

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<sup>1</sup> V.Perthes, Political Economy of Syria Under Assad, London 1997, p 1

involvement of other factors should be avoided.<sup>2</sup> That is not to imply that Syria is immune to the political and economic influence of the outside world, but it is clear that changes during the decade under discussion have been driven by domestic considerations as well as international ones. International economic considerations however have formed a part only of the motivating factors behind the introduction of new legislation. However there has been less direct foreign influence over the reform process itself than in comparable countries. The relative independence of Syria's supposed reform program from external forces has even lead Lawson in turn to doubt the validity of the explanations for Egypt's *infitah* simply in terms of external pressure.<sup>3</sup> This perceived independence is certainly a simplification of the Syrian case, just as the purely external pressure argument might be an over-generalization of the Egyptian case. To stay with the Egyptian case for a moment, the pressure international actors, in particular the World Bank and IMF have exerted upon Egyptian policy-makers to adjust their country's economic policy in line with World Bank and IMF policy is well documented.<sup>4</sup> The absence of similar pressure on Syrian policy-makers points to the singularity of the Syrian example, given the fact that otherwise Syria shares many socio-economic and political characteristics with other similar states in the region. A high level of political independence in the decision-making process also applies to other policy fields apart from the purely economic one. The absence of any substantive foreign interference has allowed the Syrian regime to carry out small incremental changes to the economic structure and, whilst

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<sup>2</sup> Examples are; F. Chipaux, *Attendant des progrès dans les négociations avec Israël: La Syrie a amorcé une timide libéralisation*, Le Monde, 3 March 1993, W.E. Schmidt, *In a Region full of war, Syrians think of peace*, International Herald Tribune, 28 June 1993

<sup>3</sup> F.Lawson, *External versus Internal Pressures for Liberalization in Syria and Iraq*, Journal of Arab Affairs, Vol 11 (1992), no 1, p 31

<sup>4</sup> see for example R. Springborg, Mubarak's Egypt: Fragmentation of the Political Order, Boulder, Westview Press, 1989

implementing a policy of economic adjustments and changes, Syria's rulers have been able to maintain a tight grip on the levers of political power. Syria's high level of independence has led - to the surprise of many foreign observers - to the regime surviving dramatic changes in the international environment, including the loss of her foremost former foreign ally, the Soviet Union, periods of acute regional isolation, and severe economic crisis. It can therefore be argued that the motivation for introducing Investment Law No 10 arose primarily from domestic considerations and only secondary from international events. Of course the economic and social condition of the Syrian state was subject to external influences, in particular the state of the oil economies and the issue of regional and international stability.

### 1.3. State Structure

The Syrian state is often quoted as an almost classic example of an autocratic/populist state and this concept is well-established in the literature. Van Dam, Ma'oz, Kienle, Perthes, Hinnebush and Pölling<sup>5</sup>, amongst others, have all contributed to the debate, but the overall and consensual view of the political framework of Syria is that it shows all the hallmarks of being a authoritarian/populist state, although the basis of authority is disputed.<sup>6</sup> Following Hinnebush's classic definition, there are two main characteristics which define and distinguish an authoritarian/populist state:

- a) the establishment of an authoritarian/populist regime and, in order to consolidate the new political order, a populist revolution from above incorporating the development of traditionalist Leninist political structures incorporating and co-opting the rural population, and
- b) the consolidation of a semi-patrimonial regime via the emergence of a dominant leader figure, using a mixture of kin and client networks to control and exert power.<sup>7</sup>

In effect this produces a presidential-style quasi-monarchy controlling the military apparatus, the political system and the bureaucratic structure of the state.

Authoritarian/populist government implies following a populist line in opposing

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<sup>5</sup> see for example R.A. Hinnebush, *Authoritarian Power and State Formation in Ba'athist Syria*, Westview Press, Oxford, 1990, E.Kienle (ed), *Contemporary Syria*, British Academic Press, London, 1994, M.Ma'oz & A.Yaniv (eds), *Syria under Asad: Domestic Constraints and Regional Risks*, Croon Helm, London, 1986, V.Perthes, *The Political Economy of Syria under Asad*, I.B.Tauris, London, 1995

<sup>6</sup> Olson and Pipes see the basis of power in Syria rooted in the traditional clan-based system of the Alawi, whilst Hinnebush has argued that the regime has been able to develop other, broader forms of support. R.W.Olson, *The Ba'ath and Syria: 1947-1982*, Kingston Press, New Jersey, 1982, D.Pipes, *The Alawi Capture of Power in Syria*, *Middle East Studies*, Vol 25, No 4, 1989, R.A. Hinnebush, op.Cit.

previously dominant societal groups and developing a structure to organise and channel the support of previously disadvantaged social groups. This in turn results in the creation of a Leninist-type single-party political system and the emergence of a mixed militaristic/political state formed and influenced by its populist roots. The regime in question then has to further develop its own political organisation to co-opt the existing institutions of the state and then to establish a degree of mass support within the existing structures and social classes. In maturity the system will enter a more conservative, post-populist phase where the ruling elite will attempt to seek a measure of accommodation with the previous social elite and might adopt limited liberalisation measures to re-open political access for the previously dominant classes.<sup>8</sup> The combination of a radical coup by the Ba'athist Party in 1963, in the aforementioned sense a revolution from above, and a degree of popular revolt from below in Syria can be seen as a typical road towards the establishment of such a regime. However, to survive, the regime must go beyond the simple attainment of power and must establish further durable avenues of legitimation. Legitimation in turn is however essentially the consent (either explicit or implied) of the population or sectors of it. This consent, as Hinnebush has argued, can be achieved in various ways: via personal or primordial loyalties to the leadership; via the ideology of the political party; or via the imposition of bureaucratic legality.<sup>9</sup> The second approach, utilising ideology as a means of gaining legitimacy is one which necessitates the establishment of avenues of popular participation in order for the population to take part in the political process in accordance with the populist slogans of the Party. Taking the step

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<sup>7</sup> R.A. Hinnebush, Authoritarian Power and State Formation in Ba'athist Syria, Westview Press, Oxford, 1990, p ix

<sup>8</sup> *ibid*, p 14

<sup>9</sup> *ibid*, p 9

towards bureaucratic control of the state, single political party dominance in both practice and ideology is thus the key to consolidation of power, as the Party is the only vehicle suitable for maintaining ideological cohesion within the elite. And it is also the only instrument capable of achieving mass mobilisation and control of the state based on ideology.<sup>10</sup> If Syria can be cast as an authoritarian/populist state, then the growth and development of the Ba'ath Party in Syria will by necessity be mirrored by the growth and development of instruments of mass mobilisation and participation. This theory has been clearly supported in practice by the political development of the peasantry and rural population in the Syrian countryside. Olson has described the 'Ba'ath tendency to rely most heavily on the development of a rural support base'<sup>11</sup> and further has correctly described the traditional policy of the Ba'ath Party as being 'aimed at bolstering the small and middle peasants in order to increase their independence [...] with the aim of forging them into a firm base of regime support.'<sup>12</sup> Historically, Ba'ath Party and Peasant Union branches were introduced unequally across Syria, and Olson persuasively argues that this introduction came first to areas where the second land reform of 1964 (after 1958) had been successful in order to make sure that the newly enfranchised peasantry would accept these new structures of political mobilisation and political control without dissent.<sup>13</sup> Ba'ath Party branches and cells formed the national structure of the Party, reaching from local village or neighbourhood level up through regional associations to provincial administrations and then to the national command of the Ba'ath Party in Damascus. The Peasants Union (the General Federation of Peasants)<sup>14</sup> is formally an independent body (but in

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<sup>10</sup> *ibid*, p 12

<sup>11</sup> R.W. Olson, *The Ba'ath and Syria 1947-1982*, Kingston Press, New Jersey 1982, p 51-52

<sup>12</sup> *ibid*, p 53

<sup>13</sup> *ibid*, p 58

<sup>14</sup> *ibid*, p 58

reality is controlled by the state, concerning itself with the facilitation of credit arrangements, seeds, the supply of fertiliser etc.) and serves as a politicising agent for those of the rural population who are not Ba'ath Party members. Hinnebush raises the interesting point in his discussion of the Peasants Union that although the strict ideological framework does limit the political relevance and topicality of any debate held under its auspices, these local rural groups do nevertheless constitute an avenue for members to air their views, and that these meetings and councils constitute a form of political debate that has direct influence on the decisions of the leadership. These decisions can then be scrutinised at local command level and if needed can be criticised and amended again.<sup>15</sup> Olson, in contrast, sees these institutions rather as a form of mass participation welcomed as long as the local input remains on a factual rather than ideological level.<sup>16</sup> This degree of difference in opinion does not however distract from the fact that a semi-populist framework in the Ba'ath Party and Peasant Union structures does exist and is utilised by the regime to maintain and supply a high measure of support. In terms of the rural political structure then, Syria certainly fulfils the requirements of an authoritarian state structure with a degree of populism attached.

This political structure is mirrored to a certain degree in the political structure and command functions in the urban areas of Syria as well. Personal or tribal loyalties also play a role in the establishment of consent, as does the gradual imposition of bureaucratic legality.<sup>17</sup> However, the party machine remains in theory the most important avenue towards the retention and expansion of power. Single party control

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<sup>15</sup> R.A. Hinnebush, *op. Cit.*, p 205

<sup>16</sup> R.W. Olson, *op. Cit.*, p 58

in both ideology and practical execution (or in the case of Syria, the control of the National Popular Front - a grouping of proxy parties under the control of the Ba'ath) has thus been the real key to the retention of power by the Ba'ath in Syria. On the one hand the Ba'ath was the only available method of maintaining a 'revolutionary cohesion' within the elite, and on the other hand the Ba'ath was also the only political instrument capable of achieving mass mobilisation and maintaining ideological control over the Syrian population.<sup>18</sup> Tribal and personal loyalties by themselves would have simply not been powerful enough to maintain the level of control necessary, although Pipes has argued that the structure of the Syrian state is simply a means for the sectarian domination of Syria by the Alawi - Assad's tribal group - disregarding the above formalised avenues of control completely and stressing the use of traditional personal/tribal loyalties within and outside the formal Party structure as a means of popular (tribal) influence.<sup>19</sup> This argumentation should not be seen as monocausal however. It should be noted that elements of ideology, tribal and personal loyalties and bureaucratic legitimacy all play a part in legitimising the Syrian regime.

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<sup>17</sup> R.A. Hinnebush, op. Cit., p 9

<sup>18</sup> R.A. Hinnebush, op. Cit., p 12

<sup>19</sup> D.Pipes, *The Alawi Capture of Power in Syria*, MES, vol 25, no 4 (1989)

#### 1.4. Class Structure and Power

It is now generally accepted in the relevant literature that the concept of social classes is a necessary one to study the social structures of the Arab world.<sup>20</sup> Models that deny or relegate the existence of classes and the importance of class conflict as an element in historical development would be unsuitable in understanding the social reality and internal dynamics of Syria, although terms used to describe class conflicts in Europe may well have to be re-defined in a Syrian context.<sup>21</sup> As essentially economically related variables, classes are defined by labour and property relations. However, in Arab societies in particular, non-class variables also play a role in placing an individual in a particular area of influence within society. These can include the individual's family status, occupation, regional, tribal or confessional affiliations, which all play a part in determining to what extent an individual will be able to have access to political power, and to what extent the individual will be able to exercise influence.<sup>22</sup> These additional variables giving possible access to influence or power are not class-based variables with formal horizontal structures making up the traditional layers of a class-based society. They are instead vertical formations or groupings which can be present in all classes of society and cut across class barriers. Bill and Springborg have argued that these groups,

“dominate the vertical dimension of stratification as family, friendship, ethnic, religious, professional, recreational and political groups and cliques exist in a state of continual interaction.”<sup>23</sup>

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<sup>20</sup> S.K.Farsoun & L.Hajjar, *The Contemporary Sociology of the Middle East*, in H.Sharabi (ed), *Theory, Politics and the Arab World - Critical Responses*, London, Routledge, 1990

<sup>21</sup> The term 'proletariat' e.g., used without further definition and applied to the Syrian working class could be inaccurate, as its European meaning would imply that the members of this class do not own any property at all. In the Syrian case this could very well be incorrect.

<sup>22</sup> V. Perthes, *The Political Economy of Syria under Assad*, London, IB Tauris, p 10

These various vertical groups in turn can be distinguished from one another by their categories, that of formal and informal groups.<sup>24</sup> Bill and Springborg have clearly set out the differences between these groupings<sup>25</sup> which in the case of formal groups can range from trade unions or political parties to military units. Informal groups by contrast can include kith and kinship groups as well as cliques or factions within formal groups themselves.<sup>26</sup> They have argued convincingly that the dominant societal structure in the Arab World has been the informal group.<sup>27</sup> Geertz in turn has succinctly condensed it as follows:

“Structure after structure – family, village, clan, class, sect, army, party, elite, state – turns out when more narrowly looked at to be an ad hoc constellation of miniature systems of power, a cloud of unstable micropolitics, which compete, ally, gather strength, and very soon overextended, fragment again.”<sup>28</sup>

Owen has raised the important issue that in authoritarian societies, informal groups need to be either controlled or assimilated by the regime using personal, ethnic or group affiliations<sup>29</sup>, whilst organised groups in existence at the time the regime takes power need to be either destroyed or taken over.<sup>30</sup>

The analysis of these fragmented class and group structures in Arab societies in particular is further complicated by the fact that pre-capitalist forms of production continue to exist alongside capitalist and socialist ones, and it is indeed far from clear that these pre-capitalist forms will be replaced by purely capitalist ones as these

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<sup>23</sup> J.A.Bill & R.Springborg, Politics in the Middle East, HarperCollins, New York, 1994, p 84

<sup>24</sup> *ibid*, p 85

<sup>25</sup> *ibid*, p 86

<sup>26</sup> *ibid*, p 86

<sup>27</sup> *ibid*, p 88

<sup>28</sup> C. Geertz, *In Search of North Africa*, New York Review of Books 16, 1971, p 20

<sup>29</sup> R.Owen, State, Power & Politics in the Making of the Modern Middle East, Routledge, London, 1992, p 38

societies develop. As an example, individual members of the same family group can very well work in the civil service, run a smallholding on the outskirts of a city, moonlight as taxi-drivers and collect rent from owned land. In these cases you simply cannot use the definition of Western class, although a vertical informal group analysis based on a family group will accurately describe the situation. In particular, it has been difficult for scholars working on states like Syria, Iraq or Libya, who have all followed state-capitalist development paths initiated by particular group-based elites of rural or lower middle class origin, to define a new ruling class. During the 1960's and 1970's, the concept of a developing petite bourgeoisie was prevalent in the literature.<sup>31</sup> However, in recent years the term 'bureaucratic bourgeoisie' has become more widespread. This concept, although debatable<sup>32</sup>, mirrors the establishment of a ruling elite, controlling the means of coercion and a major part of the means of production in interventionist or state-capitalist developing countries. This elite cannot, however, simply be explained as a bureaucratic elite governing simply for the good of the state.<sup>33</sup> Whatever the character of this emerging state bourgeoisie, it seems clear that in Syria, as elsewhere in the region, the specific socio-economic and political interests of the ruling group have shaped the direction of the economic development of the state. To understand the motives behind economic policy in Syria, we also need to examine the interests of this group and its interaction with other social strata in Syria. It would be reasonable to assume that this interaction would include attempts by the ruling group to influence, pre-empt or encompass other societal groups within

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<sup>30</sup> *ibid.*, p 38

<sup>31</sup> see in particular M. Halpern, *The Politics of Social Change in the Middle East and North Africa*, Princeton, PUP, 1963, pp 51-78

<sup>32</sup> J. Waterbury, *Twilight of the State Bourgeoisie?*, *IJMES*, Vol 23 (1991), pp 1-17

<sup>33</sup> Hinnebush in particular, although avoiding an idealisation of the Syrian elite, does seem to view their activities as driven by reasons of state rather than their own social interests. See in particular R.A. Hinnebush, *op.Cit.*, p 324

Syria. However Syria traditionally has been a comparatively closed society since the assumption of power by the Ba'ath Party in 1963, and this, combined with the traditional polarisation of the Middle East along East-West lines had led Western analysts, and in particular economic analysts and commentators, to write off Syria as difficult and unknown territory. This was aggravated by the fact that the Syrian government itself was at times unwilling to offer any assistance to researchers and indeed was very reluctant to supply imperial data useful to a deeper political analysis of the Ba'ath Party and the wider state structure of Syria in general. Nevertheless, as the Syrian Arab Republic has matured over the years since 1963, it has been possible for a number of studies on Syria to offer insights into the structure and composition of the Syrian state, notwithstanding difficulties and frustrations experienced by researchers.

#### 1.4.1. The Working Class - Rural and Urban

Traditionally, the working-class in Syria has been predominantly rural. Following the Land Reform Acts of 1958<sup>34</sup> initiated by the new UAR government with much fanfare, little in fact changed with regard to the position of the vast majority of the peasantry, with implementation of the land reform almost being non-existent, less than 5% of the land subject to reform actually being distributed, in all to about 5000 families.<sup>35</sup> However, the further measures taken by the Ba'ath regime after 1963 constructed a firm alliance between the peasantry and the new elites of the Ba'ath. In particular, the actual implementation of land reform measures (discussed in detail in Chapter Two), stripped the old oligarchic landed elites in Syria of most of their power, whilst simultaneously linking peasant loyalties to the new regime. In effect, the regime made a bargain with the peasantry, linking state power to the welfare of the peasantry: in return for removing their old dependency structures and providing a new, higher level of welfare, the Ba'ath called upon the peasantry to assume a new dependency on the state, to support state institutions and to provide manpower for the armed forces and for the bureaucracy. Peasant compliance with this arrangement has been a major factor in the traditional historical stability of the Ba'athist regime. Salamé has characterised this agreement as being a political covenant (*mithaq siyasi*)<sup>36</sup> between peasants and state, leading to peasant identification with, and support for, the regime. However, the support that the peasantry gave to the regime should not be seen as a blanket approval, nor should the

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<sup>34</sup> Law 134, SAR, 4 May 1958, was still based on traditional approaches to sharecropping, although it did introduce a certain amount of redress for peasants and considerably improved the general position of the peasantry vis-à-vis the landlord.

<sup>35</sup> D. Waldner, *State Building and Late Development*, New York, CUP 1999, p 81

land reform measures initiated in 1963 and beyond be hailed as an unmitigated success. In fact, according to Perthes, only 446,000 hectares of the 1,5 million hectares expropriated land, together with 432,000 hectares of existing state land were distributed to the peasantry in the course of the Land Reform Acts.<sup>37</sup> What was not distributed either remained state property, was allocated to co-operatives and state farms or came under the control of other public sector establishments. Approximately 180,000 families remained landless labourers even after the reforms.<sup>38</sup> Although land reform measures had provided the mass of the peasantry with land, other problems remained. Machinery to work the land was in short supply, irrigation systems were expensive, fertiliser and seeds had to be bought from state outlets, and crops had to be planted according to government regulations. Pricing structures of rural commodities were set by the government and historically have not kept in step with rising living costs or inflation.<sup>39</sup> Nevertheless, the peasantry has remained one of the pillars of the Ba'athist regime and policy decisions are still shaped by rural considerations.

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<sup>36</sup> G.Salamé, *Al-Mujtama'wa al-Dawla fi al-Mashriq al-Arabi*, Beirut, Centre for the Study of Arab Unity, 1987, p 191

<sup>37</sup> V. Perthes, *The Political Economy of Syria under Assad*, London, IB Tauris 1995, p 81

<sup>38</sup> *ibid*, p 81

<sup>39</sup> Indeed, a common sight in Syrian towns are peasants who sell their privately produced vegetables from their private plots in order to supplement their state-controlled payments for their state-regulated main crops.

### 1.4.2 The Bourgeoisie

The academic discussion about the character and basis of the Syrian Ba'athist regime has often focused, during the 1970's in particular, on the middle classes or the bourgeoisie, at times obscuring a clear conceptualisation of this class by the actual breadth of the concept employed. Regarding the importance Arab societies attach to the independence of occupational position in identifying social standing<sup>40</sup>, it is necessary to draw a clear dividing line between the wage-earning and the self-employed middle classes.

The latter, comprised of small merchants with their own shops, small industrialists, craftsmen and self-employed professionals, can really be described as the quintessential petite bourgeoisie of Syria. This class has been able to hold its own despite the growth of a salaried middle class. Generally it can be said that although the numbers of industries or production units of this self-employed class have grown steadily throughout the 1970's and 1980's<sup>41</sup>, the actual size of production units has remained at a fairly low level. Perthes has conclusively demonstrated that;

“middle class entrepreneurs in Syria tend to refrain from enlarging their establishments above a certain size. This may be out of fear that any expansion would cause difficulties with the bureaucracy, or arouse the envy of those in power; or it could be from simple consideration of the labour and social security regulation that apply to bigger establishments.”<sup>42</sup>

Generally, this traditional petite bourgeoisie was seen as the opposition for the new groupings around the Ba'ath Party, although Longuenesse at the end of the 1970's asserted that this class, far from being constrained by the Ba'ath assumption of

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<sup>40</sup> H. Barakat, *The Arab World*, UCP, London, 1993, p 86

<sup>41</sup> V. Perthes, *op.Cit*, p 101-102

power, had actually expanded. She concluded that the growth of this class during the 1960's and 1970's had transformed its members from regime opponents to regime supporters.<sup>43</sup> Her assumption of this class expansion still holds in the 1990's and beyond, but her conclusion that expansion went hand-in-hand with support for the regime has been disputed by other authorities. The 'old' Syrian bourgeoisie, in particular its traditional urban core, remains for the most part staunchly conservative. Local traders and craftsmen often still fill roles in neighbourhood mosques, and indeed still form a very traditional core of businesses. These small businesses share, despite often slightly divergent economic interests, the ideological view of the traditional bourgeoisie that state involvement in the economy should be minimised. Historically, this petite, overwhelmingly Sunni, bourgeoisie had been very suspicious of Hafez al-Assad and the Ba'athist regime, seeing the establishment of, in their eyes, a minority, tribal-dominated dictatorship that goes hand-in-hand with sweeping nationalisations, as a force to be strongly opposed. Assad's support for the Maronite Lebanese Christians in 1976 and his support for Iran during the Iran-Iraq War did nothing to lessen the impression that the regime remains anti-Sunni.<sup>44</sup> During the Hama uprising in 1982 it was thought that in parallel with the boycott of trade, the Islamists also received a certain amount of financial support from individuals from this class. This traditional opposition may have however diminished gradually over the period of time Assad had been in power. Perthes argues convincingly that

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<sup>42</sup> V. Perthes, op. Cit., p 102

<sup>43</sup> Longuenesse, *The Class Nature of the State in Syria. Contribution to an analysis*, MERIP Reports, Vol 4, (May 1979), No 77, pp 3-11

<sup>44</sup> This opposition to the regime has often been imaginative. In the 1990 Gulf War against Iraq, a number of Syrian towns saw expressions of opposition to the Syrian support for the Allied coalition. In one instance stray dogs were painted with Assad's name on one flank and US President Bush's name on the other and then released to roam the streets of Deir-a-Zur. According to an eyewitness, the inhabitants experienced 'great joy' at seeing the Muchaberat trying to round up the dogs. Interview 7, Damascus, 1<sup>st</sup> April 1998

“[whilst] Assad has certainly been able to win support amongst the newer segments of this petite bourgeoisie, [...] it has not yet developed into a stable basis of the regime. [...] Inasmuch, however, as its members are doing well economically, as there does not seem to be any alternative to the regime in power, and as this regime secures political stability, this class no longer poses a threat to Assad and his leadership.”<sup>45</sup>

The distinction between positive support for the regime advocated by Longuenesse and the ‘wait and see’ attitude attributed to this class by Perthes is important if the stability of the Syrian regime is to be understood. A clear theoretical and political difference exists between positive support for a regime and passive acquiescence to its existence. The difficulty lies in distinguishing between the two in a non-critical situation, and, moreover, in a situation where political loyalties and affiliations cannot be openly admitted should they deviate from the established norm or official line. In this sense, the continued support for the regime must be dependent upon its positive appeal to loyalty and on its image of durability in equal measures. Part of the problem is that the class of the bourgeoisie in Syria has been expanded and enlarged in differing directions since 1970. The numbers of the traditional petite bourgeoisie have been joined by the large ranks of the salaried employees of the state bureaucracies who are dependent upon the state for their livelihood. From 1970 to 1991, the number of waged state employees in Syria grew from just 160,000 to over 640,000, representing, if their families are included, almost 17 % of the population.<sup>46</sup> This new class certainly forms a new part of the middle class, but is also part of its fragmentation, as the prime focus of class loyalty is the state, rather than fellow members of the petite bourgeoisie. By expanding the public sector and the bureaucracy of Syria, the regime after 1970 was able to draw on a new large pool of supporters, often drawn from rural or disadvantaged backgrounds. On the other hand

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<sup>45</sup> V. Perthes, The Political Economy of Syria under Assad, London, IB Tauris, p 104

the above traditional bourgeoisie was not forgotten in “Syria’s dual track policy”<sup>47</sup> as by encouraging economic expansion and concurrent state expansion, as Hinnebush puts it, the regime was acting

“to the advantage of both [the Ba’ath’s] traditional populist constituency [the rural poor] and of others who, benefiting from liberalisation or work abroad, were partly co-opted by the regime.”<sup>48</sup>

The state thus became the focus for the formation of a ‘new’ bourgeoisie, or in Hinnebush’s words, “a state bourgeoisie”.<sup>49</sup> This new bourgeoisie is made up of disparate elements of former petite bourgeoisie or working class origin, engaged in a different number of occupations. What is common to this class however is the new and close relationship that it has formed with the state. This should not be seen as a replacement for the old traditional bourgeoisie, but should rather be seen as a counterweight to the trading petite bourgeoisie. Again, the barriers between the different levels of the bourgeoisie are theoretically clear, but in practice often diffuse. For example, a number of traditional bourgeois families and clans operate in close co-operation with the regime, a not at all uncommon phenomenon. Hinnebush gives the example of the Shallah family, whose head, Badr ad-Din al-Shallah, now head of the Damascus Chamber of Commerce, was instrumental in keeping the Damascus souk open during the Islamist troubles, and who presides over a diversified industrial and manufacturing complex of companies.<sup>50</sup> We should then put aside the notion of regime support being localised in specific areas or sectors of the bourgeoisie. Traditional, petite and ‘state’ bourgeoisie have all in a sense learnt to live with the

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<sup>46</sup> *ibid*, p 106

<sup>47</sup> R.A.Hinnebush, *Syria*, in T.Niblock & E.Murphy (eds), Economic and Political Liberalization in the Middle East, British Academic Press, London, 1993, p 184

<sup>48</sup> *ibid*, p 184

<sup>49</sup> *ibid*, p 184

<sup>50</sup> *ibid*, p 192

regime. Support for the regime in Syria thus seems to be too complex to simply define in terms of a single social class, regional or ethnic origin - it would be inaccurate to describe them, as Faksh has done, as simply being "regional (Latakian), sectarian-minoritarian (Alawis) and rural (poor)".<sup>51</sup> Rather it should be seen as a complex web of interconnectivity, linking various strands of interested groups together. If any particular common interest lies at the heart of these disparate groups, it could be defined as the interest in the maintenance of the status quo, or, if that were not possible, the continued maintenance of the position of the particular group within the regime structure.

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<sup>51</sup> M.A. Faksh, *The Alawi Community of Syria*, MES, pp 133 - 153

## 1.5 Control and Participation

According to the regime, Syria's democracy manifests itself through the Parliament, the Progressive National Front (PNF), and the popular (or mass) organisations. These organisations structure and define the areas of power and influence that exist between the regime sphere and the private sphere of family and home. This political gap of influence is covered and filled by both civil organisations (such as unions) and political units (such as the PNF or Parliament). Although the regime has undoubtedly sought to control and comprehensively infiltrate these various organisations and structures, it should be noted that they occupy a certain ambivalent role within the overall structure of Syrian society and certainly should be seen as separate entities in their own right. They are therefore worthy of particular attention. Their formal and actual role can often be distinct from each other and they can act as two-way conduits between the regime and the wider Syrian population. They are indeed often used as indirect and sometimes unobtrusive instruments of political control by the regime in cases where it has been deemed impolitic to broadcast the direct interest of the regime, but they can also act, as Perthes puts it, "in varying degrees, as channels of interest participation"<sup>52</sup> and a sounding-board between the population and the regime.

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<sup>52</sup> V. Perthes, *The Political Economy of Syria under Assad*, London, IB Tauris, 1997, p 162

### 1.5.1 Parliament

Syria's Parliament or People's Council is still essentially more a consultative council than a sovereign or independent policy-making body. Pre-Ba'ath parliamentary democracy was not reinstated by the Correctionist Movement in 1970. Although Assad did appoint a formal Parliament in 1971 to replace the Ba'ath-inspired 'National Council' of 1965<sup>53</sup>, it still mirrored that 'National Council' by essentially comprising representatives from the Party leadership, the military, unions, and professional organisations. The only new addition to the framework was the inclusion of the PNF, representatives of religious groups and Commercial Chamber representatives as distinct blocs within Parliament. Parliamentary elections were first held in 1973 and have generally been held every 4 years since. Voting patterns over the years have generally given no indication that electoral rigging or voter manipulation on a wide scale has been carried out.<sup>54</sup> Desired election outcomes are determined rather by the restricted choice of candidates presented for election in the first place. The PNF generally agrees the division of seats between the members of the individual Front parties before the election, and then after the election allocates them accordingly. Political parties not belonging to the PNF are not allowed to participate in elections. Outside the formal structure of the PNF individuals may stand for Parliament under their own name, however if individuals are not well-connected with the regime, they stand little hope of winning a seat in Parliament.<sup>55</sup> The percentage of 'independent' Members of Parliament has varied greatly from Parliament to Parliament, ranging from one-third to one-fifth of all seats. In all

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<sup>53</sup> *ibid*, p 166

<sup>54</sup> One exception to this rule applies: Elections in 1981 were generally seen to have been manipulated on a major scale. Interview 4, Damascus, 7<sup>th</sup> May 1998

<sup>55</sup> In 1973 4 openly oppositional candidates succeeded in gaining seats in Parliament; this was unusual and remained a one-off.

elections however, PNF members of Parliament have held an absolute majority. Thus it comes as no surprise that the initiator for legislation is in all cases the government. The level of debate and participation does tend to vary widely according to the nature of legislation being discussed.<sup>56</sup> However, it should be mentioned in this context that the Syrian Parliament does play an important role within the power-broking and manoeuvring of Syrian politics. In this arena the minority of 'independents' come into their own. As the regime and the government should be seen as distinct from one another, the regime often uses particular Parliamentarians to criticise and comment on Government incentives, initiatives and legislation. Debate has on occasion been lively and heated - in particular if it concerns economic issues. Syrian Parliamentary procedure in particular can be illuminating; although a debate on major political issues has never taken place, detailed economic discussion on the impact of economic reform is nevertheless frequent. The regime is not shy in using Parliament and its members as informal sounding-boards and conduits for information it would rather transmit in an informal way. Indeed, criticism of Governmental performance is often tolerated and public interest in these debates is often high. The formal role of Parliament is important and should not be underestimated. In particular, the regime puts great emphasis on fulfilling the formal and legal prerequisites set down in the constitution.<sup>57</sup> Following the death of Hafez al-Assad, it remains to be seen whether Parliament will assume a more active role in policy formulation, although it can be assumed that this is unlikely in the short-term.

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<sup>56</sup> Indeed, Parliament participation records are often patchy and attendance is generally low. Interview 2, Damascus, 20<sup>th</sup> April 1998

<sup>57</sup> One recent example of this was the death of Assad in June 2000. On the very day of his unexpected death Parliament was summoned to amend the constitution to allow Bashar al-Assad to succeed to the Presidency (by changing the minimum age of Presidency from 40 to 34).

### 1.5.2 The Progressive National Front (PNF)

The PNF was established in 1972 to join all Ba'athist and allied political forces into a broad political coalition. Its aim was to achieve a "greater measure of cohesion and unity" and thus offer a strong resistance against "the Zionist enemy."<sup>58</sup> Together with the Ba'ath Party, the following five political parties make up the PNF: the Arab Socialist Union (a Nassarist group initially regarding itself as a Syrian branch of the Egyptian party of the same name), the Movement of Socialist Unionists (a unitary socialist party formed after Syria left the UAR in 1961), the Democratic Socialist Union Party (a offshoot of the former, founded in 1964), the Arab Socialist Movement (founded in 1964 as a Ba'athist splinter group), and the Syrian Communist Party (which split in 1986 after an internal quarrel, and which now has two separate wings represented in Parliament). Essentially, although the formation of the PNF was portrayed as a unifying force against external political enemies, the real reasons for the formation of this political bloc were two domestic considerations. The first was the fact that in 1971 the Ba'ath under Assad needed to neutralise possible competing political forces occupying essentially similar political ground (so as to forestall the emergence of any competing political forces outside any coalition). Opposition parties diametrically opposed to the Ba'ath (conservative and land-owning parties in particular) had already been effectively emasculated and destroyed by seven years of radical Ba'ath rule. Assad now had to make sure of the loyalty of parties occupying the political spectrum closer to him. The PNF effectively gave the appearance of a power-sharing coalition between brotherly Arab socialist parties, whilst still maintaining the political dominance of the Ba'ath. Members of competing political parties saw the PNF justifiably as an opportunity to participate in a degree of political

power without the need for potentially damaging political internecine conflict so characteristic of Syrian domestic politics between 1963 and 1970. The Ba'ath under Assad saw it as a means of pre-empting any possible competition and neutralising any potential political threat. The second domestic consideration was the fact that Assad's political base within the Ba'ath Party itself was still comparatively narrow and he needed to broaden his appeal to parties and political factions outside the confines of the Ba'ath itself. In forming the PNF, he also was able to give the appearance of attempting to form a national inclusive coalition of progressive parties, a tactic that appealed to Syrians weary of almost two decades of internecine strife and political uncertainty. A coincidental advantage of this policy has been that Assad was able to depict his regime and government as formally pluralist, rather than monolithic.

Of all the PNF parties, the Communists traditionally have been the most outspoken and also the one party which has shown the highest degree of independence from the Ba'ath in terms of policy. They voiced vocal opposition against the initial involvement of foreign oil companies in Syria in 1974, and voted against sending Syrian troops to Lebanon in 1976. During the last years of the 1970's the leadership of the Communist Party had to fend off repeated demands from rank-and-file members to leave the PNF<sup>59</sup> and although the Party eventually stood by the regime in its struggle with the Islamists in the period between 1981 and 1982, it nevertheless criticised the excessive use of force and the suppression of civil rights during the uprising. As protest the Communists withdrew from the Parliamentary elections in 1981 and stood on a platform of their own; as a result none of their

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<sup>58</sup> Presidential Decree No 35/22 May 1971

<sup>59</sup> Interview 11, Damascus 2<sup>nd</sup> May 1998

candidates were able to secure seats.<sup>60</sup> However, this outspoken criticism of the regime does point to the fact that the political structure in Syria is not quite as monolithic and inflexible as it might seem at first glance to a foreign observer. The Communist Party then re-joined the PNF platform for the 1986 elections and in 1990, both wings of the SCP having joined the PNF, each were assigned 4 seats each, a pattern which repeated itself in 1994. Feisal Bakdash and Yusuf Faisal lead the (proto)Stalinist and reformist wings of the Party respectively. In 1991, at the introduction of Investment Law No 10, Bakdash's faction voted against the legislation, whilst Faisal's faction supported it.<sup>61</sup> On a number of other occasions the Communists in general have opposed the blatant misuse and corruption within Syrian society and have been one of the most vocal supporters of the anti-corruption drive initiated by Bashar al-Assad (with the backing of his father) in early 2000.

The Arab Socialist Union (ASU) split into two in 1980, one wing associating itself closely with the Ba'ath, the other dropping into semi-obscurity and almost-illegality. The other parties are in effect, in the words of Perthes, "Assadist"<sup>62</sup> and effectively play only minor roles in Parliamentary and political life; indeed their continued existence could be attributed to the late President's zeal of not maintaining an obviously monolithic rubber-stamp Parliament.

Overall however, the PNF continues to serve as a metaphorical fig leaf for the Ba'ath to cover the obvious dominance it commands in Parliament. Indeed the odd

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<sup>60</sup> The elections of 1981 and the failure of Communist candidates to secure seats in these elections are most probably the one major incident of overt fraud in the history of post-1970 election patterns.

<sup>61</sup> Interview 11, Damascus 2<sup>nd</sup> May 1998

<sup>62</sup> V. Perthes, The Political Economy of Syria under Assad, London, IB Tauris, 1997, p 164

maverick dissenter and occasional criticism by Communist MP's only serve to highlight the near abject loyalty MP's of all factions within the PNF have historically shown towards Assad and his regime.

### 1.5.3. The Popular Organisations

The formalised control of political life effected by the establishment of the PNF has been mirrored since 1970 by the concurrent establishment of populist organisations to carry out the tasks of mobilisation, representation and control of the Syrian population. Existing organisations were transformed and new organisations were created. These organisations are intended to cover those politically active members of society who for reasons of their own are not covered by Ba'ath or PNF Party membership. As part of the Ba'athist drive to corporatise political life within Syria, these organisations cover the entire spectrum of public life within the state system. The Peasant Union and the various Trade Unions are the most obvious and most important of these mass organisations. These organisations do not compete against each other for membership; rather they individually cover specific sectors of public and professional life. They in effect carry out a purely functional role and serve to deliberately fragment any independent class identities or loyalties. Their structure mirrors the autocratic nature of the regime structure and their officials and leaders are not elected, but tend to be appointed by the regime. They do carry out a dual role of representing the official Party face to the majority of the population, and also serve as the population's representatives towards the regime. In addition, these organisations (especially the trade unions) often carry out social services for, and offer subsidies to their individual members. In particular, the Revolutionary Youth Organisation (RYO) and the Student's Union have in the past acted more as instruments of the regime than true representatives of student bodies. There have been examples where student cadres were utilised as police reservists<sup>63</sup> and where members of the RYO have been trusted to ensure that, the President's motorcade was

properly applauded during his drive through the Souk al-Hamadiyyeh to Eid prayers at the Omayyad Mosque.<sup>64</sup>

The General Federation of Trade Unions (GFTU)<sup>65</sup> essentially covers all public sector employees; in the private sector, union membership is said to be around 44%<sup>66</sup>, although this figure could very well be lower, as a substantial proportion of private sector employees, in particular in small firms, do not feature on any official records at all. Union membership therefore tends to be more common in larger firms that operate within the legal economy, and overall private sector employees make up at the very most only 20% of trade union membership.<sup>67</sup> The unions under the umbrella of the GFTU have since 1970 been largely neutralised by the regime, by the time-honoured method of appointing compliant and loyal apparatchiks to positions of leadership within the unions.

However, the unions within the GFTU still fulfil a number of important roles. The first is the social one: a number of unions run their own savings and hardship funds, paying out small amounts of money to members (and their families) in the case of accidents, impoverishment or bereavement. This could well be seen as a form of indirect patronage and control. In addition, unions overall in Syria run 3 hospitals, 25

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<sup>63</sup> In particular during 1982, when the regime was intent on crushing any sign of dissent outside Hama.

<sup>64</sup> In one particular incident in 1998 shopkeepers were persuaded to open their shops at 4am in advance of the arrival of the Presidential motorcade and then to line the main street of the Souk applauding the Presidential motorcade as it drove past - an event broadcast subsequently on Syrian television. Observed by author.

<sup>65</sup> *al-Ittihad al-'amm li-niqabat al-'ummal*

<sup>66</sup> V. Perthes, *The Political Economy of Syria under Assad*, London, IB Tauris, 1997, p 172

<sup>67</sup> Public sector workers are automatically unionised, almost without exception, on occasion they do not even have to apply for membership. Interview 11, Damascus, 2nd May 1998

health centres and over 90 pharmacies.<sup>68</sup> Services here at these centres are heavily subsidised by the unions and provide good quality healthcare and pharmaceuticals to workers (and their families) at extremely low rates. The importance of this cannot be under-estimated. In a society where state welfare systems are virtually non-existent, the availability of a healthcare system open to workers and their families is a powerful incentive to join the unions. As well as healthcare, unions also provide crèche and kindergarten facilities, libraries, social clubs, cinemas, and even a number of public restaurants.<sup>69</sup> These facilities are generally subsidised and provide, in comparison with state-run establishments, excellent value for money for those large sectors of society who cannot afford the private sector facilities enjoyed by the wealthy. But again these obvious benefits can be seen as a form of patronage, a way of assuring the loyalty of workers to the regime.

The second role the unions fulfil is that of popular agitator for the regime. The 'mass' demonstrations seen often in Syria to mark official celebrations or events are stage-managed carefully and the bulk of demonstrators are drawn from the organised ranks of state employees. These 'populist expressions of the people's will'<sup>70</sup> are designed to show external commentators the depth of loyalty the regime commands. That is not to say that populist demonstrations need always be stage-managed; the example of public grief and mourning at the death of Hafez al-Assad in Damascus probably combined a measure of both public management and genuine grief, mixed with uncertainty about the future. At the same time these demonstrations were

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<sup>68</sup> Interview 12, Aleppo, 12th May 1998

<sup>69</sup> The Union of State Security employees (a euphemism for the security services) runs an excellent restaurant on al-Jala'a Avenue in Central Damascus.

<sup>70</sup> Interview 12, Aleppo, 12<sup>th</sup> May 1998

carefully managed to show popular support for the chosen successor, Bashar al-Assad.

The third role unions fulfil is that of providing a political and ideological link or conduit to the regime. Political seminars and meetings before Ba'ath Party Congresses serve as sounding boards for the regime to assess and formulate policy and also to gauge the mood and opinion of the population.

## 1.6. Conclusion

Overall the historical Syrian state as described above is an individual example of a corporatist state; a state where the regime has been able to secure for itself the loyalty of various groups within society and has allowed no dissent to surface. The regime in Syria has been able to build up a support structure composed of the following elements: a varied network of class alliances spread throughout society; a solid level of ideological legitimacy; formal institutions of control and a system of direct patronage to individual social groups who are seen as important for regime survival. Given the centrality of the regime it has been essential to examine the power structures within Syrian society in order to make a considered judgement on the reasons for introducing Investment Law No 10 in 1991. This centrality of the regime is one that by definition is not unique in the Arab world, but its degree of intensity in Syria does set a particular standard to follow. The issue of power, influence and contacts pervades all dealings with the central Government, and indeed influences governmental decisions and choices. An analysis of Syrian society and the state offers a unique insight into a symbiotic relationship where the individual is caught up in a web of relationships to the state. State structures in Syria fulfil a duality of roles as, apart from their formal, accepted role common to all mature political societies, the Syrian structures and organs within these structures also fulfil the role of acting for the regime. These roles are often ambivalent and do cause conflicts of interest. But the structure of the Syrian state has become so intrinsically bound up with the regime that it is often difficult to separate them.

The examination of the intrinsic structure of Syrian society in a work dealing with investment legislation is essential in this case because since 1970 Syrian society

has been set on a course of gradual polarisation. The upper middle class, the entrepreneurs, and the urban bourgeoisie, have all benefited from *infitah*, a series of patronage-style economic reforms at the expense of the traditional salaried middle class, one of the traditional supporters of the regime.<sup>71</sup> This gradual stratification by status pales into insignificance when compared to the real changes in wealth and poverty experienced in Syrian society. Wealth and poverty are not absolutes, but are variables in describing a person's position within society. Perthes has argued that;

“on the whole, the proportion of those who own the means of production has shrunk considerably. Except for marginal means of production such as a shoemaker's box, the proportion of those who own the means of production ranges around 19 percent at the beginning of the 1990's, whereas it lay over 37 percent twenty years earlier.”<sup>72</sup>

The essential structure of the Syrian state, despite additional strains brought about by economic crisis and challenges has nevertheless remained remarkably static since 1970.

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<sup>71</sup> This issue is discussed in Chapter Two

<sup>72</sup> V. Perthes, The Political Economy of Syria under Assad, London, IB Tauris, p 119

## **Chapter Two: Developments in Syria and the Ba'ath**

### **2.1. Introduction**

This chapter will deal with the economic developments and political influences on the economy within Syria from the aftermath of WWII up to the end of the 1990's. My intention is to point out the salient reforms and factors that shaped Syrian economic policy during this period. This intention should be seen in the wider historical framework of the changes within Syria since 1946; reforms in Syria never appear in a vacuum, but can be traced and analysed from a wide historical perspective. Thus the historical background to the emergence of the 'correctionist' movement under President Hafez-al Assad needs to be examined, in order to be able to place his subsequent corrections and reforms within the ideological framework of the Ba'ath.

## 2.2. Syrian Politics: Pre-Ba'ath 1946-53

At the time of the emergence of modern Syria on 17 April 1946 - the date the last French troops left Syria territory, and the date celebrated since as Syria's National Day - the groundwork had already been laid for the eventual success of the Ba'ath Party. The overriding problem after independence was the land question. Syria was a predominantly agricultural country, with 2 million of an overall population of 3.5 million belonging to the peasantry. These peasants lived in around 5500 villages built of mud and lacking in basic amenities such as piped water, electricity, sewage or tarred roads.<sup>1</sup> Land, the real measure of wealth in traditional societies, was mainly in the hands of absentee landlords who exercised almost absolute control over the peasantry, a pattern of land ownership established during the 19<sup>th</sup> Century under Ottoman rule.

Before the 19<sup>th</sup> Century collective farming of a kind had been practised, with agricultural land owned by a village and allocated to individual families in rotation. When, under Ottoman rule, a legal land registry was introduced, many local village or community leaders had registered land in their own names - instead of that of the village. Seale mentions the following individual case occurring following the introduction of the 1858 Ottoman land code; the family of the Ottoman Sultan 'Abd al-Hamid acquiring no fewer than 110 villages in Syria.<sup>2</sup> Another example is the land around Ha'ma; of 113 villages in the region, 91 were owned by only four families.<sup>3</sup> Rural Syria thus virtually came under the control of a small clique of landowners.

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<sup>1</sup> P.Seale, *Asad of Syria*, New York, UCP, 1995, p 44

<sup>2</sup> *ibid*, p 45

<sup>3</sup> *ibid*, p 42

Although the pattern of land ownership itself thus changed, from predominantly collective village ownership to individual family ownership, the pattern of collective village work on the land still remained the same, with profits however being siphoned off for the benefit of individual families. Most peasants, illiterate, fearing the omnipresent tax collector, or simply unaware of the situation, lost out in the battle for land registration and became little more than agricultural labourers, dependent on the good will of the local notable or tribal sheikh. The following period of rule under the French Mandate did nothing to lessen the basic inequalities inherent in the Syrian system. Indeed Ma'oz comments that;

“the economic gap between the wealthy Muslim [Sunni] elite and the middle and lower classes, both urban and rural, persisted during the French mandatory period without serious attempts on the part of the French to reduce it by initiating government reforms.”<sup>4</sup>

Syria in 1946 remained in the grip of the two traditional elites; on the one hand the rural elites, and on the other, the Sunni-dominated middle class based in the urban centres of Aleppo and Damascus. These two major groups continued to dominate the economic and political scene in Syria until 1954 and beyond. The two major trading cities of Damascus and Aleppo remained omnipresent in controlling trade and commerce within and outside the country. In a similar way these urban notables and merchants, together with the landed elite contrived to dominate Syrian politics as well. Although the French had installed a basic system of parliamentary democracy before their departure, the existing elites were able to establish a firm grip on the institutions of power. In effect, the French mandate, with all Syrians under the tutelage of the French, was exchanged for an oligarchic, pseudo-democratic system run by the existing Syrian elites. The disenfranchised members of Syrian society, the

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<sup>4</sup>M. Ma'oz, *The Sphinx of Damascus*, London, Weidenfeld & Nicolson, 1988, p 15

landless peasants and the disadvantaged minorities outside the Sunni political landscape continued to be excluded from any possibility of economic betterment or political involvement. These groups offered fertile ground for radical political demands for change to take root. Pipes has commented that:

“the Sunnis of Syria, with their powerful sense of enfranchisement and superiority, stood out within the mix of peoples [within Syria]. Although making up only half the population of Syria, Sunnis constituted a majority in the Middle East at large. [...] As the ruling elite of the Ottoman Empire, they were the nonehnic in a heterogeneous society.”<sup>5</sup>

Alawi and Druse minorities had benefited to an extent under French colonial rule as the French had followed a deliberate policy of supporting the strong individual tribal or religious identities within the region of Greater Syria, a classic example of the ‘divide and rule’ attitude. A prime example of this policy in action was the opening-up of the nascent Syrian armed forces to members of the minorities. Hafez al-Assad himself was a typical example of this phenomena; after his inability to enrol as a medical student in Beirut due to lack of funds, the armed forces (in Assad's case the Syrian Air-Force) offered a viable alternative for a member of the Alawi minority. Seale has commented that: “young men made for the army in droves rather than for other professions because their families did not have the means to send them to university.”<sup>6</sup> This state of affairs continued after 1946 when minorities “continued to provide the core of the regular army – the corporals, sergeants, and junior officers.”<sup>7</sup> This was due to the fact that well-to-do Sunnis from the urban and land-owning classes had other opportunities for advancement in economic and political life; the poor and minorities did not. The rejection of the armed forces as a career – continuing after the introduction of general military service in 1950 – by the mercantile and land-

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<sup>5</sup> D.Pipes, *Greater Syria*, New York, OUP, 1990, p 20-21

<sup>6</sup> P.Seale, *op.cit.*, p 38

owning class 'allowed [the armed forces] to be captured by their class enemies, who then went on to capture the state itself.'<sup>8</sup> The Christians had been able to use their religious affiliation and links with Europe to 'force a new set of relations upon the Sunni Muslims'<sup>9</sup>, in effect entering into an agreement concerning informal power-sharing with them. Other minorities (the Druse and Jews in particular) tried to follow the Christian example, with varying degrees of success. As a result, Syrian political life before 1954 continued to be characterised by a recurrent pattern of conflict between Sunnis and minorities excluded from such (often informal) arrangements and agreements. But nationalism began to make strong inroads into Syrian society; the concept of a state representing a culturally cohesive people demanding equality for all citizens of the state, regardless of religion was very attractive, especially for members of traditionally disadvantaged minorities; who remained on the sidelines of political life even after independence. Syrian nationalism flourished within minority groups and combined with revolutionary proto-socialist ideology, offered an attractive alternative to the stultifying status quo of traditional rule. Following the first of a number of military *coup d'etat*, the individual military dictators who ruled Syria between 1949 and 1954 were only able to take small steps towards the emergence of a modern state. Adib al-Shishakli is the main individual who deserves attention, together with Akram al-Hawrani, the founder of the Arab Socialist Party (who in 1953 became one of the new Ba'ath Party leaders).<sup>10</sup> Hawrani was the first Syrian politician to grasp the reality of the land problem, and his socialist ideas and rhetoric struck a chord within the rural population of Syria. In September 1951 the first 'anti-feudalist

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<sup>7</sup> *ibid*, p 38-39

<sup>8</sup> *ibid*, p 39

<sup>9</sup> D.Pipes, *op.cit.*, p 21

<sup>10</sup> M.Ma'oz & A.Yaniv (eds), *Syria under Asad*, London, Croon Helm, 1986, p 18

rally' was held and attracted thousands of peasants outside Aleppo<sup>11</sup> and in 1952 Shishakli signed a decree concerning the distribution of state lands – an early attempt at land reform, limiting the right to individual land ownership. It was not so much the actual reforms that Shishakli carried out, as the impact even his limited reforms had upon traditional Syrian political and economic society. Ma'oz has commented rightly that, most importantly, "Shishakli's actions contributed to the jolting of the old socio-political status quo and, perhaps more significantly, to cultivating new forces and tendencies in Syrian society."<sup>12</sup> In 1953 however Shishakli and Hawrani fell out and the latter fled to Lebanon, where he met up with Michel 'Aflaq and Salah al-Din Betar.<sup>13</sup> They decided to merge the Arab Socialist Party and the Ba'ath Party to form the Arab Socialist Ba'ath Party. After Shishakli's removal in 1954 and the reinstatement of parliamentary democracy, the Ba'ath competed successfully in the parliamentary elections, winning 16<sup>14</sup> (or 22<sup>15</sup> seats according to a different source) out of the 142 seats in total (most of the others were retained by the conservative 'People's' and 'National' parties). Seale has commented that this initial if modest success was due to Hawrani's influence and led to a fundamental change in Syrian political life:

"Hawrani was an agent of change [...]. No one did more [...] to shake the foundations of the old ruling class. He roused the peasants, politicised the army and gave the theorists of the Ba'ath a cutting edge."<sup>16</sup>

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<sup>11</sup> Indeed, this was the first time the ASP had raised the spectre of returning land to the peasantry under the slogan of "this land can be yours". In following months the campaign in the rural areas intensified until Shishakli had no option but to initiate reforms.

<sup>12</sup> M.Ma'oz & A.Yaniv, *op.cit.*, p 18

<sup>13</sup> P.Seale, *op.cit.*, p 42

<sup>14</sup> M.Ma'oz & A.Yaniv, *op.cit.*, p 18

<sup>15</sup> M.Ma'oz, *op.cit.*, p 26

<sup>16</sup> P.Seale, *op.cit.*, p 48

### 2.3. The Ba'ath in Politics 1954-63 and the UAR

The political parties operating in Syria in 1954 and competing in the elections of the same year were all aware that the real political force in Syria was not the nascent politicians, the Sunni-dominated middle class of entrepreneurs or traders, nor the still considerable land-owning elite, but the military. The Army had assumed power in 1949, and although democracy had been restored in 1954, the Army was still the force behind the new democratic structures, with the power to remove politicians it disapproved of still intact. In a sense, this continued domination by the Armed Forces was to influence Syrian politics for the remainder of the decade. Political parties were intent on developing a relationship with the Army, rather than developing alliances and relationship with other parties to maintain and strengthen the democratic structure. Both the People's and National Parties strove to develop strong personal alliances with the existing army leadership, with moderate success. However, this correct assessment of the military's strength behind the scenes did not go unnoticed by the other parties in Syrian politics at the time. All 'revolutionary' parties therefore also made great efforts to recruit members within the Armed Forces. The main fault-line in the gradually politicised army ran between the Ba'ath Party and the Syrian Social Nationalist Party (SSNP). The Ba'ath's ideology was clearly addressed to the whole Arab nation, unlimited and unfettered by national boundaries drawn by colonial powers. The SSNP's appeal in contrast lay in the concept of a 'Greater Syria', comprising Syria, Lebanon, Palestine and Jordan.<sup>17</sup> The SSNP was perceived to be pro-Western and anti-Arab nationalist (but pro-Syrian nationalist), whilst the Ba'ath was the classical Arab nationalist (and by implication anti-Western and anti-

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<sup>17</sup> D.Pipes, *op.cit.*, p 3

imperialist) party. The years of 1954 and 1955 were dominated by a series of power struggles within the army between SSNP and Ba'athist officers and supporters. After a violent incident in April 1955, the Ba'ath Party and its ally, the Syrian Communist Party (SCP), were able to break the power of the SSNP and virtually remove it from Syrian politics<sup>18</sup> and the Ba'ath Party became the dominant power within the Armed Forces. The mood in Syria and the Arab World in general had swung from despondency after the 1948 loss of Palestine to a mood of more cautious optimism following the success of the coup of the Free Officers in Egypt in 1952. In 1955, Syria entered into a defensive military pact with Egypt, but as a result came under Israeli attack in December 1955 near the Sea of Galilee.<sup>19</sup> The emergence of the Soviet Union as a major arms supplier to the Egyptian Republic and the successful outcome of the Suez crisis following Nasser's nationalisation of the Suez Canal offered the Syrian Ba'ath an apparent way out of the insecure internal and external situation Syria had existed in since independence.

The Ba'athist group within the Army, who in December 1955 had first raised the idea <sup>20</sup>, initiated in 1958 the creation of the United Arab Republic with Nasser's Egypt.<sup>21</sup> The Communist Party in Syria at that point was enjoying a period of popularity within Syria because of arms shipments from the Soviet Union (in particular Soviet fighter aircraft – first delivered in 1957)<sup>22</sup> and the promise of further

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<sup>18</sup> The leading Ba'athist officer in the Armed Forces, Colonel Adnan al-Malki was assassinated by a member of the SSNP - triggering off a wave of arrests and trials of SSNP members within Syria. See also P.Seale, *op.cit.*, p 50 for further detail on the circumstances. Seale hypothesies that the assassination was ultimately the work of Egyptian military intelligence working with Akram al-Dayri (the then Syrian Military Police Chief) to deliver a pretext to remove the SSNP (an obvious anti-Nasserite political force) from Syrian politics.

<sup>19</sup> P.Seale, *op.cit.*, p 51

<sup>20</sup> P.Seale, *op.cit.*, p 52

<sup>21</sup> P.Seale, *op.cit.*, p 54

<sup>22</sup> Indeed, the SAR Defence Forces had traditionally been amongst the first non-Soviet armed forces to receive new weaponry after Soviet units – often even before Warsaw Pact countries

economic aid from the Soviet Union. The Ba'athists (historical campaigners for Arab Unity in any case) were anxious to profit from Nasser's immense popularity and utilise his weight against the growing Communist influence within the Army. For the Syrians the concept of the UAR was to be a close alliance of equals under the banner of Arab solidarity. The economic situation in Syria at that time mirrored Egypt, and most participants in the union assumed that Nasser would introduce a measure of gradual economic reforms and advances. In fact the period of the UAR was an unmitigated catastrophe for Syria and the majority of Syrians as Nasser was not prepared to cede any amount of real power to Damascus and demanded virtual subjugation from the Syrian authorities. Power passed completely from Damascus to Cairo and Egyptian civil servants were imported to run the bureaucracy. When in 1961 the leadership of the UAR launched a radical 'wave of nationalisations that included some of the largest Syrian establishments'<sup>23</sup>, a group of conservative Syrian officers assumed power in Damascus and brought to an end this first modern experiment in Arab unification. After three years of unhappy co-habitation, Syria demanded and received the dissolution of the Union. The old guard of the 1950's re-established the old model of Syrian parliamentary democracy and were back in power. This however was only to last a little while. The Ba'ath, having tasted power for the first time, could not be subdued forever. The old guard were living on borrowed time and eventually were unable to resist the pressure from the Ba'ath.

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<sup>23</sup> V.Perthes, The Political Economy of Syria under Asad, London, I.B.Tauris, 1997, p 2

#### 2.4. The Ba'ath in Power 1963-1970

In March 1963, after a sustained period of political unrest and economic stagnation following the collapse of the UAR, a Ba'ath faction within the military finally overthrew the interim government, abolishing the parliamentary system and parties and giving power to a National Revolutionary Council. The Ba'athist Government that took control after the 1963 coup resolved to introduce a new political-economic order based on socialist principles:

The new regime at once ordered a massive redistribution of property by continuing the nationalisations begun in 1961 under the UAR (which had triggered the demise of the UAR itself) of businesses in the key industries of textiles, engineering, chemicals, cement and sugar in the manufacturing sector, the larger firms in the construction sector and the entire banking system. In addition, the formal economic Five-Year Development Plan begun in 1961 under the UAR<sup>24</sup> was revived and expanded. Nationalisations of core industries were based on the ideological appeal of the Ba'ath as a socialist party and were seen as an integral part of economic policy. The nationalisations also had an overtly political angle; the first wave of nationalisations carried out in 1964, as Kienle has put it, "represented a warning that the old elite, already deprived of its political power, might also lose its economic power if it proved unwilling to co-operate with the new regime."<sup>25</sup>

The nationalisations also gave the Ba'ath the opportunity to secure the loyalty of the urban workers and to combat the high popularity the Syrian Communists enjoyed in the urban centres. These nationalisations in effect foreshadow the subsequent systematic alliance building programme the Ba'ath was to undertake

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<sup>24</sup> *Syria 1994-95, EIU Country Profile*, p 17

under Assad from 1970 onwards. The firm control that the Ba'ath had established over the Army by 1963 precluded any attempt by conservative elements within the army structure to attempt a counter-coup. These nationalisations were carried out in parallel with widespread purges of the army command structure and the advancement of politically correct Ba'athist officers, Hafez al-Assad among them. These industrial sector nationalisations were carried out simultaneously to significant agricultural reform. The previous unsuccessful land reform attempts modelled on the Egyptian example<sup>26</sup> during the period of the UAR between 1958 and 1961 had created sustained pressure for more fundamental reform which the Ba'athists had to try to satisfy. Substantial land reform was well overdue and the pre-reform distribution of land ownership was manifestly unequal, as the following figures demonstrate:

Figure 1: Pre-Reform Distribution of Land Ownership

Owned Holdings (in hectares)	Agricultural Population (in %)	Land Surface (in %)
Large (100 +)	1	50
Medium (10-100)	9	37
Small (< 10)	30	13
Landless	60	0

Source: R.Hinnebusch, *Peasant and Bureaucracy in Ba'athist Syria*, London, 1989, p 88

Although making up only 1% of the rural population, large holdings over 100 hectares made up 50% of the overall land available, whilst 60% of the rural population were landless *fellahin*. For Ba'athists, the removal of such obvious and inequitable injustices had been a major motivator in supporting the revolution. The regime's public policy was generally orientated in favour of the social groups seen as political supporters of the regime; peasants, workers in the public or state sector, soldiers and students. The traditional powerbase of the Ba'ath was the countryside

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<sup>25</sup> V.Perthes, op.Cit., p 39

and Hinnebusch has expressed the overall traditional ideology of the Ba'ath as "the expression of a rural revolt against the great inequalities and agrarian crisis generated by Syria's traditional agricultural structure."<sup>27</sup> The first years after 1963 thus also saw a concerted effort to establish and build up small, tightly integrated, village organised political units to politicise the countryside. This policy was a manifestation of what Olson describes as a continued "Ba'ath tendency to rely most heavily on the development of a rural support base"<sup>28</sup>, even after the Ba'ath had achieved control over the state. Hinnebusch agrees and states that the "strategic key to state formation and political economy [in Syria was] the role of the peasant, rural society and agricultural development."<sup>29</sup> Economic policies after 1963 were thus dominated by the need to carry out land reform, to increase the standard of living of the rural population and thus to legitimise the regime, through its actions, in the eyes of its rural support base. The June 1963 Law of Agrarian Reform limited the ownership of irrigated and unirrigated land (150 to 500 dunams and 800 to 2000 dunams respectively – according to levels of rainfall) and the amount of land a previous landowner could distribute to his family.<sup>30</sup> Although the land reform was partially successful, Hinnebusch did note in four case studies he carried out in Syria during the 1970's that only the actual removal of land distribution powers from centralised bureaucratic structures and their re-allocation to the local administrative level (carried out in 1966) ensured general implementation of the 1963 legislation.<sup>31</sup> In total land reform measures carried out after 1963 achieved the result that approximately 93% of all agricultural holdings (and making up around 50% of total agricultural land)

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<sup>26</sup> Land Reform in Syria, p 211

<sup>27</sup> R.Hinnebusch, Peasant and Bureaucracy in Ba'athist Syria, London, 1989, p vii

<sup>28</sup> R.W.Olson, The Ba'ath and Syria 1947 - 1982, New Jersey, Kingston Press, 1982, p 51-52

<sup>29</sup> R.Hinnebusch, op. Cit., p vii

<sup>30</sup> M.Ma'oz & A.Yaniv, op.Cit., p 20

comprised less than 24 hectares and were worked by small and middle income peasants.<sup>32</sup> In this series of land reforms, the Ba'ath were very careful to carry out a re-distribution and re-allocation of land from richer to poorer peasants, not a mass collectivisation, suggesting that the aim of land reform was two-fold: to ensure the theoretical continued economic viability of the new class of small land-owning peasantry, and at the same time to reward the rural support base of the party. Although the strict ideological base of the Syrian Ba'ath would have suggested a wholesale collectivisation, in fact the land reform did not attempt collectivisation at all (although a number of large peasant co-operatives were established, with ownership held in common in the village or clan). Data from the Agricultural Census of 1970, seven years after the initiation of land reform, shows the following altered distribution:

**Figure 2: Post-Reform Distribution of Land Ownership**

Owned Holdings (in hectares)	Agricultural Population (in %)	Land Surface (in %)
Large (100 +)	0,5	17,7
Medium (10-100)	15,3	58,7
Small (<10)	48,0	23,6
Landless	36,1	0,0

Source: R.Hinnebusch, *Peasant and Bureaucracy in Ba'athist Syria*, London, 1989, p 110

The landless percentage of the agricultural population has fallen from the pre-reform level of 60% to around 36%, whilst both small and medium sized holdings

<sup>31</sup> R.Hinnebusch, *Local Politics in Syria: Organisation and Mobilisation in Four Villages*, *Middle East Journal*, 1976, vol 30, pp 1 -24

<sup>32</sup> R.Hinnebusch, *Peasant and Bureaucracy in Ba'athist Syria*, London, 1989, p 41

have increased in size. However, the most striking feature is the decrease in land ownership by large holders; from 50% of all agricultural land pre-reform to around 17% post-reform. Together with these changes in the size of land holdings came a change in the agrarian class structure of Syria. According to calculations by Longuenesse utilising the 1960 and 1970 Agrarian Census figures, and referred to by Hinnebusch, the pre- and post-reform agrarian class structure can be compared as follows:

Figure 3: Change in Agrarian Classes 1960-1970

Year of Census	% of Total Employed Workforce	
	1960	1970
Agrarian Bourgeoisie	4,5	0,6
Peasantry (Landholders)	27,4	41,5
Agrarian Proletariat	20,5	8,9

Source: R.Hinnebusch, *Peasant and Bureaucracy in Ba'athist Syria*, London, 1989, p 110

The agrarian structure of Syria had thus undergone a significant fundamental change. The most recent figures for land ownership in Syria give the private sector around 62% (3 Million hectares), the co-operative sector around 36% (1.7 Million hectares), and the public sector the remaining 2% (100,000 hectares) of arable land.<sup>33</sup> Although these figures sound impressive, Syria in 1963 (and to a degree still today) has a large proportion of arid or semi-arid land and is heavily dependent on irrigation systems.<sup>34</sup> In this context, it is difficult to measure the actual increase in agricultural output following the reforms. Certainly the success of the land reform measures themselves can be ascertained by an immediate increase in the levels of self-

<sup>33</sup> Ministry of Agriculture, Fisheries and Food (UK), *Agriculture in Syria*, Ministerial Report, London, HMSO, 1996, p 9

sufficiency, and a rise in the proportion of land under actual cultivation. However, the actual absolute levels of production did not rise out of all proportion. In assessing the reforms, it would be fair to state that the economic impact on farmers was substantial in altering their relationship with the land.<sup>35</sup> Years of confusion followed the initial land reforms, but agricultural productivity does seem to have increased. But the main impact of the first and subsequent land reforms was both psychological and political. Mohammed Harba, the son of a peasant who rose to ministerial rank under the Ba'ath summed it up eloquently when he said that "in a mere twenty-five years Syria [had] experienced a revolution on the land which it took France a century to accomplish."<sup>36</sup>

Together with these economic changes, the political landscape within Syria also changed beyond all recognition after 1963. The creation of a socialist democracy meant the acceptance of the absolute dominance of the Ba'ath Party in political affairs by the other (still operating) radical parties.<sup>37</sup> However, the Ba'ath itself was not necessarily internally united. The years between 1963 and 1966 were characterised by internal conflict within the Party, split roughly along radical and conservative lines. In 1966 the radical wing of the Ba'ath prevailed, supported by a faction within the military, and replaced the National Revolutionary Council with a government favouring closer co-operation with the Soviet Union and the COMECON bloc, abandoning in the process, to a large extent, the original pan-Arab objectives of the Ba'ath.<sup>38</sup> This success was also marked by the expulsion of Micheal 'Aflaq, the original founder of the Ba'ath, from Syria. However the military defeat in the June

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<sup>34</sup> V. Perthes, *op.Cit.*, p 24

<sup>35</sup> Many villages held elaborate ceremonies with landlord-owned land being 'returned' to villagers.

<sup>36</sup> P.Seale, *op.Cit.*, p 447

<sup>37</sup> The main threat to the Ba'athists came from the Communists, an issue only finally resolved with the creation of the National Progressive Front in 1972.

<sup>38</sup> Since 1966 until the demise of the Iraqi Ba'ath Regime there had been latent and occasionally open tension and conflict between Iraq and Syria, as the Iraqi Ba'ath Party and the Syrian Ba'ath Party disagreed as to which faction truly represents the original objectives of the Party.

1967 War and the resulting loss of the strategic Golan Heights rapidly weakened the new government's position and led to renewed internal struggles within the Ba'ath about how to move forward. At the heart of the struggle lay the rivalry between Assad and Salah Jadid, the then Syrian President. There were a number of differences between the radical government and a group of officers loyal to Assad that came into the open after the 1967 conflict. First of all, there were the Palestinian guerrillas. After the defeat the Jadid government continued to glorify them and affirm Syria's commitment to a 'people's' war;<sup>39</sup> Assad saw that the war had proven that the Palestinians could be allowed to operate as they pleased; their pre-war raids had played into Israeli hands, giving Israel a pretext to threaten Syria and to involve Egypt in the crisis. The Jadid government was also still intent on carrying out the 'class struggle', both internally, against the Sunni bourgeoisie, and externally, refusing to attend the Khartoum summit in August 1967 to show its contempt for reactionary Arab regimes present there. However the Khartoum summit agreed to set funds aside for both Jordan and Egypt to rebuild and rearm<sup>40</sup> whilst Syria, as a result of not attending, did not receive any immediate help. Jadid's government also seemed to be focussed on the need to recreate Syria in the Ba'athist image, on internal struggle and the need for a permanent revolution, whereas Assad was intent on rebuilding Syria as quickly as possible for the resumption of the struggle with Israel. As part of that objective, Assad saw the need to find a renewed national consensus between the existing political parties and political forces in Syria. Although Assad did agree that the Ba'ath should be the main source of organised political power in Syria, he nevertheless argued that:

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<sup>39</sup> P.Seale, *op.Cit.*, p 144

<sup>40</sup> *ibid*, p 144

“[...] we had not seized power on our own in 1963: there were other currents in the country which had much in common with us. We dealt with their leaders as individuals [...], but we did not recognise them as organised political groups. I was for doing so. I believed we should form a front with them.”<sup>41</sup>

The differences between Jadid and Assad were of such severity that the term ‘duality of power’ has been used to describe the situation in Syrian politics at that time.<sup>42</sup> By 1968 Assad had been able to build up the military Ba’ath party structure as a separate one from the formal civilian one – in effect creating two Ba’ath power structures existing side-by-side. This uneasy co-existence continued for almost two more years. At an emergency National Congress of the Ba’ath Party, called on 30 October 1970, the party leaders under Jadid’s direction stripped Assad and his aide and friend Mustafa Tlas of their army commands and government posts. The leadership of the General Federation of Trade Unions backed the government against Assad’s military faction in announcing that :

“the Popular Organisations [Peasant and Trade Union Federations] insist on strengthening and developing the present regime. They regard retreat from the achievements implemented by the Party and the Popular Organisations [...] as the beginning of a painful setback which only serves the counter-revolutionary forces in their ferocious attack.”<sup>43</sup>

This was a thinly veiled attack on the more conservative or less radical men grouped around Assad. He, however, could afford to ignore the resolutions of the Ba’ath Congress, as he had taken the precaution prior to the Congress of having all approach roads guarded with loyal troops and having the Conference Hall itself surrounded. When news of this pre-emptive strike became common knowledge amongst the delegates, the conference broke up in disarray on the 12<sup>th</sup> November and Assad was able to take power in a bloodless *coup d’etat*.

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<sup>41</sup> *ibid*, p 146

<sup>42</sup> *ibid*, p 148

<sup>43</sup> Middle East Record 1969-70, London, 1970, p 1155

## 2.5. Policy and Performance under Assad 1970-80

Although Assad's coup in 1970 initiated a further sustained period of economic and political change for Syria, Waldner has suggested that the economic reforms following the coup d'etat were primarily designed to further widen the base of support for the regime<sup>44</sup> and were not specifically intended to liberalise the economy. In a sense then the actions of Assad can be seen post-1970 as emulating the actions of the radical Ba'ath in power from 1963; economics and economic issues had to serve political aims and goals, first and foremost the further development of the Party's power-base. However, following the uncertain years of internal political dissent and conflict, Assad did certainly unite the Ba'ath Party and impose a coherent economic development strategy for Syria, based on clear and specific political tenets and setting clear economic and political objectives. During his consolidation of power he followed relatively liberal economic policies which, according to Ma'oz, "were aimed at revitalising the small and medium-sized private sector enterprises."<sup>45</sup> Commentators agree that the *coup d'etat* in 1970 represented a switch from the radical socialist wing of the Ba'ath Party towards a more pragmatic approach, indeed represented the (in hindsight) definitive victory of the pragmatic or realist wing of the Ba'ath Party with a leader determined to permanently transform Syria.<sup>46</sup> It is however no accident that the 'victory of the Correctionist Movement', as the *coup d'etat* is referred to in Syria, is portrayed as a correction of Ba'ath policy rather than a sudden or violent break with the 1963-70 period. It can be said that, whilst in practice the goals and aspirations of the two wings of the Ba'ath differed greatly, in theory they simply reflected differences of opinion within the ideological framework of the

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<sup>44</sup> D. Waldner, *More than meets the Eye*, Middle East Insight, May/June 1995, pp 34-37

<sup>45</sup> M. Ma'oz, op.Cit., p 75

<sup>46</sup> P. Seale, op.Cit., p 171

Ba'ath. Starting in 1971, within the confines of the above-mentioned 'correctionist course', Assad set in motion a broad reform programme in both the economic and political spheres. A new Constitution was proclaimed, local self-administration was introduced, and a new Parliament was convened. Ten days after seizing power Assad had called upon the offices of the General Federation of Trade Unions to explain his government's political and economic programs, a delay that says much for the initial concentration of Assad's power in the military, rather than civilian area of the Ba'ath. After his visit, leading trade unionists expressed their support for the new regime<sup>47</sup>, giving Assad a useful link into the powerful Syrian Trade Unions. Assad reciprocated for this show of support at such a crucial time by immediately calling for the creation of a 'National Progressive Front' to involve other groups and parties besides the Ba'ath in government and political activity<sup>48</sup>, a line of policy he had already quietly articulated pre-1970.

Once Assad had made sure that his political power base was reasonably secure, he switched his attention to economic issues. In general terms, Assad's economic policies could be termed *infitah*, 'opening-up', but perhaps the term adopted by Lawson seems more appropriate. His expression for the reform programme was one of a "gradual relaxation of state control"<sup>49</sup>, this policy being an integral part of Assad's plan to moderate and shape the future economic direction of the Syrian state.<sup>50</sup> The Third 5-Year Plan (1971-1975) saw a concentration on public-sector industrial development, with Assad's intention being to maintain a central

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<sup>47</sup> I. Harik & D.J. Sullivan (eds.), Privatization and Liberalization in the Middle East, New York, 1992, p 139

<sup>48</sup> Bank Gesellschaft Berlin, *Country Report Syria*, March 1996, p 4

<sup>49</sup> F. Lawson, *Political-Economic Trends in Ba'athi Syria: A Re-interpretation*, Orient, Vol. 29, No 4 December 1988, pp 579

command in key areas of the economy, whilst allowing the development and expansion of the private sector in marginal areas; the ultimate aim being to produce a mixed economy<sup>51</sup> whilst retaining a large measure of economic control by the state.

Indeed, Heydemann has argued persuasively that,

“the Syrian regime has pursued stabilisation in a highly selective fashion. Rather than embark at one time on a full-fledged programme of economic rationalisation, with its attendant political risks, the Syrian government has managed economic reform as an inherent political process.”<sup>52</sup>

From 1970 to 1973 an Exceptional Import System was gradually introduced, allowing the limited import of previously prohibited goods. Import restrictions on a limited number of goods were lifted and certain categories of imports were relieved of the need to execute concurrent foreign-exchange transfers.<sup>53</sup> A General Authority for Free Trade Zones was established, offering foreign investors the possibility of participating in the Syrian market without being subject to import licensing or domestic labour laws. In addition, the return of expatriate capital which had moved abroad rapidly after 1963, was encouraged by a promulgated amnesty for ‘financial and economic offences’ committed before 1970.<sup>54</sup> In the countryside, Hinnebusch argued that, based on fieldwork carried out during 1972-1973,

“it does seem that the creation of a new social and political infrastructure and the social reforms [in rural Syria] have laid part of the essential basis for the continuing modernisation of Syrian state and society.”<sup>55</sup>

This statement was made in assessing the initial results of the land reform projects (carried out since 1963) and the irrigation schemes begun after 1970. Across

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<sup>50</sup> *Infithah* did also apply to a certain degree to the political sphere, but to a far lesser degree, although Assad always made sure that the formalities of a democratic republic were always adhered to.

<sup>51</sup> M. Ma’oz, op.Cit., p 74-75

<sup>52</sup> S. Heydemann, *The Political Logic of Economic Rationality: Selective Stabilisation in Syria*, in H.J. Barkey (ed.), *The Politics of Economic Reform in the Middle East*, New York, St Martin’s Press, 1992,

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<sup>53</sup> V.Perthes, op.Cit., pp 50

<sup>54</sup> SAR, *Legislative Decree 2 of 1971*, Central Statistics Office, Damascus

the countryside roads, electricity, piped water, schools and hospitals were transforming rural life. Dozens of small dams were built to trap every drop of rainwater. Grain stores and silos were established in every rural governorate. In the words of Seale, “the ignorant and oppressed sharecropper, so familiar a figure of Assad’s youth, very largely disappeared.”<sup>56</sup> This is what the Ba’ath had come to do and this is what they achieved – the lifting of the great majority of the Syrian population out of poverty and ignorance. As a result the Ba’ath also gained a loyal and devoted following amongst the rural population.

Although Arab private-sector investment was encouraged, control of the economy and of the political arena remained firmly with the government, even during this initial consolidation period. Assad was able to utilise Syria’s position vis-à-vis Israel and his pragmatic stance (as opposed to Jadid) on the international scene as a means of attracting capital in the form of loans and aid from the Gulf States. It was largely this availability of external capital that financed the subsequent Syrian investment programme during the 1970’s. This reliance has led commentators to describe Syria at the time as a quasi-rentier state. Robinson in particular notes that Syria’s rentierist characteristics render the amount of resources available to the state “sensitive on both the international and domestic fronts.”<sup>57</sup> Following the 1973 War, the prospects for further economic expansion seemed good. Higher oil prices resulted in higher income and Assad was able to initiate a series of reform programmes between 1973 and 1975. Syria’s hard currency reserves situation improved dramatically following the war due to higher prices for oil, cotton and phosphates,

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<sup>55</sup> R.Hinnebusch, *Local Politics in Syria: Organisation and Mobilisation in Four Villages*, Middle East Journal, 1976, vol 30, p 24

<sup>56</sup> P. Seale, op.Cit., p 447

increased capital inflow from other Arab countries (on average 540 US\$ million/year between 1974 and 1977)<sup>58</sup>, international credits and worker remittances. Public development spending increased around twelve-fold between 1970 and 1980 with the average growth rate of GDP around 13% between 1973 and 1976.<sup>59</sup> In 1975 Assad announced that certain oil exploration areas were to be offered to foreign oil companies under production sharing agreements. A number of companies subsequently took up concession areas (amongst them Shell, Marathon and Elf Aquitaine).<sup>60</sup>

However the direct link between foreign Arab aid and defence expenditure remained as an obstacle to real economic growth in areas unrelated to defence or state-sponsored investment projects. In order to live up to its role as a 'front-line' state in the Arab-Israeli conflict, Assad had to continue to spend heavily on the military, and was thus faced with a growing and permanent drain on his budget. By 1980 Syrian defence expenditure had reached the level of Sy£ 8.9 billion.<sup>61</sup> Arab aid from abroad remained conditional on Syria striving to reach parity with Israel in strategic terms, a futile undertaking, considering the massive support the USA has always given the Israeli military and economy. Additionally, it could be argued that the dependency of the Syrian economy on Arab aid might well have led to a determination to display a 'front-line state' mentality in dealings with Israel in order to continue to attract net inward flows of aid.

Full-scale reform of the economic system was neither intended nor attempted. Nevertheless, the creation of 'boom' conditions (witness actual growth

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<sup>57</sup> L.Robinson, *Rentierism and Foreign Policy in Syria*, *Arab Studies Journal*, Vol. IV, No 1, Spring 1996, p 37

<sup>58</sup> *Syria*, *EIU Country Profile*, 1991-92, p 14

<sup>59</sup> *Middle East Review*, 1980, p 369

<sup>60</sup> *Syria*, *EIU Country Profile*, 1991-92, p 13

<sup>61</sup> International Institute for Strategic Studies, *Military Balance*, 1970-1995

rates of 13% as opposed to a planned growth rate of around 8.2%)<sup>62</sup> and rapid development led to an increase in the trade deficit to Sy£ 2.9 billion by the middle of the decade. The Fourth Five-Year Plan 1976-1980 was originally formulated with a large investment in infrastructural projects in mind. However the involvement of Syrian troops in Lebanon from 1976 onward (with over 26 000 troops committed by 1979)<sup>63</sup> meant that Arab aid (in particular from Kuwait and Saudi Arabia) was either cut off or became more unreliable and variable, as well as putting the economy on a virtually permanent war footing (this apart from the fact that for internal and external political and strategic defence reasons the Syrian army in peacetime claimed a permanently large defence budget as of right). Beginning in 1976, inflation began to rise and the government was faced with a deterioration in the balance of payment figures. The economic focus of the regime had to turn away from new investment projects and instead had to ensure the successful completion of those projects already underway. The Fourth Five Year Plan thus became “more a notional guide to priorities rather than a strict framework”<sup>64</sup>, with constant revisions being made to its structure. Import restrictions were re-introduced in 1977 (and again extended in 1981) on consumer items, foreign-exchange controls for trade were re-introduced and special economic courts were set up to deal with foreign exchange fraud, fraud connected with state contracts and smuggling (the latter being endemic between Syria and Lebanon).

The regime was sending a clear message to the private sector that it was still in charge and thus would still determine the limits and the parameters of economic policy; and that concessions made to the free market could be rescinded if necessary.

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<sup>62</sup> *Syria, EIU Country Profile*, 1991-92, p 14

<sup>63</sup> *Middle East Review*, 1980, p 363

<sup>64</sup> *Middle East Review*, 1980, p 370

It is interesting to note however, that in this context the impetus for economic adjustment of policies came from the problems faced on the external political front. Economically, the *infitah* policies were working, as long as external Arab aid continued to flow into Syria. Once this had reduced, and with Assad setting his priority on the political front, the regime reduced the importance of the economy accordingly. This change in policy illustrates graphically the secondary role the economy played at that time for Assad – if his political aims and goals were in conflict with economic plans or aims, it was the economic plans that had to give.

The Baghdad Conference in November 1979 (in reaction to the Camp David Accords) resulted in a promise of increased aid from the Gulf States (US\$ 1.8 billion/year) for Syria.<sup>65</sup> The continued involvement of Syrian troops in Lebanon however (and the departure of the non-Syrian military units of the Arab Defence Force during 1978), continued to represent an addition drain on the Syrian defence budget, continued to fuel the black market in Damascus and Aleppo and laid large numbers of the ruling elite open to charges of corruption.

The continual problem, as Waldner has persuasively argued, was that “the pattern of economic policy-making [was] designed to ensure social support for the regime as much as to produce efficient economic outcomes.”<sup>66</sup>

Essentially, with the political Islamist threat internally simmering away and periodically erupting (witness the Artillery School massacre of June 1979<sup>67</sup> and a rash

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<sup>65</sup> Middle East Review, 1980, p 284

<sup>66</sup> D.Waldner, op.Cit., p 35

of terrorist Islamist attacks on Ba'ath officials, Islamist sheikhs who had denounced violence, and Russian technicians<sup>68</sup>) and the external involvement in Lebanon, the Syrian leadership had to make sure that its traditional powerbases in the country were supplied and satisfied. This meant that the economic policy and the economic resources of the country were stretched to almost breaking point and had to be pressed completely into the service of regime survival. Nothing else mattered.

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<sup>67</sup> Unarmed Alawi recruits were trapped inside a artillery school and shot down in cold blood, a trigger for a country-wide rash of terrorist attacks against Ba'ath officials, the military, students and trade unionists.

<sup>68</sup> P. Seale, *op.Cit.*, p 324

## 2.6. The Years of Crisis and Survival: Syria from 1980-90

The economic and political situation for Syria in 1980 looked bad, and was not about to get better. The 1980's marked the beginning of a period of acute economic stagnation and political tension for Syria. Although a number of large foreign contracts had been awarded to construct turn-key industrial plant and infrastructure in the last years of the 1970's (and by 1982 France, West Germany and Switzerland had all entered into agreements protecting their investments in Syrian industries against possible nationalisation, thus achieving a large measure of security)<sup>69</sup>, and the government in addition had sought to attract foreign interest in setting up joint ventures with Syrian public companies, the reality of the Syrian investment strategy was somewhat different. A German civil servant interviewed in 1982 commented that:

“[We] made a determined effort to initiate joint ventures by sponsoring a business organisation to send an official to Damascus. After 2 ½ years he left, frustrated by bureaucracy and the cumbersome system of regulations, and by the collapse of most of the various joint venture proposals.”<sup>70</sup>

These joint ventures included the Homs ammonia plant built by Creusot Loire Enterprises (completed in 1979, but not functioning until late 1981 due to a lack of Syrian specialists), and the sugar refineries at Raqqa, Deir-al-Zor, Salhab and Mashkaneh, all working well below capacity due to supply and transport problems.<sup>71</sup> Continued realism thus had to dictate the formulation of the 1981-1985 Five-Year Plan, again placing the onus on completing projects rather than embarking on new ones. Hussein al-Qadi (Minister for Industry) said in 1980: “Before embarking on any fresh industrial expansion, we are keen to operate at full capacity projects which have already been started.”<sup>72</sup> The fight against inflation and corruption was seen as the main element of the Plan, combined with a rise in government subsidies and a revised

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<sup>69</sup> Middle East Review, 1982, p 300

<sup>70</sup> *ibid*, p 300

import policy restricting additional 'unnecessary commodities'<sup>73</sup> and offering additional incentives towards the import of raw materials and industrial equipment and machinery. However, Waldner has correctly argued that these early measures included in the state budgets to encourage private economic activity "did not establish a clear pattern of liberalisation, as they were mixed with other measures that continued and even enhanced state control over the economy."<sup>74</sup> In addition, the traditional sector of agriculture, always supported in the past to ensure continued political support for the regime, faced its first setback; the "expenses for agriculture [investment in the 1981-1985 plan] were low and amounted to less than 10% of the total investment realised during the two Five Year Plans of 1971-1975 and 1976-1980"<sup>75</sup>, according to Perthes. Lawson has identified the period of 1981-1985 as being one of a "re-assertion of central direction"<sup>76</sup> after the more open policies of the 1970's.

This was almost certainly a direct reaction of the regime to the political unrest in Syria during the time period in question. The Islamist terrorist threat had culminated in the Hama uprising in 1982, the subsequent internecine fights within the Ba'ath Party structure, the attempted *coup d'etat* by Rifaat al-Assad, all these acute political threats to the stability of the regime over the period of only a few short years produced an instinctive political withdrawal into a siege mentality— and the economy followed suit.

Thus, for most of the early to mid 1980's, Syria faced grave economic and political problems – a foreign exchange crisis which developed into economic

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<sup>71</sup> *ibid*, p 300

<sup>72</sup> *Middle East Review*, 1981, p 326

<sup>73</sup> *ibid*, p 327

<sup>74</sup> D.Waldner, *op.Cit.*, p 35

<sup>75</sup> V.Perthes, *The Syrian Economy in the 1980's*, *Middle East Journal*, 1992, vol 46, p 38-39

<sup>76</sup> F.Lawson, *op.Cit.*, pp 579

depression, low public resources and austerity budgets, a number of political uprisings culminating in open rebellion in Hama, and a strong challenge to the legitimacy of Assad's rule by his own brother. Nevertheless, the early 1980's did have one bright spot for Assad – in 1980 the Muslim Brothers had attempted to close down Syria economically by initiating widespread urban uprisings. The problems had started in Hama, with a two-week shutdown of the business quarter initiated by the Brothers. Hama, Homs, Idlib and Dayr al-Zur followed suit. Seale describes eloquently what occurred when the Brotherhood attempted to spread this rebellion to Damascus:

“Would Damascus, Assad's capital, follow the trend? Anonymous leaflets circulated calling on merchants in the Hammadiyah [...] to close in solidarity with the northern cities. At this critical juncture when the government seemed in imminent danger losing control Assad found an ally in Badr al-Din al-Shallah, the influential chairman of the Federation of the Chambers of Commerce, a patriarch in his eighties who rallied prominent shopkeepers and urged them to stay open, turning the tide in favour of the regime.”<sup>77</sup>

This event was a milestone in Assad's political strategy. It proved that the regime had been able to break out of the largely marginal support structures it had previously commanded and was now able to draw upon certain elements of the older traditional Syrian middle classes as well. However, subsequent events proved that the Islamists were not defeated. The campaign of terror continued and culminated in 1982 with an uprising in Hama, defeated with great force by the regime. The defeat and the subsequent permanent suppression of the Islamist movement in Syria in a sense marked a political change in the way in which the regime viewed its population and its relationship with it. It is often disregarded, in particular recently in the West, that the Islamist terrorists leading the revolt in Hama were intent on establishing a fundamentalist Islamic regime in Syria. As Seale again describes it;

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<sup>77</sup> P. Seale, *op.Cit.*, p 326

“No-one truly knew what life would be like under their rule, and although they had the sympathy of religious conservatives and of some merchants, former landowners and other victims of Ba’ath rule, the weight of opinion was against them. Their long campaign of terror was political insanity. At the end of the day Ba’athist Syria, a state ruled by an armed party and resting on a broad coalition of the countryside and the swelling public sector, proved robust enough to defeat the challenge.”<sup>78</sup>

Nevertheless, this strong challenge to Assad’s leadership and to the supremacy of the Ba’ath saw the growth of the Intelligence agencies needed to defeat the internal threat. Once the Islamists had been defeated, the role and importance of the security apparatus was not curtailed, but instead was maintained at an artificially high level<sup>79</sup> with predictable results. During the 1970’s the regime had been generally liked or at least accepted by the majority of the population; with the change of tactics and the often brutal imposition of Ba’athist rule necessary to suppress the Islamists, this respect by 1982 had changed to fear.

In the economic sphere, the shortage of foreign exchange had a direct and immediate effect on economic activity; in 1984 even state importers had to wait 15-18 months for letters of credit to be opened (this implied a virtual refusal by the Central Bank to even consider opening letter of credit facilities for private importers); this in turn led directly to a severe shortage of raw materials and spare parts for existing industrial plants and thus to plants operating well below capacity.<sup>80</sup> In 1986, Syria had additionally to cope with the collapse of oil prices, affecting her in three ways: it caused a further large drop in profits from oil exports, it reduced the flow of payments from expatriate Syrians working in the Gulf, and it made the Gulf states more hesitant about fulfilling their aid promises to Damascus. The economic demise of the Eastern Trade Bloc COMECON during the late 1980’s also put additional strain on the Syrian

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<sup>78</sup> P. Seale, *op.Cit.*, p 337

<sup>79</sup> Interview 26, Damascus, 2<sup>nd</sup> May 1998

economy. Indeed, the acceleration of Syrian attempts to deregulate the domestic Syrian economy in the late 1980's are generally seen by most observers to be a direct reaction to the removal of former Eastern Bloc subsidies and trading partners under favourable conditions from Syrian trade,<sup>81</sup> although it would be wrong to assume that a change or even shift in emphasis in Syrian economic policy could ever be mono-causal.

By 1985/1986 the government was forced by economic pressure to initiate a second *infatih* in Syria, this one being characterised by Lawson as "controlled liberalisation".<sup>82</sup> This new economic strategy was first articulated at the 8<sup>th</sup> Regional Congress of the Ba'ath Party, consisting of the following three parts: the state would maintain control over the 'commanding heights' of the economy, and economic reform would not be allowed to erode the regime's capacity to deploy resources to maintain its social and political support, but within these limits private capital would be given increasing latitude to operate. Reform began in the agricultural sector, which accounted for close to 30% of Syria's economy. February 1986 saw the promulgation of Legislative Decree No 10, providing for the creation of joint-stock companies in agriculture and tourism (with a minimum 25% stake held by the state). Advantages for firms formed under Legislative Decree No 10 were that they were not bound by the constraints of the Five-Year Plans. They were able to trade on the free market and were exempt from import/export restriction and from taxation on imported goods. They were also allowed to hold foreign currency accounts within Syria and transfer foreign currency abroad (within certain limits). Hopfinger has described these

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<sup>80</sup> *Middle East Review*, 1985, p 243

<sup>81</sup> See e.g. J. Whittington, *Syria: Politics, the Economy and the Succession*, *Middle East International*, 16<sup>th</sup> April 1993, pp 16-17; S. Heydemann, *The Political Logic of Economic Rationality: Selective Stabilisation in Syria*, in H.J. Barkey, (ed), *The Politics of Economic Reform in the Middle East*, New York, 1992; or V. Perthes, *Incremental Change in Syria*, *Current History*, January 1993

<sup>82</sup> F. Lawson, *op.Cit.*, pp 579

companies as "Shareholding Corporations".<sup>83</sup> Fruits and vegetables were the main produce of these ventures and these were exempted from agricultural taxation to facilitate their export abroad. As a consequence, by 1991, Syria's joint stock farms had become leading suppliers of these crops to the Arab Gulf States. Up to 1991 eleven such joint stock farms had been approved. Subsequent secondary legislation also allowed a relaxation of import restrictions covering agricultural machinery; and between 1989 and 1992 almost 40 000 tractors and agricultural machines had been purchased by private individual farmers, more than the total of agricultural machinery in the country before 1989.<sup>84</sup> The new joint stock farms were not seen universally as a step forward in agricultural development. One of the critics of this approach has been Perthes:

"Instead of providing land to the new agro-companies, it would have made more sense to give the land and the supporting assistance – such as credits, seeds, fertiliser and machinery - to the many deprived and unemployed fellahin [...] It was unlikely that this approach [of the agro-companies] would cause an improvement in the living conditions of the rural population [...] It would seem that this new agricultural policy might lead to a replication of the same pattern of distribution whereby the urban areas accumulated rural surplus. This pattern dominated Syria before the 1958 land reform initiative, when absentee landlords based in Aleppo, Homs, Hama and Damascus ruled the countryside with virtually unlimited power."<sup>85</sup>

Although the actual long-term outcome of the agricultural reforms are still to be analysed, the agricultural reform of 1986 does point out a long-term shift in emphasis for the regime away from its traditional rural support base in the countryside and towards its new party cadre and its developing bourgeoisie support structures in the urban areas of Syria. This policy change can be attributed to two major considerations by the regime. The first was that the Islamist threat to the regime had come from the cities of Syria, not from the countryside, and that the regime had to

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<sup>83</sup> H. Hopfinger, *Capitalist Agro-Business in a Socialist Country? Syria's new ShareHolding Corporations as an Example*, unpublished research article 1990

<sup>84</sup> M. al-Imadi, Interview, Financial Times, 5<sup>th</sup> November 1992

focus on broadening its support base. But in addition, the regime calculated that the growth of the population of the cities through rural-urban migration offered a unique opportunity to incorporate into her power structure new arrivals from the countryside, often students or workers attracted to the cities by hopes of individual advancement. The regime was well set to capitalise on these aspirations and strove hard to fulfil them.

In conjunction with agriculture, development of tourism was also supported, with the Decision of the Supreme Council for Tourism No 186 of 1985, exempting investors in tourism infrastructure from certain taxes and currency restrictions.<sup>86</sup> In 1985 Syrians were allowed to open foreign currency accounts with the Central Bank to finance their imports (with few questions asked as to the origin of their funds)<sup>87</sup> and companies could keep up to 75% of their foreign currency earnings to finance their own imports. By 1989 the official exchange rate for the Syrian pound was being continually re-assessed to keep it in line with the free/neighbouring countries rate, all measures to encourage the declaration of foreign currency earnings. In 1990 the government temporarily offered to buy private export earnings at the free/neighbouring countries rate – in effect conceding the state monopoly on foreign exchange transactions. The table below shows the precarious nature of the (official) foreign reserves of the Syrian treasury during 1985 – one of the prime motivators for the flexibility shown towards the tourism sector:

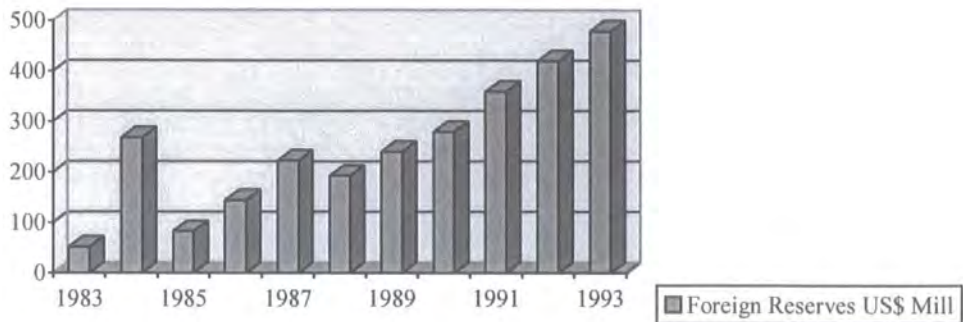
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<sup>85</sup> V.Perthes, *The Syrian Economy in the 1980's*, *Middle East Journal*, 1992 vol 46 p 52-53

<sup>86</sup> This legislation specifically covered the erection and modernisation of tourist accommodation and restaurants and allowed the retention of 50% of foreign currency income for subsequent purchases. See also N.P.al-Chaoui, *The Role and Activities of the Private Sector in the Syrian Market*, Conference Paper, CBI Conference on Syria, London, 1996, p 11

<sup>87</sup> V.Perthes, *Stages of Economic and Political Liberalisation in Syria*, Conference Proceedings SOAS May 1993, p 13

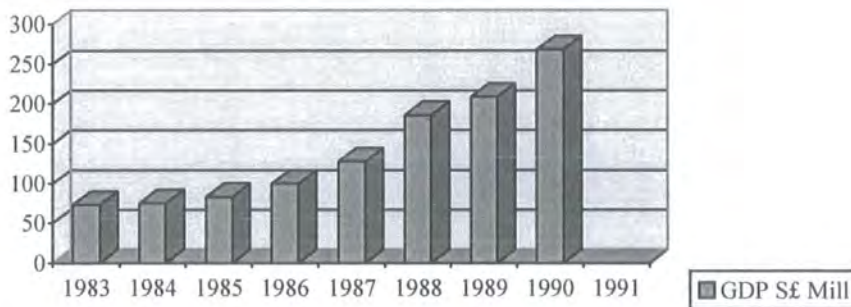
Figure 4: Foreign Reserves of Syria 1983-1993



Source: IMF, IBRD, MEED, BGB<sup>88</sup>

Deregulation of foreign trade was also initiated, allowing a mix of public and private sector investments in previously state monopoly areas. The above measures allowed the private sector to make dramatic increases in capital formation, output and exports during the period 1985-1990. Indeed, utilising a number of sources, the diagram below shows a steadily rising GDP throughout the late 1980's. From around Sy£ 75,000 million in 1983/1984, we can see a steady rise in GDP to a level of around Sy£ 270,000 million in 1990.

Figure 5: GDP in Syria 1983- 1990, in Sy£ million



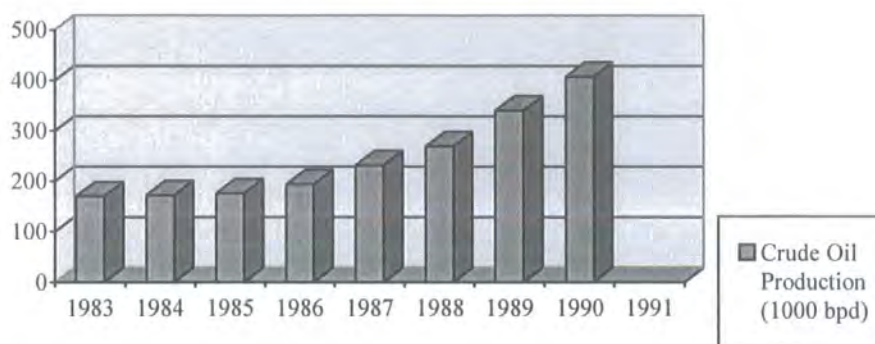
Source: IMF, IBRD, MEED, BGB<sup>89</sup>

A major contributing factor to this turn-around in the latter years of the 1980's was the fact that oil production as a major revenue earner trebled from 160,000 b/d in 1984 to 480,000 b/d in 1991 as a result of newly discovered oil fields coming on

<sup>88</sup> Bank Gesellschaft Berlin, *Country Report Syria*, March 1996, p 20

line.<sup>90</sup> The following figure demonstrates the consistent growth in output experienced by the Syrian oil industry during those years:

Figure 6: Crude Oil Production in Syria 1983 - 1991 in 1000 b/d



Source: IMF, IBRD, MEED, BGB<sup>91</sup>

This major economic development had a number of major repercussions in both the economic and political sphere. Economically Syria was at last able to post a trade surplus (see below). Practically, the regime was able to increase defence spending, purchase a number of new weapons systems from the Soviet Union<sup>92</sup> and continue subsidising a number of major public infrastructural development projects. On the political side the regime was able to deflect marginal criticism from its left wing and the Communist Party concerning the operation of Western oil exploration partners in Syria, and was able to point with some justification to generally rising standards of living and levels of prosperity. The political crisis of the early 1980's had been weathered and the regime went so far as to release a number of political dissidents (from the early days of the Ba'ath) as part of a series of Presidential amnesties. It was suggested however that these decisions were also intended to

<sup>89</sup> *ibid*, p 20

<sup>90</sup> D. Butter, *Syria Emerges From The Shadows*, MEED, 12 March 1991, p 5

<sup>91</sup> Bank Gesellschaft Berlin, *Country Report Syria*, March 1996, p 20

<sup>92</sup> Interview 14, Damascus 10<sup>th</sup> May 1998

buttress the position of the Ba'ath vis-à-vis the Islamist threat, after 1982 still active in illegality.<sup>93</sup>

As a result of the above developments, the balance of trade began to look reasonable on paper, after the dire years of the early to mid 1980's. In 1989 Syria was able to post a balance of trade surplus of US\$ 1,192 million<sup>94</sup> (or 991 million according to a second source)<sup>95</sup> for the first time in almost 30 years. The Ministry of the Economy and Foreign Trade attributed this to a 60% rise in non-petroleum exports during 1989. However, as Lawson has pointed out,

“much of the surplus [in fact] resulted from a sharp increase in the value of goods shipped to the Soviet Union – just over 1US\$ [billion] for the year. Sceptics in the local press and the People's Assembly speculated that the dramatically improved figures were little more than a statistical illusion, since trade with the Soviet Union was automatically calculated at the most favourable exchange rate.<sup>96</sup>

This still does not detract from the fact that the official figures for 1989 and the subsequent years showed an improving trend towards a neutral level of balance of trade. Figure 7 shows that although the surpluses achieved in 1989, 1990 and 1991 diminished in 1992, the deficit did not immediately rocket back up to the high levels of the early 1980's. As always, these official figures should be treated with caution, and should be seen as an indicator of a trend rather than as absolutely correct.

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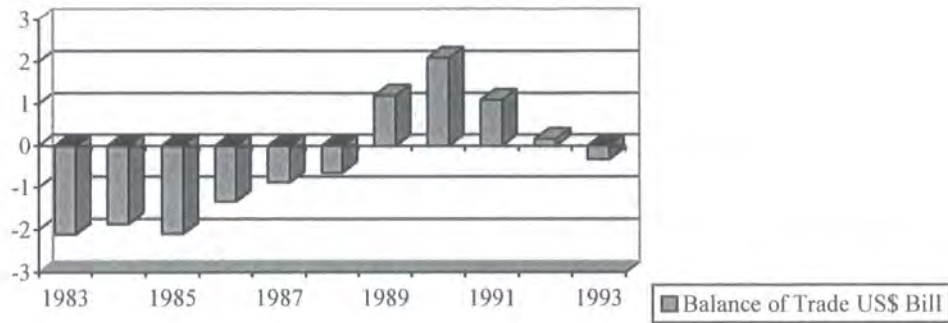
<sup>93</sup> Interview 24, Damascus & Aleppo, 12<sup>th</sup> & 13<sup>th</sup> May 1998

<sup>94</sup> Bank Gesellschaft Berlin, Country Report Syria, March 1996, p 20

<sup>95</sup> D. Butter, *Syria Emerges From The Shadows*, MEED, 12 March 1991, p 5

<sup>96</sup> F.H.Lawson, *Domestic Transformation and Foreign Steadfastness in Contemporary Syria*, Middle East Journal, Vol. 48 , No 1, p 50

Figure 7: Balance of Trade 1983-1993, US\$ Billion



Source: IMF, IBRD, MEED, BGB<sup>97</sup>

Syria had finally weathered the 1980's in terms of economics and politics; after the lean years of the early 1980's, increased oil revenue and the survival of Assad in power for twenty years, Syria seemed to be entering a new phase. Certainly the collapse of the Soviet Union was a major issue, but Syria seemed to be on the verge of stability at last. That was however an illusion; and indeed there was to be not let-up; the 1990's were just around the corner.

<sup>97</sup> Bank Gesellschaft Berlin, Country Report Syria, March 1996, p 20

## 2.7. An Interlude: Syria in 1990-1991

The result of the involvement of Syria in the Gulf War in 1991 meant that the difficult situation regarding external financial aid experienced during the 1980's was eased. Estimates of the amount of aid Syria received after the Gulf War vary widely, from between US\$ 2,000 million to US\$ 4,000 million, with Gulf Arab aid estimated at US\$ 1,500 million alone.<sup>98</sup> Post Gulf War finance, in contrast to the finance packages of the 1970's, was tied to specific projects, limiting government discretion over its use. A large proportion of this funding was earmarked to upgrade urban infrastructure and a percentage was designated to supplement private sector funding for capital projects too large or too sensitive for the private sector to finance alone.<sup>99</sup> Heydemann has argued that prior to 1991 the Syrian leadership had independently implemented a set of measures that looked much like an IMF stabilisation programme, without entering into a relationship with the IMF.<sup>100</sup> Syria's relationship with the IMF itself remained at best distant<sup>101</sup>, with the regime stating that "it will under no circumstances submit to an IMF-approved reform programme"<sup>102</sup>, yet the reform programme continued, even after the influx of post Gulf War finance. It could be said that this was an indicator that the regime was committed to the selective reform programme begun with the Correctionist Movement

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<sup>98</sup> V. Perthes, *The Political Economy of Syria under Assad*, London, I.B.Tauris, 1997, p 34

<sup>99</sup> D.Waldner, *More than meets the Eye*, *Middle East Insight*, May/June 1995, p 36-37

<sup>100</sup> S. Heydemann, *The Political Logic of Economic Rationality: Selective Stabilisation in Syria*, in H.J. Barkey (ed), *The Politics of Economic Reform in the Middle East*, New York, St Martin's Press, 1992, p 17

<sup>101</sup> An IMF delegation visited Damascus in 1986 regarding a structural adjustment programme. The Syrian government failed to respond in any way. See also D. Butter, *Syria's Under the Counter Economy*, *MEED*, 23 February 1990

<sup>102</sup> D.Butter, *Syria Pays the Price Of Peace Delays*, *MEED*, 9 February 1996, p 2

in 1970<sup>103</sup>, whilst making sure that the regime remained in control of the programme using it in ways it saw fit.

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<sup>103</sup> S. Heydemann, *The Political Logic of Economic Rationality: Selective Stabilisation in Syria*, in H.J. Barkey (ed), The Politics of Economic Reform in the Middle East, New York, St Martin's Press, 1992, p 30

## 2.8. Ambition or Stagnation: Syria after 1991

As part of the gradual reform program initiated in 1986, the Syrian Parliament in 1991 passed Investment Law No 10, the most ambitious stage so far (measured by Syrian standards) in Syria's attempt to revitalise her economy by attracting foreign investors and encouraging the private sector. The law theoretically allowed Arab or foreign investors to set up private or mixed (state/private joint ventures) in almost any area of the Syrian economy. Of particular interest is the right to repatriate invested capital and profits, and the guarantee of capital using the Inter-Arab Investment Guarantee Agency or any other Guarantee Agency. Exemptions from corporate, income and property taxation are given up to seven years (and can be extended by two additional years if the project exports 50% or more of its output).<sup>104</sup> The Higher Investment Council, created under the new legislation and supported by the Investment Bureau attached to the Prime Minister's office, had approved 529 new individual projects by the end of 1992, representing a total of Sy£ 79.5 billion in investment and the creation of 42 000 new jobs.<sup>105</sup> By mid 1993 this figure had grown to 727 projects, with a total invested capital of Sy£ 96 billion.<sup>106</sup> Approved projects reached a new high of at least 950 by mid 1994.<sup>107</sup> By 1996 the overall amount invested was around US\$ 6 billion.<sup>108</sup> However by November 1996, according to US sources, 'only a small percentage of approved projects have even began construction, much less operation.'<sup>109</sup> Nevertheless, regarding Investment Law No 10, the IMF in their report on Syria for 1991 stated that;

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<sup>104</sup> MEED, 24<sup>th</sup> May 1991, p 29

<sup>105</sup> L. Marlowe, *Financial Times*, 5<sup>th</sup> November 1992

<sup>106</sup> M. al-Imadi, *Financial Times*, 11<sup>th</sup> May 1993

<sup>107</sup> J. Whittington, *Financial Times*, 10<sup>th</sup> May 1994

<sup>108</sup> N.P.al-Chaoui, *The Role and Activities of the Private Sector in the Syrian Market*, Conference Paper, CBI Conference on Syria, 1996, p 3

<sup>109</sup> A. George, *No Going Back, The Middle East*, November 1996, p 20

“In a major policy shift in the early 1990’s, the Syrian authorities initiated a multi-pronged reform program aimed at laying the foundations of a market base, export orientated economy driven by private sector initiatives. [...] The reform program encouraged private sector investment through fiscal incentives; opened up foreign trade to the private sector; and improved private sector access to foreign exchange.”<sup>110</sup>

The above passage was approvingly quoted by Mohammed al-Imadi, the Syrian Minister for Economy and Foreign Trade in March 1997 in a speech given to an audience of potential foreign investors. However, despite the apparent success of Investment Law No 10 in attracting new investment, the regime has been slow to follow with further reforms. The same above-mentioned Minister for Economy and Foreign Trade was quoted in 1993 as saying: “We believe in the public sector. It plays an important role in our infrastructure. The idea of our economic reform is not to transfer ownership, it is to add to what we already have.”<sup>111</sup> These differing statements highlight the difficulties the Syrian state continues to face. The ongoing difficulty with the reform programme is the inability of the regime to want to risk any loss to the existing interest groups within the state. The current investment situation suits them to a degree, for whilst the investment structure does allow a certain amount of freedom in commercial dealings, it will only allow these privileges to extend to a closed cartel of regime-loyal businessmen.<sup>112</sup> Regime policy continues to restrict the private sector within specific limits, preserving ‘core’ elements of the economy, such as petroleum, mining, banking, heavy industry and so on for the exclusive attention of the state.<sup>113</sup> In the continuing development of the private sector, the Syrian government continued to send out mixed messages of intention depending on the

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<sup>110</sup> Dr M. al-Imadi, *Opportunities for Investment in the Mediterranean Region*, RIIA Conference Paper, 6<sup>th</sup>-7<sup>th</sup> March 1997, p 12

<sup>111</sup> J. Whittington, *Financial Times*, 11<sup>th</sup> May 1993

<sup>112</sup> V. Perthes, *The Economic Debate over Investment Law No 10*, unpublished research paper

recipients of the message.<sup>114</sup> To anticipate a growth of GDP in 2000 as was seen at the beginning of the 1990's would seem to be premature. After the healthy growth at the beginning of the 1990's possibly showing Syria breaking out of decades of economic stagnation, the figures for 1993 – 1996 are an indicator that this will not occur in the immediate future. After 4 years of surpluses, peaking in 1991 at US\$ 1.762 Million, the current account for Syria went back into deficit in both 1993 and 1994, recording deficits of around US\$ 600 million.<sup>115</sup> GDP Growth between 1989 and 1991 averaged just under 10% and Syria's economic growth of around 10% in 1992 increased demands for imports, already boosted by the general improvement in the post Gulf War economic and political climate.<sup>116</sup> Growth rates for GDP already sunk to 5% in 1994, and in 1995 the momentum of economic development slowed perceptibly further, reflected in a GDP growth rate of around 4%.<sup>117</sup>

The Syrian economy in the mid to late 1990's was, in the words of a Western analyst, "characterised by structural imbalances, state interference, contradictory legislation, bureaucratic overload, artificially fixed pricing, and the state control over

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<sup>113</sup> The regime continues to see the public industrial sector in particular as the 'engine' of the state. See Transcript of Speech by Prime Minister M. al-Zubi, 3<sup>rd</sup> December 1989, Foreign Broadcast Information Service, Daily Report :Middle East and North Africa Monitoring Service, 5<sup>th</sup> December 1989

<sup>114</sup> One example of this mixed message was the continuation on the statute books until 2000 of Law No 24, which forbid civilians to hold foreign currency, but was in effect obsolete given other financial and legal reforms. However Syrian investors and businessmen throughout the 1990's saw Law No 24 as quintessential 'catch-all' legislation; if the regime decided that a particular businessman was not looking after his backers in the regime or his silent partners, it was often possible to be charged with contravention of Law No 24. The widespread effects of Law No 24 can be seen in the following example; in December 1995 over 3000 prisoners were released from jails in Syria under a general amnesty. What tended not to be reported was the fact that the vast majority of these offenders had been imprisoned for foreign currency and related economic offences under Law No 24. The issue of Law No 24 is further discussed in S. Heydemann, *The Political Logic of Economic Rationality: Selective Stabilisation in Syria*, in H.J.Barkey (ed), The Politics of Economic Reform in the Middle East, New York, St Martin's Press, 1992, p 21

<sup>115</sup> D. Butter, *Syria Pays the Price of Peace Delays*, MEED, 9<sup>th</sup> February 1996, p 2

<sup>116</sup> B. Linton & G.S. West, *Agriculture in Syria*, International Relations and Export Promotions Divison, Ministry of Agriculture, Fisheries and Food, February 1996, p 20

<sup>117</sup> MEED, 5<sup>th</sup> January 1996, p 5

all substantial resources.”<sup>118</sup> Reform demands during the last half of the 1990’s were increasingly being made from within the Syrian business community itself, witness the comments made by Badi al-Fallaha, the Deputy Head of the Damascus Chamber of Commerce at a seminar on ‘Difficulties and Opportunities for Investment’, held in Damascus in 1996:

“ [We need] an eradication of the bureaucratic jungle, the unification of the exchange rates, the abolition of Law No 24. It is also necessary to facilitate the construction of a capital and financial market, free of state control, together with a network of specialised banks and insurance companies.”<sup>119</sup>

There has been no shortage of suggestions about the kind of reforms needed to help Syria better realise its economic potential. One of the most comprehensive came in the form of an open letter published in 1996 by Riyad Saif, an MP and one of Syria’s leading textile exports. His proposals focussed on 5 key areas:

- a) raising public sector salaries to improve performance and reduce corruption, whilst cutting the state workforce;
- b) applying a proper commercial framework to the operations of public sector industries;
- c) promoting non-oil exports by removing taxes, commissions and foreign exchange controls, improving services at Syrian ports and providing easy access to credit for industrial companies;
- d) financial reforms (including the abolition of Law No. 24) and allowing private and foreign banks to operate within Syria;
- e) fiscal reforms, allowing industries to freely re-invest profits, and upgrading auditing procedures<sup>120</sup>

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<sup>118</sup> BFAI, *Wirtschaftsentwicklung Syrien*, 14<sup>th</sup> April 1997, restricted research paper

<sup>119</sup> BFAI, *Syrien Im Wettlauf um Auslaendische Investoren*, 4<sup>th</sup> June 1996, restricted research paper

<sup>120</sup> D. Butter, *Syria Turns Over a New Leaf*, MEED, 5<sup>th</sup> September 1997, p 5

Essentially then, the 1990's were characterised by a fossilisation in both political and economic terms within the statist structure of Syria. With both the Palestinians and the Jordanians reaching agreements with the ideological and traditional enemy, with the ultimate demise of the old backer the Soviet Union into a confused and often irrational second-rate power, Assad and the Ba'ath were viewed as being either the last dinosaurs of the Arab-Israeli conflict, or as being the last true believers in an Arab stance against Israel. The continuing presence of Syrian troops in Lebanon - and the concurrent drain on the state's finances - was an additional burden placed upon the creaking economy for the sake of political expediency. Domestically at least, Syria was politically stable. The opening-up had provided enough opportunities for the majority of the population to acquire a measure of prosperity, although the permanent argument has been voiced that the rapidly expanding population<sup>121</sup> constantly negates any successes this process might have achieved.

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<sup>121</sup> V.Perthes, The Political Economy of Syria under Assad, London, 1997, p 252

## 2.9. Conclusion

The need to move ahead after a decade now must be obviously apparent to Hafez-al Assad's successors, in particular his son Bashar, anxious to consolidate his still tenuous grip on power. The fact that Hafez el-Assad was able to satisfy his traditional political power base in the countryside by apparently maintaining his support for them, whilst at the same time developing alternative forms and areas of support within the urban communities must give rise to the thought that his chosen successor has a hard act to follow. Assad's policy of essentially staving off and delaying the increasingly vociferous demands from the members of the Sunni-dominated bourgeoisie to continue on the path of economic liberalisation will be an issue his successor will have to deal with sooner or later. The picture of Syria's further economic development seems, even after the death of the Lion of Damascus, however, still to be one of continued incremental change, without the state abandoning the traditional interest groups that have supported the Ba'ath for the past 25 years. It would seem hasty and foolish to assume otherwise. Nevertheless, whatever the outcome of the next few years in terms of Syria's economic policies, the cornerstone of recent economic reform was set in 1991, with the introduction of Investment Law No. 10, and this legislation now forms the basis of the next chapter.

## Chapter 3: Investment Law No 10

### 3.1. Introduction

Before May 1991, the Syrian economy was characterised by economic nationalism that favoured the public sector within a highly controlled economic framework. State interventionist policies had been gradually amended since 1970 to allow a greater, albeit strictly limited and controlled, role for the private sector (for a more detailed discussion of the economic development of Syria up to 1991 see Chapter 2). The foreign exchange-crisis of the mid-1980's added momentum to the process of economic liberalisation and Investment Law No 10 represented the most significant change to date (2005) to the previous principles of economic management in Syria under the control of the Ba'ath Party. Investment Law No 10 was seen as such an ideological departure from the Syrian norm that the actual articles of the legislation seem worthy of closer examination. In particular, the issues it raises concerning the dichotomy between the theory of investment legislation and its practical implementation are essential to understand the failure of the Syrian state to attract widespread private investment during the 1990's. In the past, this particular piece of legislation has only been examined in terms of its theory, what seems to be equally important is to see how this legislation actually functions in practice and how the recipients of such legislation view it. This chapter will first examine the introduction of Investment Law No 10, will then discuss and analyse the individual articles of the Law, will look at the implementation of projects under the legislation and will then attempt to draw conclusions as to the effectiveness of the legislation.



### 3.2. Background and Introduction of the Law

Discussions had begun in 1988 about how to attract more private investment into Syria beyond the strict confines of agriculture and tourism (see Chapter Two for a discussion of these legislative documents). Opening up the economy to allow private, and possibly foreign, investment in Syria outside these previously tightly controlled areas was obviously an issue of the highest political sensitivity for the government and the regime. At the outset the President's office formed, using the Regional Command, a Committee for the Encouragement of Investments to investigate the possible need for an Investment Law. It was chaired by the head of the Regional Command's Economic Office and contained in addition a number of Cabinet ministers.<sup>1</sup> This Committee is an indicator of how serious the government approached the issue of this new legislation, given the fact that unlike routine economic legislation (comparisons could be drawn with the issue of secondary tax legislation, which passed through the legislative approval system at approximately the same time), a special extraordinary Committee had to be formed at all. This Committee was drawn from a wide range of political opinion and encompassed ministers from a number of powerful departments and subsequently held a series of confidential meetings over a period of 18 months, examining for comparison the existing investment laws of Jordan, Turkey, Egypt and the (then) USSR. It then prepared a first draft of legislation. This first draft of investment legislation was then discussed extensively in the Regional Command of the Ba'ath Party. It was re-drafted a number of times to assuage a number of vehement critics<sup>2</sup> before the final draft was submitted to the President for approval. The formal procedure for the introduction of legislation

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<sup>1</sup> Rashid Ikhari, Salim Yassin (the Deputy Prime Minister for Economic Affairs), Mohammed al'Imadi, and 4 other Ministers.

in Syria normally follows a number of set guidelines. The correct procedure for the formulation of a piece of economic legislation is for it to originate in the administration. A draft law or decree would be drafted in the Ministry responsible; in the case of Investment Law No 10, the drafting was undertaken in the Ministry of Economy and Foreign Trade, following close consultation with the Committee for the Encouragement of Investments. Government ministers in Syria are seen as top civil servants, not as political personages. In the case of Investment Law No 10, final drafting was therefore only initiated once approval by the President or the Prime Minister had been obtained. Inevitably, the law was to have political implications and possible repercussions, and thus was extensively debated before it was passed to the President's Office. The final draft bill was then submitted to the Economic Committee and would have passed through the various hoops of bureaucracy needed for its final approval. However, according to sources within the government, the actual final formal drafting of the legislation had only started at the beginning of April 1991<sup>3</sup>, and was therefore extremely brief. The President's Office finally presented the draft legislation to Parliament on April 25th 1991, and the bill was passed very quickly. Unusually for a usually compliant Parliament, debate on the legislation was heated, and the members of the Communist faction under Khalid Bakdash, members of the PNF, who had been consulted prior to the introduction of the legislation, voted against the bill.<sup>4</sup> The law came into effect on the 4th May 1991 with its publication in the Official Gazette. The following diagram is indicative of the typical decision structure economic legislation has to pass through in Syria; and Investment Law No 10's progress was typical of this. However Figure 8 should be interpreted with the

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<sup>2</sup> Interview 24, Damascus & Aleppo, 12<sup>th</sup> & 13<sup>th</sup> May 1998

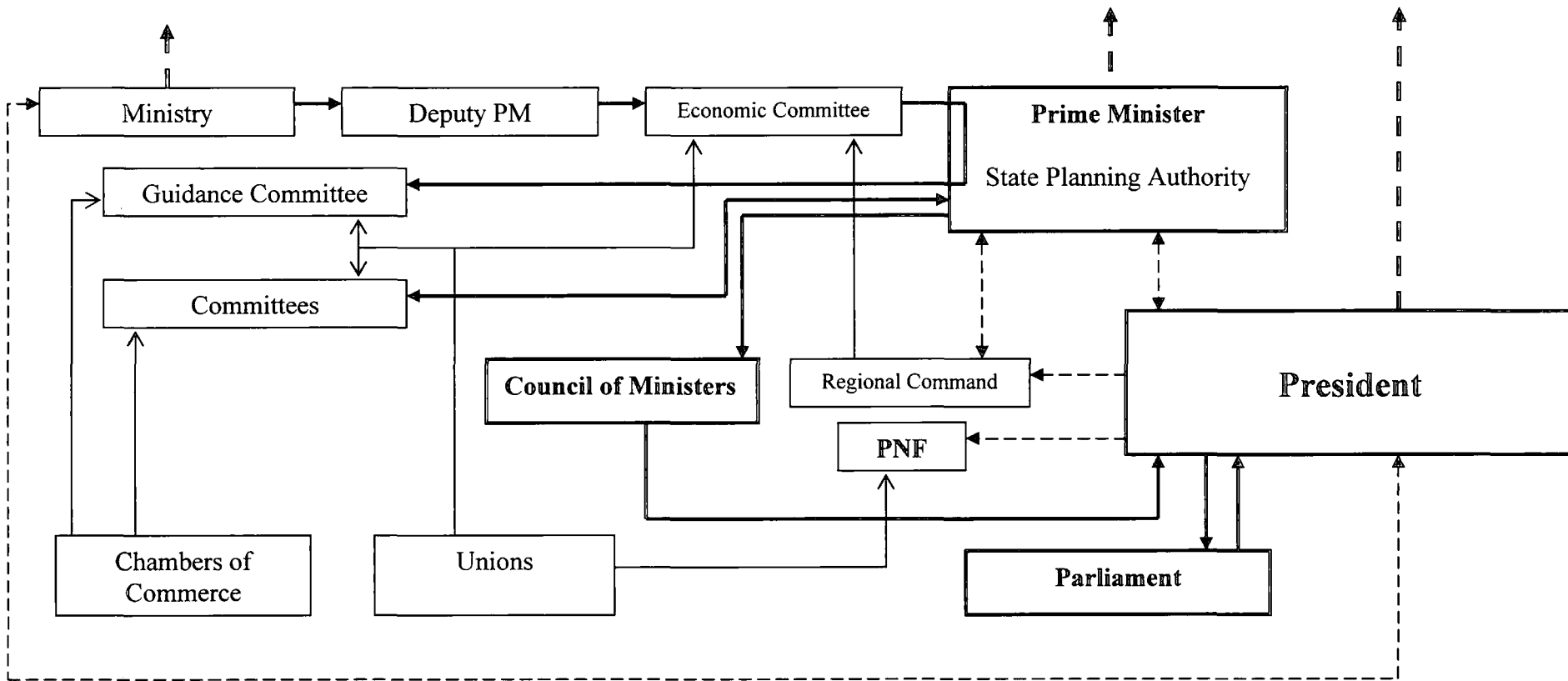
<sup>3</sup> Interview 5, Damascus, 24<sup>th</sup> February 1998

following in mind: Legislation of an economic nature and indeed the economy itself during Hafez al-Assad's leadership generally occupied a secondary position compared to the political struggle with Israel and the general need to maintain the Ba'athist power structure. Drafting of economic legislation in general therefore was initiated in the Ministries concerned, and the President's Office tended to approve non-controversial legislation without major amendments. The fact that the regime felt the need to appoint a specific Committee for the Encouragement of Investments (replacing the Economic Committee in Figure 8) to oversee the initiation and subsequent drafting of the legislation is a strong indicator of the political importance of the legislation in question. The subsequent public reaction to the legislation has been addressed in the introduction to Chapter One, and therefore the focus of the remainder of the chapter will be on the actual legislation itself.

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<sup>4</sup> V. Perthes, The Political Economy of Syria under Assad, London , I.B.Tauris, 1995, p 163

Figure 8: Governmental Decision-Making



→ Submits  
 → Is represented

← - - - - - Informs  
 - - - - - Consults with or seeks approval

- - - - - Decrees, promulgates

Source: V. Perthes, *The Political Economy of Syria under Assad*, London, I.B.Tauris, 1995, p 208

### 3.3. Specific Articles of Investment Law No 10

The law itself comprises 39 articles, subdivided into the areas of fields of investment, the foundation of a Higher Council of Investment, franchises, privileges and facilities, joint-ventures, investment of external funds, and general rules. A general breakdown of individual articles follows:

#### Articles 1 & 2: Definition of Terms and Limits of the Legislation

According to Article 1, Investment Law No 10 shall apply to

“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.”<sup>5</sup>

The first article in itself sets the tone for the rest of the legislation. Investment projects are to run within the framework of existing development plans and must conform to the general policy of the state. Investors are thus by implication limited to certain state-defined areas of investment.

#### Articles 3 & 4: Fields of Investment

The formal limits of the law are exceptionally wide and vague. Theoretically, according to Article 3, projects can operate (after approval) in the agricultural, industrial, and transport sectors. However, approval for projects lies with the Higher Council of Investment which scrutinises projects according to set criteria.<sup>6</sup>

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<sup>5</sup> SAR, *Investment Law No 10*, article 1

<sup>6</sup> Projects have to be in line with state development plans, utilise local resources as much as possible, increase exports, rationalise imports and have stable assets of not less than Sy£ 10 million.

### Articles 5-9: The Higher Council of Investment & Investment Bureau

The Higher Council of Investment (HCI) comprises a number of Ministers under the Chairmanship of the Prime Minister (article 5). It has the power to approve development projects under Law No.10, it specifies state contributions to the capital of any joint-stock companies set up under Law No.10, it approves feasibility studies for development projects and it assesses foreign funds made available for projects under Law No.10 (article 6). It convenes every two months at least and when otherwise requested by the Chairman (article 7). Under the HCI a Syrian Bureau of Investment (SBI) was set up, affiliated to the Deputy Prime Minister for Economic Affairs, to refer and prepare projects under Investment Law No.10 submitted for approval to the HCI. The Syrian Bureau of Investment is also charged with implementing the decisions made by the HCI, receiving complaints by investors and attempting to settle them (article 8). All information and data offered by investors on their projects to the HCI is to remain confidential (article 9).

### Articles 10-18: Franchises, Privileges & Facilities

Articles 10-18 grant certain privileges and exemptions to investors, covering imports (articles 10, 11, 12), taxation (articles 13, 14, 15), and currency regulations (articles 16, 17, 18).

### Articles 19-21: Joint Ventures

Articles 19, 20, 21 and 22 govern the licensing of joint-venture companies set up as operations between private investors and state-sector companies.

#### Articles 23-26: Investment of External Funds

Article 23 defines external funds to include foreign currency transferred to Syria from abroad, equipment and material necessary to operate projects, profits, revenues and reserves utilised from the investment project, and patent rights and trademarks realised from the project in question. Article 24 allows the re-transfer of the value of the investor's net share in the project after an initial time period, and allows the re-transfer of external (foreign) funds and revenues abroad. Article 25 grants the Central Bank of Syria the right to allow the re-transfer abroad of the above funds. Article 26 governs the insurance of funds invested in projects under Investment Law No.10.

#### Articles 27-39: General Rules

Articles 27-39 cover general rules concerning the legislation, including the time period for approval of projects under the law (article 27), accounting procedures to be followed (article 28), instances in which privileges granted under the law can be withdrawn (articles 29-31), the transfer of ownership (article 32), supplementary articles concerning existing legislation (articles 33-36), salary transfer arrangements for expatriate workers (article 37), and arrangements for the implementation and publication of the law (articles 38 & 39)

#### Summary of Articles of Investment Law No 10

Bypassing certain then-existing regulations and laws<sup>7</sup>, Investment Law No 10 in short allowed private investors (both Syrian and non-Syrian) to operate in areas where their presence had previously been prohibited. Foreign investors and domestic

companies were now treated equally in the eyes of the law.<sup>8</sup> And, 'according to the articles of the law, all projects enjoy exemptions, privileges, facilities and guarantees.'<sup>9</sup> The most important ones in summary include:

- the exemption from duties and taxes on the import of a business's requirements in setting up and running the project (article 12)
- tax relief on the operations of joint stock companies for a period of 7 years, other companies up to 5 years (article 13)
- the right to open an account in foreign currency at the Commercial Bank of Syria<sup>10</sup> (article 16)
- the right to transfer in foreign currency out of Syria the net capital initially invested in the project (article 24a)
- the annual transfer of profits and revenues in foreign currency (article 24c)
- the transfer abroad, in foreign currency, of 50% of expatriate workers' earnings and 100% of any compensation awarded at the end of their services (article 37).

Given that under Law 24 of the Syrian Criminal Code (which was still in force until 2000) it was illegal for Syrian nationals to hold any amount of foreign currency, the provisions of the above legislation passed in 1991 seem revolutionary. Before examining how the legislation works in practice however, the actual application

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<sup>7</sup> These included Law No 24 and Legislative Decree No 10

<sup>8</sup> However, the actuality of the fairness of the legal process in Syrian civil courts is open to debate; according to Interviewee 5, a foreign company would simply have no chance in a civil suit against a domestic Syrian company, even if the issue of corruption did not arise. Interview 5, Damascus, 29<sup>th</sup> February 1998

<sup>9</sup> SAR, *Investment Law No 10*, article 10

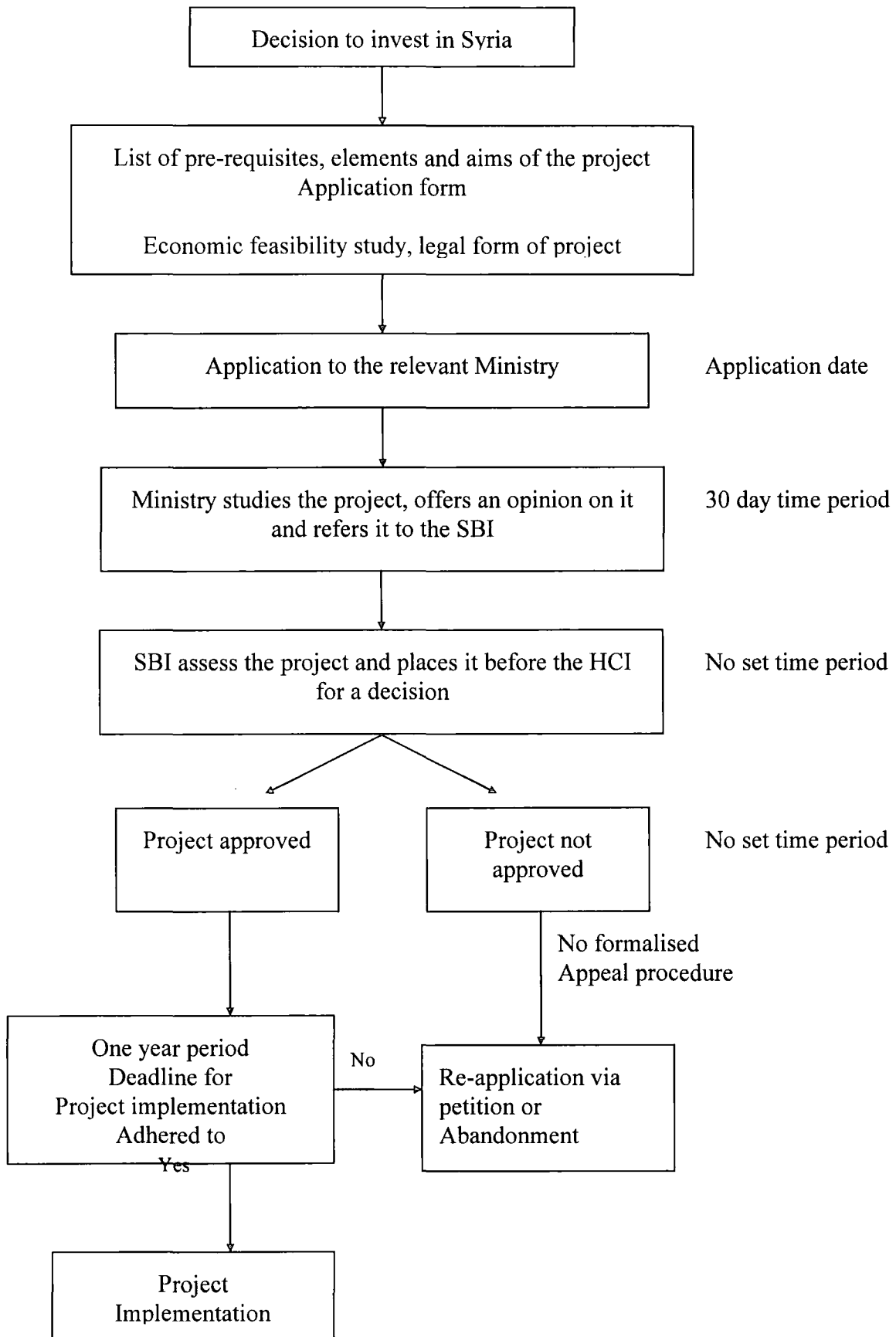
<sup>10</sup> Branch 14 (Damascus) and Branch 16 (Aleppo) of the Commercial Bank of Syria have been specifically designated to deal with accounts opened under the rules of Investment Law No 10

procedure for the approval of an investment project under Investment Law No 10 has to be looked at in more detail.

### **3.4. Application Procedure for a Project under Investment Law No. 10**

The procedure for applying for a licence to operate under Investment Law No 10 seems straightforward. After the initial decision to invest, a list of prerequisites for the project, an application form and economic study have to be prepared. These are then submitted to the relevant Ministry for analysis (in most cases this will be the Ministry for Industry, Ministry of Tourism, or Ministry of Transport). Within 30 days from the date of the application, the Ministry has to refer the project proposal to the SBI, along with its own recommendation and analysis of the project. The SBI then adds its own recommendation and analysis of the project's value to the Syrian economy under the guidelines laid down in Investment Law No. 10 (articles 1 & 4) to the Ministry's analysis. The SBI then submits the proposal to the HCI for its decision. If the project is approved by the HCI, the potential investor has one calendar year to initiate the implementation of the project; otherwise the licence is revoked. If the project is not approved by the HCI, there is no provision for any formal appeal other than following material changes to the project in question. The investor must either abandon his project or materially modify it and reapply using a petition to the Ministry. The HCI does not have to give any reasons for refusing a licence. The framework of application is described in the following diagram:

Figure 9: Approval Procedure for Investment Projects



The particular Ministries are thus in theory only the conduits of the application procedure. The decision-making process begins with the assessment of the individual project by the SBI, and is mirrored in the SBI's submission to the HCI. According to Investment Law No 10 (article 5), the Director of the SBI is a voting member of the HCI. Although the decisions of the HCI are confidential, it can be argued that submissions that carry a positive recommendation from the forwarding Ministry and the SBI are unlikely to be refused a licence from the HCI. Although it would be formally inaccurate to describe HCI approval as a rubberstamp for projects already approved and supported by the SBI and relevant Ministries, the actual figures of approved projects do indicate a large amount of approvals for projects in a short period of time. Between 1991 and 1996, 1476 projects (representing a total investment of US\$ 6.5 Billion) were approved under Investment Law No 10.<sup>11</sup> If the average span of bi-monthly meetings is transposed to these approved projects from June 1991 (when the HCI was inaugurated) to the end of 1996, this must have meant that on average 44.7 projects were approved by the HCI during every meeting.<sup>12</sup> Notwithstanding a large number of projects which by necessity must have been fairly straightforward, it still leads us to the necessary conclusion that detailed analysis and discussion of the merits and demerits of a particular project will have been carried out by the relevant Ministry and the SBI in advance, rather than by the HCI itself. Thus the decision-making process must be localised within the relevant Ministries and the SBI itself, rather than, as the letter of the legislation suggests, within the HCI.

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<sup>11</sup> Interview 1, Damascus 11<sup>th</sup> March 1998

<sup>12</sup> A meeting every two months from June 1991 would have resulted in 33 meetings to end 1996, averaging almost 45 projects approved per session of the HCI.

### 3.5 Achievements of Investment Law No. 10

The apparent achievements of the law are represented in the following figures:

Figure 10: Project Data for Investment Law No 10<sup>13</sup>

a) Number of Projects Approved as a Percentage of Total Projects (to end 1996)

<b>Industry</b>	<b>44.0%</b>	<b>(649 projects)</b>
<b>Transport</b>	<b>53.0%</b>	<b>(782 projects)</b>
<b>Agriculture</b>	<b>03.0%</b>	<b>(045 projects)</b>

b) Capital Invested as a Percentage of the Total According to Sector

<b>Industry</b>	<b>68.0%</b>
<b>Transport</b>	<b>24.0%</b>
<b>Agriculture</b>	<b>08.0%</b>

c) Potential Jobs Created as a Percentage of the Total

<b>Industry</b>	<b>53.0%</b>
<b>Transport</b>	<b>43.3%</b>
<b>Agriculture</b>	<b>03.7%</b>

Industry includes diverse small and medium-scale investment projects in almost all areas of the economy, and transport covers the area of tourist and commercial car and minibus hire firms. Agriculture is covered by a number of

<sup>13</sup> Interview 1, Damascus, 11<sup>th</sup> March 1998

medium and large-scale projects, usually in agreement with local co-operatives.<sup>14</sup> Short-term projects offering immediate returns on capital invested became very popular projects under Investment Law No. 10 and continue to form the overwhelming share of projects under Investment Law No. 10, whilst projects approved under Investment Law No. 10 to the end of 1996 would theoretically provide 102,000 job opportunities.<sup>15</sup> The legal ownership status of the projects approved in the period 1991-1996 under Investment Law No. 10 can be individually defined as follows:

Figure 11: Legal Ownership of Investment Projects 1991-1996<sup>16</sup>

<b><u>Status of Projects</u></b>	
<b>Individually Owned</b>	668
<b>Joint Companies</b>	352
<b>Limited Partnership Companies</b>	311
<b>Limited Liability Companies</b>	95
<b>Limited Joint-Stock Companies</b>	39
<b>Shareholder Companies</b>	10
<b>Standing Companies</b>	1
<b><u>Total</u></b>	1476

<sup>14</sup> Most private investment in agriculture is still covered by Executive Decree No. 10 of 1986, allowing substantial private investment in particular agricultural projects - most projects prefer to continue to operate under Decree No. 10 rather than make the switch to operating under Investment Law No. 10. This seems strange at first, however the reason given for this preference is that the amount of bureaucracy involved in an Investment Law No. 10 project is simply too formidable.

<sup>15</sup> Syrian Bureau of Investment, *May 1996 statistical abstract*, Damascus, 1996

<sup>16</sup> Interview 1, Damascus, 11<sup>th</sup> March 1998

From these last figures available, only 280 projects approved under Investment Law No 10 have a foreign ownership component at all (apparently amounting to 60% of the total investment in these projects) and of these, only 40 to 50 are partly owned by non-Arab foreign investors. Of the 280 projects with a foreign ownership component, 30 are fully privately owned, of which just a handful have foreign non-Arab investors as participants.<sup>17</sup> The above statistics only cover approved projects by the Syrian Bureau of Investment.

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<sup>17</sup> Interview 1, Damascus, 11<sup>th</sup> March 1998. The SBI officially refuses categorically to disclose any figures concerning the ownership of companies registered with it under Investment Law No 10. Syrian companies are extremely reluctant to disclose shareholding arrangements or foreign participation, if only for tax reasons. One Syrian company director even went so far as to categorically deny that they held a minority stake in another, majority foreign-owned, firm, although this had been documented and verified by the firm in question previously to the author. (Gharoui Trading holding a 10% passive participation stake in Nestle Syria SA).

### 3.6. Implementation of Projects under Investment Law No 10

Data on actual projects carried out is difficult to assess and to quantify, if not impossible. Syrian data on the investment legislation is vague and ambiguous. In addition, data on individual projects is confidential (Investment Law No. 10, article 9). According to Mohammed Saraqbi, the Director of the Syrian Bureau of Investment, execution rates were 'good' in 1998.<sup>18</sup> However, one of the main criticisms of Investment Law No 10 has been that the **actual** implementation rate of projects lags well behind the theoretical rate of approval. The following figures for **actually executed** projects were obtained through unofficial channels<sup>19</sup>, are based on a confidential internal report from the Syrian Bureau of Investment to the Council of Ministers and thus should be treated with caution. However they do offer a valuable insight into the gap between theory and practice with regard to the investment legislation.

Figure 12: Projects operating under Investment Law No 10

a) Projects in the Industrial sector

<u>Execution % of approved projects by April 1998</u>	
Approved in 1992	95.3 %
Approved in 1993	60.0 %
Approved in 1994	55.0 %
Approved in 1995	40.0 %
Approved in 1996	35.0 %
Approved in 1997	15.0 %

<sup>18</sup> Interview 6, Damascus, 16<sup>th</sup> March 1998

<sup>19</sup> Interview 1, Damascus, 11<sup>th</sup> March 1998

b) Projects in the Transport Sector

<u>Execution % of approved projects by April 1998</u>	
Approved in 1991	98.4 %
Approved in 1992	90.0 %
Approved in 1993	60.0 %
Approved in 1994	55.0 %
Approved in 1995	40.0 %
Approved in 1996	30.0 %
Approved in 1997	20.0 %

The lack of industrial projects approved in 1991 (fig 12a ) can be explained by the fact that no industrial projects were approved by the SBI until the end of 1991.<sup>20</sup> This was not due to the fact that industrial projects were declined, or that no industrial projects were put forward for approval; it was rather the case that the SBI was simply unable to process any industrial projects by the end of the year in question. This could be due to a number of factors; namely that industrial projects tend to be more complex and complicated than straightforward transport projects, or that a number of influential figures in the regime structure put forward their personal schemes in the transport sector for approval and were accorded preferential treatment.<sup>21</sup> The figures for transport projects approved in 1991 and 1992 indeed show an interesting and rapid execution level, transport projects being overwhelmingly small-scale car and mini-bus hire firms set up by Syrians to satisfy

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<sup>20</sup> Interview 1, Damascus, 11<sup>th</sup> March 1998

<sup>21</sup> Interview 5, Damascus, 24<sup>th</sup> February 1998

the high pent-up demand for private cars which existed in 1991.<sup>22</sup> The example of transport is useful because 24% of the total capital invested under Investment Law No. 10 is in the transport sector, with a total of 782 projects approved under Investment Law No 10 between 1991 and 1996 being transport projects. These numbers represent almost 53% of all projects approved under Investment Law No 10 between 1991 and 1996. The conclusion from these figures is that the majority of projects approved under Investment Law No. 10 were projects requiring only limited start-up capital, were projects within the broader service industries, rather than the productive areas of industry, and were projects satisfying an obvious and immediate consumer demand.

If we take the above data and apply the formal condition of the legislation which imposes a one-year maximum period between approval of a project licence and the beginning of the actual implementation period of the project, the following figures concerning projects approved, but not implemented can be calculated. These figures represent all projects which were granted a project licence by the HCI but have not been implemented within the one-year time limit. This means that these projects, if they were still feasible, would need a new licence from the HCI and would have to go through the entire application procedure again.

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<sup>22</sup> Interview 9, Damascus, 9<sup>th</sup> March 1998

Figure 13: Projects Approved, but not Operating under Investment Law No. 10

a) Projects in the Industrial sector

<b><u>Non-Execution % of approved projects by April 1998</u></b>	
Approved in 1992	04.7 %
Approved in 1993	40.0 %
Approved in 1994	45.0 %
Approved in 1995	60.0 %
Approved in 1996	65.0 %
Approved in 1997	85.0 %(*)

(\*) This percentage will adjust as projects approved in 1997 had until the end of 1998 to be implemented

b) Projects in the Transport Sector

<b><u>Execution % of approved projects by April 1998</u></b>	
Approved in 1991	01.6 %
Approved in 1992	10.0 %
Approved in 1993	40.0 %
Approved in 1994	45.0 %
Approved in 1995	60.0 %
Approved in 1996	70.0 %
Approved in 1997	80.0 %(*)

(\*) This percentage will adjust as projects approved in 1997 had until the end of 1998 to be implemented

By February 1998, 1514 projects under Law No 10 had been approved, with a total capital of Sy£ 358.5 billion invested, with 20% of the projects registered as industrial projects and 42% of the projects registered as tourism or transport

projects.<sup>23</sup> The above figures do not take the subsequent failure of executed projects into account, and figures concerning this aspect were not available. It is highly doubtful whether the SBI itself has any reliable data on this subject. One of the interesting aspects concerning the above data is that once a project has been approved by the Syrian Bureau of Investment under Investment Law No. 10, there appears to be little or no actual control or quantification by the Syrian Bureau of Investment as to how or when the project is actually implemented. In theory, the legislation allows (as mentioned above) for a one-year grace period between the granting of a licence and the beginning of implementation. However, there is in practice nothing to stop a project being implemented on what could be described as a piecemeal basis.<sup>24</sup>

According to other informed sources, overall only 25% of all projects approved during the period 1991-1997 were actually operating in 1998.<sup>25</sup> The large discrepancy between the official/semi-official figures and the figures obtained via unofficial channels make apparent the difficulties that exist in the Syrian economy concerning the rate of success of the Investment Legislation in attracting private investment. It remains impossible to accurately statistically measure the actual success or failure of the legislation, as the only execution figures available are estimates based on a report submitted to the Higher Investment Council, which seems overly optimistic. No data on the actual implementation rate for projects under Investment Law No 10 have previously been made available outside the Syrian government.

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<sup>23</sup>Interview 1, Damascus, 11<sup>th</sup> March 1998

<sup>24</sup>Implementation does not have to be continuous – unofficial SBI sources admitted that implementation could range from renting office space to importing nominal amounts of machinery. In addition, policing of the one-year time limit appeared to be extremely lax.

The overall picture of projects under Investment Law No 10 is therefore one of confusion, with a large number of projects being accepted by the SBI and approved by the HCI, but the actual execution rate of these projects lagging well behind the approval rate. However, what **can** be assessed are the actual difficulties for firms operating under Investment Law No.10. From these concerns a number of conclusions can be drawn regarding the advisability of firms wishing to operate in Syria using Investment Law No.10. The actual contents of the legislation itself give rise to a number of concerns:

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<sup>25</sup> Interview 5, Damascus, 24<sup>th</sup> February 1998

### 3.7. Problems within Investment Law No. 10

From actual experiences related by interviewees, it was possible to identify a number of problem areas within Investment Law No 10 including,

- the degree of differentiation between projects and the incentives offered to them or rather, as some argued, the lack of adequate differentiation
- the lack of differentiation between geographical areas
- limited periods of tax exemption
- the lack of a 'one-stop shop' to provide information, advice and guidance and to approve projects under Investment Law No.10
- unseen changes and conditionalities to the law

During a debate on Investment Law No 10 in the People's Assembly, one deputy commented,

“the obstructions hampering the implementation of the law which cropped up in the course of execution left their marks on the investments and the investors. There is a plethora of resolutions to abort the legislation in force. The investor sees a stark contrast between what he sees, and on the basis of which he makes plans, and what he runs into during the execution phase [...] Syria tops the list of countries in red tape and bureaucracy when it comes to economy and investment.”<sup>26</sup>

Businesses operating under Investment Law No 10 complain on a regular basis that the local administration, indeed the national Ministries dealing with various aspects of business, have little or no inclination to assist or help firms without the promised payment of direct financial inducements to particular officials. If these inducements are not forthcoming, then approval for import licences for example can

be inexplicably delayed. An additional problem is that although Investment Law No.10 is widely known, the particular provisions of the legislation are often confused, assumed, or ignored by officials in other Ministries.

Difficulties with the legislation can be broken down into the following detailed criteria:

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<sup>26</sup> Speech by Hashim Anwar Al-Aqqad MP, People's Assembly, 1<sup>st</sup> March 1997

### 3.7.1. Project Differentiation

The offering of identical incentives to all types of projects approved under Investment Law No 10 has resulted in the majority of projects being started in areas where the necessary initial investment is lowest and the possible capital returns are highest. A number of Syrian businessmen operating under Investment Law No 10 believe that as a result, available investment capital was drawn away from more 'productive' sectors of the economy. Productive in this sense implies productive in terms of generating jobs, regenerating economic activity and raising the general prosperity of the community, rather than directly relating to the level of profit achievable by the individual investor. This implies that investments in industry and productive areas of the economy were neglected in favour of service-based enterprises. In particular, and this is a notorious example, Investment Law No.10 was used (or abused) to meet the pent-up demand for foreign cars.<sup>27</sup> Many Syrian observers of the Syrian investment scene were outraged (or wryly amused) by the large number of transport projects approved, constituting 24% of the total capital invested under Investment Law No 10. Some would suggest that projects which create jobs, invigorating the employment market and lowering unemployment should be offered additional legislative benefits. If it had been the legislators' sincere intention to

“direct the surplus of funds towards development and production [...] within the framework of making use of all potentials available to the private and joint sectors [...] encouraging them to build up the economic and development foundation of the country”<sup>28</sup>

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<sup>27</sup> Investors imported cars under Article 11 of the law to use as long-term rental cars, thus avoiding the 180% import tax levied on cars under one tonne and the 280% tax on cars over one tonne. The government sought to restrict such practices by limiting leasing contracts to one month but operators easily sidestepped this by simply renewing agreements each month.

<sup>28</sup> SAR, *Investment Law No 10*, Introduction

then they should have theoretically offered more to encourage those investors who put Sy£ 59.2 billion into transport projects to invest their money in industry and manufacturing instead. According to this viewpoint (expressed by a number of interviewees)<sup>29</sup> the general provisions of the law would have to be clarified to provide less scope for unpredictable decisions on who should be allowed to apply. Problems are inevitable if the system depends on officials discriminating between investments deemed to be 'good' and investments deemed to be 'bad'. If it is down to officials to decide on a purely subjective level which projects should be approved and which should not, there is obviously (and pointed out in interviews)<sup>30</sup> theoretical scope for abuses within the system. Additionally, there are no provisions for an established formal appeal procedure against decisions made by the SBI.

It was however pointed out by officials<sup>31</sup> that the majority of capital invested has been in industrial projects, although clearly more long-term industrial investment would already have been attracted to Syria had certain business conditions been improved. One government official explained that the comparative absence of long-term projects amounted to little more than a temporary statistical hiatus,<sup>32</sup> however, this comment was only to be expected from an official giving the official explanation to this problem and should be treated with caution - given the fact that the comparative lack of long-term projects has remained a permanent feature of the investment legislation since 1991, there is clearly a need for this aspect of the legislation to be reassessed. Of course, if one steps back from the purely legislative

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<sup>29</sup> Interview 5, Damascus, 24<sup>th</sup> February 1998

<sup>30</sup> Interview 5, Damascus, 24<sup>th</sup> February 1998

<sup>31</sup> Interview 1, Damascus, 11<sup>th</sup> March 1998

<sup>32</sup> Interview 1, Damascus, 11<sup>th</sup> March 1998

approach to the implementation of Investment Law No 10, the reason for the preponderance of small-scale transport projects becomes abundantly clear: individual Syrians were using the legislation to convert illegal foreign currency holdings (possibly gained in the smuggling conduit between Syria and Lebanon) into tangible assets as quickly as possible; and the immediate tangible asset relatively safe from immediate depreciation in Syria is a car.

The lack of differentiation according to sector continues to pose a difficult dilemma however - if differentiation is not offered, the current unsatisfactory status quo will by necessity, and fuelled by demand, continue. If differentiation towards specific individual industries is offered however, Syrian private investors are in turn quite capable of weaving together a web of interlocking companies aimed at maximising the potential extra benefits available, whilst continuing to invest the minimum amount of capital necessary to return the highest amount of profit.

### 3.7.2. Geographical Differentiation

The same investment incentives are generally available wherever a project is to be geographically sited. As a result, approximately 56% of projects approved under Investment Law No 10 are based in and around Damascus and Damascus Region. The Syrian capital offers a level of infrastructure and services that is much better than those in other parts of the country. There is a readily available workforce, a large local consumer market for goods, well-maintained domestic and international transport links and connections, a generally good standard of infrastructural services, and the Ministries and offices relevant to private investment projects are all to be found there. Around 22% of approved projects are intended for Aleppo which offers a comparable infrastructure and services generally on a par with Damascus. Only 22% of projects are intended for other less developed areas of the country where services and infrastructure are much poorer.<sup>33</sup> These traditional differences have historically encouraged the drift of the population towards the major cities, causing overcrowding and increased unemployment in urban areas, a situation that continues to exist and which the small proportion of Investment Law No.10 projects in rural areas has done nothing to alleviate. Extra investment incentives outside urban areas could possibly lessen this continuing grave problem. However many of those interviewed were of the opinion that differentiation in the legislation should be minimised and that instead infrastructure expenditure should be increased to create more ready-prepared business parks and manufacturing areas outside the urban areas.<sup>34</sup> This would allow investors greater freedom in their choice of location and would lead to a beneficial development of Syria's rural areas. The provision of added legislative incentives to projects set up

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<sup>33</sup> Interview 2, Damascus, 30<sup>th</sup> January 1998

<sup>34</sup> Interview 13, Damascus, 28<sup>th</sup> February 1998

outside Damascus and Aleppo would probably only be effective in the short-term.<sup>35</sup> The effects of recent amendments to the legislation, allowing extra tax breaks for firms set up outside Damascus and Aleppo<sup>36</sup>, remain to be assessed. However, it appears that these changes are not fundamental to the nature of the legislation and indeed will only have a short-term effect, if at all, given the fundamental and continuing difficulties of operating outside the two principal conurbations in Syria (although Homs, Hama and Lattakia have all attracted Investment Law No.10 projects). Nevertheless, one could argue that business parks and production centres (with the added caveat of the provision of adequate infrastructure) away from the two major conurbations would also be less prone to possible direct interference by various Ministries.

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<sup>35</sup> Interview 5, Damascus, 24<sup>th</sup> February 1998

<sup>36</sup> Cabinet Decree No 6, reported in MEED, 18<sup>th</sup> September 1998, p 17

### 3.7.3. Limited Periods of Tax Exemption

The limitation of tax exemption to seven years for joint stock companies and five years for other companies under Investment Law No.10 is widely seen as an insufficient incentive to those companies intending to continue operations after these exemptions have expired. These tax exemptions were originally intended by the legislators<sup>37</sup> to allow projects to fully establish themselves, or even to begin to return in profits the original capital invested, before assessment for taxation began. When Syria was experiencing an economic upturn, many projects might have achieved that goal, but industrial and manufacturing projects in particular often require a longer time period to move into profit (this is another negative incentive for investors to avoid manufacturing and industrial investment projects). Given the economic climate in Syria from the mid 1990's onward, almost any business must expect to take longer to move into profit, and this must be inevitably associated with a high degree of uncertainty. Given the severity of Syria's tax laws, it is understandable that a number of businessmen have opted for short-term projects. Because Investment Law No.10 effectively encouraged investment in projects likely to make a quick return, it has proved particularly vulnerable to a downturn in the domestic economic climate. Syria will need investors with a longer-term commitment to their investment and to the Syrian economy which will enable them to invest even when prospects for immediate and rapid profits are not ideal. Time-limited tax exemptions alone, even if they are relatively generous when measured internationally<sup>38</sup>, will not attract such investors.

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<sup>37</sup> Interview 14, Damascus, 13<sup>th</sup> March 1998

<sup>38</sup> Tax-free exemption periods vary widely. Syria is formally offering a generous time period. Generally, the time limit can also be negotiated individually between the host country and the investor. In the case of Syria, unconfirmed reports suggest that this might have recently occurred in the investment of the planned Four Seasons Hotel in Damascus, signed under the general provisions of Investment Law No 10 with a number of confidential modifications. As the legislators drafted a seven

#### 3.7.4. Lack of a 'One-Stop Shop'

The Higher Council of Investment was created under Investment Law No.10 to "have investors deal with a single authority, thus avoiding red-tape and saving time"<sup>39</sup>. Whilst the approval of projects itself is indeed handled through the HCI<sup>40</sup>, most investors feel that the notion that they will be able to manage the remaining bureaucratic aspects of establishing a business in Syria through a 'single authority' is an optimistic and misleading one. A country with so complex a bureaucracy as Syria needs, in the opinion of many interviewees<sup>41</sup>, one office to cater for all the needs of investors. Such an office should offer objective and expert advice on how to establish and run an operation, and should handle the swift approval and provision of all a business' basic needs such as land, electricity, water and telephone lines, the problem-free provision of which the investor should currently **not** take for granted. The Syrian Bureau of Investment (SBI), created under Investment Law No 10, was described by one interviewee as a 'mailbox'<sup>42</sup>, and does not at present offer these comprehensive services. This is doubly unfortunate as some investors spoke of what they perceived as harassment from bureaucratic circles.<sup>43</sup> The difficulty remains that there is a plethora of various Ministries and departments which investors have to deal with

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year period into the original legislation after consulting other investment legislation (see 3.1.), it must be assumed that there are other obstacles to investment in Syria. See Chapter 4.

<sup>39</sup> Interview 1, Damascus, 11<sup>th</sup> March 1998

<sup>40</sup> Comprising the Prime Minister, The Deputy Prime Minister for Economic Affairs, the Deputy Prime Minister for Services Affairs, the Ministers of Agriculture and Agrarian Reform, Transport, Supply and Internal Trade, Economy and Foreign Trade, Industry, Planning Affairs, Finance and the Director of the Investment Bureau. Experts and others are invited as necessary.

<sup>41</sup> This sentiment was also expressed by Director of the Investment Bureau himself, when pressed on this issue. He was of the opinion that this failing has been recognised by the authorities and that 'necessary steps' were being taken to increase the staff and the authority of the Investment Bureau; however to date (2003) no further measures seem to have been taken to change the present situation. The current staffing level of the Syrian Investment Bureau stands at nine (including administrative staff and drivers)

<sup>42</sup> Interview 5, Damascus, 24<sup>th</sup> February 1998

during the actual execution phase of a project and the inevitable delays automatically occur as Ministries struggle to allocate responsibility. Investors have often resorted to imaginative solutions to overcome this problem of bureaucratic delay and obfuscation (one foreign investor expressed the opinion that operating in Syria was the most stressful experience he had been through, after postings in 12 different developing countries across the globe).<sup>44</sup> One example of this is the case of a foreign investor based in the Damascene countryside. His private accommodation was next to that of a particular General in the Armed Forces, who in return for a certain level of consideration ensured that the Syrian Army supplied the investor's factory at start-up with a water pipeline and electricity in half the time it would have taken the state water and electricity boards to deliver the necessary infrastructure (naturally to be paid for by the investor). The SBI had been previously unable to offer any alternative assistance in this case to the investor, who then resorted to the "Syrian way of doing business"<sup>45</sup> to ensure the necessary infrastructure for the operation of his investment.<sup>46</sup>

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<sup>43</sup> Interview 15, Damascus, 24<sup>th</sup> March 1998

<sup>44</sup> Interview 16, Damascus countryside, 20<sup>th</sup> March 1998

<sup>45</sup> Interview 16, Damascus countryside, 20<sup>th</sup> March 1998

<sup>46</sup> Inspection of the electric plant and lines and of the water transport system by the author revealed it to be of Russian military origin with a very high quality of execution.

### 3.7.5. Unseen Changes and Conditionalities

Since 1991, various businessmen have claimed that there have been approximately 200 Governmental Decrees directly affecting Investment Law No. 10 which are not in the virgin text presented to investors. The decrees appear mainly to deal with import restrictions and duties on raw materials. A representative of the Syrian Bureau of Investment categorically stated that there were far fewer than 200 Governmental Decrees of this kind, but was unable to provide exact numbers or specific examples of these secondary pieces of legislation affecting Investment Law No.10 as "every law passes through its own channel".<sup>47</sup> However, most commercial and tax legislation concerning the domestic Syrian economy will affect or influence Investment Law No.10 projects in some way, if only to add further bureaucratic hurdles to an already complex business environment. The situation thus remains extremely unsatisfactory. The Syrian Bureau of Investment did however in 1998 have information on the positive changes planned or recently approved for Investment Law No 10. These included

- additional incentives for projects in rural areas in the form of tax and real estate exemptions (subsequently passed by Cabinet Decree No 6 in September 1998)
- the granting of similar advantages to joint venture and holding companies
- the adjustment of a foreign investors' representation on the board of directors of a joint venture company from one to a figure proportional to his capital

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<sup>47</sup> Interview 1, Damascus, 11th March 1998

share investment (although this seems in fact to be in accord with Article 20 of the original legislation)<sup>48</sup>

- the extension of tax exemption for a joint venture company from five to seven years

Unseen changes and elusive decrees affecting crucial investment legislation make it difficult for businessmen to accurately assess the viability of their projects. To then give subsequent important changes to the legislation less publicity than they merit only makes investors suspicious of Syria's true commitment to private investment. Investment Law No.10 is a useful statement of aims but an imprecise piece of legislation. Parliamentarians have replied to criticism of the legislation that Investment Law No.10 was fashioned deliberately in that way to allow fine-tuning by Presidential Decree once its initial effect on the economy had been observed. Its critics however (and these includes a number of officials and MP's as well as businessmen)<sup>49</sup> describe it as a working paper, rather than a piece of legislation, effective as a mission statement but lacking in essential legal detail. According to a number of interviewees<sup>50</sup>, the vagueness of individual articles leaves far too much room for interpretation and therefore allows investors either to deliberately exploit or to unintentionally contravene the law.

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<sup>48</sup> Art 20a: "The joint-stock company will have a board of directors in which share-holders are represented according to the percentage of their subscription in the company's capital."

<sup>49</sup> Interview 2, Interview 5, Interview 15, Interview 16

<sup>50</sup> Interview 2, Interview 17

### **3.8. Conditionalities in Investment Law No.10**

The actual words of Investment Law No.10 are also qualified in significant respects. Some of these conditionalities are raised in the law itself, others in an Executive Appendix separate to the legislation, other conditionalities are not included in either, but appear in apparently unrelated legislation. Based on the fundamental premise of the legislation; that Investment Law No.10 will allow private enterprise to operate within the closed Syrian economy, the most important conditionalities affecting this premise in the legislation are perhaps the following:

#### Article 11 (a) & (b)

*These clauses appear to allow the duty-free import of everything necessary for the establishment of a project.*

#### Conditionalities

These exemptions are very likely to be modified in actual practice. Article 12 (a) implicitly states that any imported equipment sold on or abandoned to a third party without the prior permission of the Higher Council of Investment automatically becomes liable to the imposition of the initial duties from which it was exempted. It remains unclear whether the investor must pay duties on any equipment sold or abandoned upon the conclusion or failure of a project. In either circumstance, it remains unclear whether seeking the permission of the Higher Council of Investment will automatically exempt you from paying duties on sold or abandoned equipment. In a paper assessing Investment Law No.10, Mohammed Saraqbi, Director of the Syrian Bureau of Investment, suggests that duties are indeed payable when equipment is passed on to a third party, even if permission to do so has been obtained;

“Article 12 [...] stipulates that relinquishing those imports is subject to an approval by the Higher Investment Council and after payment of the taxes and fees assessed on their current condition”<sup>51</sup>

The duty-free import of goods at the beginning of a project is thus probably only a temporary incentive. Article 30 (a) of Investment Law No 10 declares that any attempt to sell or abandon equipment exempted from import duties under Article 11 will result in either the levying of customs fees and fines on the project’s operations, or, if the offence is repeated, the cancellation of the project’s status under Investment Law No.10. It seems all too easy for a large operation to inadvertently break this law and thus automatically forfeit its privileged status, without being actually aware of this fact in the first place. It also seems that for such a relatively minor infringement (given that no minimum value of the item or equipment is stated in the legislation), the censure of loss of status under Investment Law No 10 seems draconian indeed.

#### Article 11 (c)

*This clause permits the import of ‘all materials and requirements necessary for running these projects’ despite laws prohibiting their entry into Syria*<sup>52</sup>

#### Conditionalities

This clause does indeed permit the importation of goods and raw materials for the continued operation of a project under Investment Law No 10 (as opposed to the establishment of a project), but it does **not** reveal that a specific import licence is required for each and every individual item entering Syria or that full import duties

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<sup>51</sup> M. Saraqbi ‘*On Investment Law No.10*’, internal Syrian Bureau of Investment paper, Damascus 1997

must be paid on every item. Under Investment Law No.10, raw material imports usually prohibited under Syrian law require import licenses for all individual items valued at more than Sy£ 2000 (approx. US\$ 40) and import taxation tariffs can range from 0% to 200%. In view of state monopolies over certain areas of production, some imports may additionally be subject to special exceptional tariffs above and beyond the normal levels of import taxation imposed by the authorities. Import duties on products vary widely and can be punitive in the extreme. Decrees regarding changes to import arrangements and duties, from which the investor has no redress or right of appeal, are announced without warning or prior consultation. It can also take time to move goods through customs. Businessmen complain that items in customs are sometimes permanently removed or are tampered with.<sup>53</sup> It is not uncommon to have to 'expedite' goods through customs. This is not a problem confined to investors under Investment Law No.10 - problems and delays in the legal system governing imports into the Syrian Arab Republic can often be legion for companies wishing to simply trade or do business with the Syrian government or individual Syrian firms. Again, contact with individual members of the Customs Inspectorate or with officials within the Ministry of Trade can often accelerate matters considerably.

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<sup>52</sup> Other laws in this context refer to legislation governing the import of goods prohibited under Syrian law for the protection of domestic industries, and legislation governing the import of a number of luxury goods.

<sup>53</sup> One representative of a foreign investor complained that his materials were left in the customs area of Damascus Airport for so long that the use-by date on the basic food ingredients needed for a production process was exceeded by 3 months. The outcome was that production of a particular product line was delayed by 6 months and that as a consequence a domestic Syrian producer was able to launch a competing product before the investor. It seems reasonable to suspect that an agreement was reached between the customs authorities (or individual officials) and the competing domestic producer. Interview 18, Damascus, 15<sup>th</sup> March 1998

### Article 13 (a) & (b)

*Article 13 declares that projects are exempted from all taxes levied on income and real estate for periods of 5 or 7 years 'from the date of actual production or investment according to the nature of the project'. (Emphasis added)*

### Conditionalities

It is presumably the decision of the Higher Council of Investment as to when the period of tax exemption begins. The decision is taken on a case-by-case basis. There is no general indication which particular type of projects or which particular areas of investment qualify for the advantageous exemption from taxation from the date of actual production as opposed to the date of investment (which could be construed as running from the date of application for an investment licence under Investment Law No.10 from the Higher Investment Council). The lack of a precise moment for beginning the exemption period could very well complicate a business' financial strategy and lead to further uncertainty.

### Article 18

*This article allows investors to obtain loans in local currency (Sy£) from the Commercial Bank of Syria*

### Conditionalities

The investor is in fact unable to take out a 'real' loan, i.e. to borrow money he does not already have. In fact, following a deposit of foreign (hard) currency in a particular account of the Commercial Bank of Syria, the investor can then take out a loan in local currency equivalent to 80% of the total foreign currency deposited

(according to the official exchange rate); he is also able to take a loan against a local property guarantee (i.e. the investor's factory or site of production in Syria). Guarantees from foreign banks are not sufficient guarantee to obtain a loan in Syria. Loans may only be taken for one year. After that time the investor may, theoretically, renew the loan at the prevailing rate of interest. It is currently impossible to obtain a loan in foreign currency from the Central Bank of Syria, or indeed any of the other banks operating in the SAR. Loans in foreign currency from foreign banks outside Syria (i.e. Lebanon), can, of course, be transferred to the Commercial Bank of Syria, and then used as a guarantee against a local-currency loan.

#### Article 24 (c), Article 25 & Article 37

*These clauses appear to give investors the facility to repatriate their profits from their operations in Syria annually in foreign currency abroad, and workers to repatriate 50% of their wages and 100% of any terminal compensation award, both in foreign currencies.*

#### Conditionalities

These clauses are perhaps the most important incentives for foreign investors (both Arab and non-Arab) contained in Investment Law No.10. These currency transactions have never been allowed in Syria before under the socialist Ba'ath regimes, and were one of the reasons why the passing of Investment Law No.10 aroused so much comment and excitement amongst foreign observers of the Syrian economy. These novel clauses are however undermined by an alarming admission in the Executive Appendix. In the financial section, headed 'Guarantee by the Central Bank' it states;

'in order to increase trust and confidence from the part of investors from Arab and foreign countries, article 25 of the draft law provides that the Central Bank of Syria shall take the necessary actions to permit the transfer abroad of invested foreign capital and profits and interests incurred thereon, either in the same currency in which it has been bought to the country or in any other convertible currency. It is clear that the said provisions constitute a guarantee that permission shall be given to effect the transfer, but they do not constitute in any way a guarantee that foreign currencies shall be available for conversion of Syrian currency into them in order to effect the said transfer, since [...] the investment project itself ought to earn foreign currencies needed to cover all its needs.' (Emphasis added)<sup>54</sup>

The stark message is that if the investment operation under Investment Law No.10 itself does not intend to ultimately generate its profits in a foreign convertible currency, the operation has **no guarantee** of being able to convert and repatriate its profits denominated in Syrian pounds. To ensure that he can exchange his Syrian pounds gained as a result of operating at a profit within the Syrian economy for a convertible foreign currency, a investor is therefore faced with the choice of risking his whole operation through illegal trading on the black market<sup>55</sup> or else leaving and re-investing his profits in Syria. This important caveat has the effect of effectively deterring investment aimed at the Syrian domestic market, where all official commercial transactions should of course be carried out in Syrian pounds.

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<sup>54</sup> Executive Appendix to Investment Law No.10

<sup>55</sup> Law No. 24 of the Syrian Criminal Code did not allow Syrian nationals from holding or dealing in foreign currency. The penalties ranged from confiscation and fines to 10-year prison sentences. The legislation has since been amended to allow Syrian nationals to hold foreign currency, however dealing in foreign currency is still prohibited.

### 3.9. Conclusion

The Syrian Arab Republic should in theory have much to offer the commercial private investor, be they Syrian, Arab or foreign. The country's 17 million inhabitants<sup>56</sup>, although constrained by low incomes, represent a large local market for certain products and services. Investment Law No.10 of 1991 was intended to work 'in harmony with the attitudes adopted by many countries in the world to create a convenient investment climate that will help to attract local and foreign capital.'<sup>57</sup>

The adoption of Investment Law No 10 in May 1991 was meant to allow private investors, both domestic and foreign, to invest in Syria. It led to an unprecedented flurry of short-term investment projects, particularly from Syrian businessmen with close ties to the regime, requiring the minimum of investment and delivering the maximum return on capital.<sup>58</sup>

With 1476<sup>59</sup> investment projects approved between 1991 and 1996 totalling some US\$ 6.5 billion, officials of the Syrian government hold up the achievements of Law No 10 as proof that Syria provides an economic atmosphere conducive to efficient business and profitable investment. However, if this analysis is correct, why should businessmen complain bitterly of the frustrations in conducting business in Syria? The documented small number of long-term projects existing under Law No.10

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<sup>56</sup> Energy Information Administration (USA) *Syria Brief*, March 1999

<sup>57</sup> SAR, *Investment Law 10 of 1991*, Introduction

<sup>58</sup> a large number of foreign investors (in the main from the oil and gas sector) also expressed interest in Syria, in particular during the first aftermath of Investment Law No.10; in 1991 14 oil and gas exploration and production companies were at least represented in Syria, by 1997 this number had dropped to 4: Royal Dutch Shell, Elf Aquitaine, Tullow Oil and Denimex

<sup>59</sup> Interview 1, Damascus, 11<sup>th</sup> March 1998

and the comparative lack of non-Arab investors, despite the incentives offered, suggest problems and difficulties within and beyond the provisions offered in the legislation. Despite the incentives offered, Investment Law No.10 has merely provided a further bureaucratic obstacle course for investors rather than a fast-track route for business project implementation. This opinion is backed by the experiences of the businessmen interviewed in Syria and abroad, who in general were unflattering in their opinion of the legislation. The difficulties experienced by investors interested in the undoubted possibilities offered by Syria are manifold, but worth mentioning in this context is the absolute paucity of information available for the putative investor. Official data, according to a source, is "a figment of our imagination"<sup>60</sup> and independent (that is data not associated with official Syrian sources), international economic data on Syria is unreliable, vague and often out-of-date<sup>61</sup>. Those interviewed from the private sector and those unconnected with the government believe that the introduction of Investment Law No.10 was essentially a 'quick fix' and not the correct answer to Syria's long term economic development needs (the political implications of Investment Law No.10 and its introduction are discussed in Chapter 5). The overall deceleration in Syria's economic growth and the continued stagnation of non-oil exports during the second half of the 1990's will require the Syrian government to approach long-term investment with greater seriousness and will not be solved by simply introducing new, isolated pieces of legislation. If Syria is to begin to realise its true economic potential, the opening of opportunities for investment must be matched by a broad review and reform of general economic and

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<sup>60</sup> Interview 5, Damascus, 24<sup>th</sup> February 1998

<sup>61</sup> One example is the rate of unemployment. According to the Syrian government the current unemployment rate is 5%, although estimates by Syrian observers put the rate as high as 20%. Official international statistics mirror the official rate - one that is obviously misleading.

commercial procedures. Syria must put in place the necessary legislative, regulatory and physical infrastructure to make serious long-term investment in Syria more attractive (economic measures and suggestions outside the immediate scope of Investment Law No 10 are discussed in Chapter 4). To encourage serious investors to consider Syria over other countries, the country must begin to compete actively to attract them. Once certain changes have been made, there is no reason why the country should not fulfil its true trading and industrial potential.

In effect Investment Law No.10 has proved to be a law that encourages short-term investment. Moreover, the incentives it provides are only really adequate for Syrian investors already acquainted with local market conditions. Certain aspects of the practical application of the law make it less attractive to foreign investors and to any investor considering initiating a long-term project, which may take time to yield significant profits and results. The law does however represent a modest withdrawal of the state from certain sectors of the economy to allow private investors to begin to explore the physical and human potential of Syria. The private sector has the ability to inject dynamism into the economy in a way that the public sector cannot; however because of the wider economic downturn in Syria, “the dynamism of the private sector will begin to peter out”<sup>62</sup> unless further reforms take place. There are shortcomings in Investment Law No. 10 which seriously damage its attractiveness and effectiveness as a vehicle for investment in Syria. Some of these can be remedied within the framework of specific legislation on foreign investment (such as the minor changes announced in September 1998 regarding location, export percentage allowances, increased representation of foreigners and the eligibility of holding

companies to qualify for Law No. 10 status)<sup>63</sup>, but others demand more fundamental change within the general economic structure of Syria. Indeed, Pölling has rightly concluded that,

“in order for the new legal framework to become fully operational further market reforms are needed to underpin effective private sector involvement [...] speeding up the unification of the multi-tier exchange rate [and] an urgently needed overhaul of the financial and banking sector.”<sup>64</sup>

These, and other specific shortcomings of the Syrian economy outside of Investment Law No.10, will be discussed further in Chapter 4. However, Investment Law No. 10 should be seen in its context as an isolated piece of legislation drafted in haste, or, as a Syrian merchant put it; “more a discussion document than a piece of crafted legislation designed to attract investment capital - the most fickle capital of all.”<sup>65</sup>

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<sup>62</sup> Interview 5, Damascus, 24<sup>th</sup> February 1998

<sup>63</sup> MEED, 18 September 1998, p 17

<sup>64</sup> Pölling, S., *The Role of the Private Sector in the Syrian Economy*, in Hopfinger, H., (ed), Economic Liberalization and Privatization in Socialist Arab Countries, Gotha, Justus Perthes, 1996, p 160

<sup>65</sup> Interview 15, Damascus, 24<sup>th</sup> March 1998

## Chapter 4: Overall factors in Investment in Syria

### 4.1 Introduction

Syria's new leader Bashar al-Assad faces an uphill battle in addressing Syria's economic problems, which include (among other things) corruption, political opposition to reform and public sector control of the economy. His task is further complicated by the fact that he must simultaneously consolidate his power base while coping with international political challenges. However, the reform process that started before President Hafiz al-Assad's death, the new president's smooth accession to power and his popular support all might suggest that he has the backing needed to carry out limited economic reforms and institutional adjustments. But, even if this is the case, Bashar still faces formidable obstacles. Whereas his father was absolute master of what he had built, the new president often seems more like a prisoner of it - of shadowy centers of power in army, intelligence and "the first family" itself. Since he came to power he has been torn between alternative courses - reform or reaction, liberalization or repression - reaching out to the people as his source of authority or falling back on the hidebound "old guard." To add to the particular economic and political situation Syria presents to the investor we must also add the particular dilemma of his succession.

## 4.2 Political Risk

Hafez al Assad himself can clearly be credited with bringing a high degree of political stability to the Syrian Arab Republic. His 30 years in office achieved continuity and certainty and provided for a relatively smooth transfer of power to his son. However, this stability was built on a narrow base and was essentially provided by and supported by a ubiquitous security system. Hafez Assad had concentrated power in the hands of members of his own Alawi community<sup>1</sup>, although a small number of trusted Sunnis were brought into the political elite to appease the Sunni majority, which had traditionally wielded power in Syria. The repressive regime that Assad constructed did not tolerate dissent or allow alternative centres of power to develop.

The political system set up by his father has in the short-term benefited Bashar Al-Assad. The new president's domestic position was also encouraged by the regional situation, especially the historical violence between Israel and Palestinian factions. As with other countries in the region, the Arab Israeli conflict has produced general resonance in Syria, providing and ensuring support for the president and the regime.<sup>2</sup> The consistent stance of the regime with regard to the United States has also helped the regime domestically. Recent US criticism of the regime has raised support for Assad, although the relationship between Syria and the US had not necessarily always been as

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<sup>1</sup> E Zisser, *Asad's Legacy – Syria in Transition*, Hurst, St Martin's Press 2001, p 31

<sup>2</sup> E Zisser, *Asad's Legacy – Syria in Transition*, Hurst, St Martin's Press 2001, p 70

openly confrontational.<sup>3</sup> However Bashar al Assad's long-term survival as president is not automatic. There are signs that he is unwilling to follow all aspects of his father's legacy, and this may bring him into conflict with his father's key supporters. The President has so far moved cautiously in order to avoid antagonising them. However, his attempts to implement economic reform and appoint a new generation of leaders will breach his policy of continuation, which may antagonise powerful elements within the political and military elites. As Zisser has commented,

'the new government raised serious questions regarding Bashar's ability to influence matters and the direction in which Syria is really going. Far from manifesting a new spirit coursing through Syria, the government expressed only the existing state of decay and stagnation.'<sup>4</sup>

In that respect, Bashar with his Cabinet of 2000 was certainly sending a clear political signal that it was to be business as usual.<sup>5</sup> If important elements within the military-security apparatus perceive that he has acted against their interests, they could seek to remove him.<sup>6</sup>

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<sup>3</sup> The 1990/91 Gulf War is a clear example of Syria's long term policy of Arab unity – Assad saw the invasion of Kuwait by Saddam Hussein as a distraction from the core problem of the Middle East; Arab disunity in the face of Israeli aggression

<sup>4</sup> E Zisser, *Asad's Legacy – Syria in Transition*, Hurst, St Martin's Press 2001, p 168

<sup>5</sup> Z.Bar'el, *Cautious Change in Damascus*, *Ha'aretz*, 31<sup>st</sup> March 2000

<sup>6</sup> The recent events in 2005 regarding the Syrian withdrawal from Lebanon and the results of the 10<sup>th</sup> Ba'ath Party Congress have lead to speculation in Syria that the Syrian withdrawal from Lebanon was orchestrated to cause maximum disturbance within the regime apparatus and to weaken Bashar al-Assad's position.

#### 4.2.1 Levels of corruption

Syria's opaque and secretive decision-making processes, the government and state domination of the economy, absurdly low public sector salaries, close ties between politicians and business interests and the accepted Syrian tradition of using public office to advance wider family or tribal interests all create an environment which is inherently susceptible to corruption. Indeed the problem with the Syrian economic environment is that its very core is comprised of informal and societal familial networks, and the introduction of new areas of economic opportunity simply allows these informal networks to spread and develop. Although foreign companies operating in Syria are not legally obliged to use agents, the complexities of the business environment make it necessary, indeed essential to employ an agent with high-level political contacts. This leads to corrupt practices, such as payments to junior officials to expedite bureaucratic processes and, in some cases, bribes to senior officials to secure contracts or other benefits. As Schofield has rightly commented;

“how can anyone expect the director-general of a government ministry to close deals worth tens of millions of dollars when his own salary is scarcely enough to feed and clothe his family – and not be tempted by a bribe ?”<sup>7</sup>

Companies from Organisation for Economic Cooperation and Development countries face the risk of prosecution in their home country for involvement in corrupt practices; US companies, although currently barred from trading with Syria, must normally ensure that they comply with the Foreign Corrupt Practices Act.

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<sup>7</sup> J.Schofield, *Trade & Economic Reforms*, Financial Times, 26<sup>th</sup> November 1999

#### 4.2.2 Levels of violence

Very isolated and rare terrorist bombings in Syria pose only a very remote threat to Western investors. More possible is the likelihood of growing civil unrest stemming from increasing inequalities of income. More specifically, the slow pace of any incremental economic reform has resulted in a decline in real per capita income and a rise in unemployment; in particular amongst the young and newly-qualified. Whilst in 1978 the official unemployment rate in Syria was set at 1.6%, this had risen by 1991 to 2.7%.

As Rivlin has commented;

These official figures understate the problem of unemployment, but the fact that the official rate rose is an indication that the problem is becoming more serious. There is also a problem of underemployment: workers in the public sector and elsewhere who produce little and are a burden on the organizations that employ them and the economy as a whole.<sup>8</sup>

Political opposition to the regime was held in check until the death of Hafez Al-Assad, who with a tight grip on power ensured that popular protest of any sort was swiftly suppressed. With the succession of his son, popular expectations of reform were high and immediate. However, the slow pace of change has subsequently increased the threat of civil unrest. It is still not clear if the bombings and gunfire in the al-Maza district of Damascus in April 2004 were sparked by these motives.<sup>9</sup> They were, however, a wake-up call to Syria, which, despite supporting Palestinian resistance groups such as Hamas, is rarely a target of terrorists itself. The incident appears to have been an isolated

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<sup>8</sup> Rivlin, P., *The Syrian Economy in the 1990's*, in Syria: Domestic Political Stress and Globalisation, Moshe Dayan Centre, Tel Aviv University, 1999, p 40

<sup>9</sup> The Syrian authorities blamed foreign 'terrorists' at first, attempting to portray Syria as a victim of terrorism. It subsequently emerged that the events in April were of a domestic nature or were possibly instigated by elements of the regime themselves.

event; as political dissent continues to be tightly controlled, there is some risk of instability if the power of the president is seen to slip. The only exception to this generally stable situation and the lack of political violence is the sporadic operation of the Israeli security services against Palestinian resistance officials using well-established subversive methods.<sup>10</sup> Politically motivated and orchestrated levels of violence since the most recent war against Iraq by the Western Coalition have increased marginally, and should not be discounted completely. Specific levels of violent threats against individuals are very low however. Robberies or muggings of foreigners are almost unheard of if circumspect behaviour is adopted.

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<sup>10</sup> Syrian-based Hezbollah and Hamas officials have been the target of two Israeli assassination attempts in 2003 and 2004.

### 4.2.3 Interest Groups

Individual investors or investor groups will need to be aware that specific interest groups exist within the civil framework. These interest groups can be characterized as clan-based circles of interest which find their outlet in the role they play in the framework of the state apparatus. Although the security forces will remain the linchpin of stability of the regime for the foreseeable future, Bashar's smooth succession was attributed to support from the key defence and interior ministers as well as elements within the intelligence agencies themselves. A complex network of military units, intelligence agencies and police strive to neutralize threats to the regime.

The security forces will play a crucial role in the pace and scope of any reform. Senior figures within the regime structure have vested interests in the prevailing structure of the state, especially as regards the provision of state services and state contracts. It can be taken as read that these officials will oppose policies that harm their interests and in so doing will attempt dilute or slow the pace of reform. In this context, the level of economic risk for potential investors is closely linked to Bashar's ability to convince the security elites of the necessity for change, but this will take time and will require the emergence of a younger and more liberal elite. The expectation that this would occur after Bashar's succession in 2000 with the new generation of a university trained Alawi elite stepping into the vacated shoes of their fathers should be recognized for the fallacy it is.<sup>11</sup> If elements within the supreme ruling clique (such as the Tlas family) are emulating the example of the Assads, it is simply to ensure the smooth transition of power from one

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<sup>11</sup> Z.Bar'el, *Cautious Change in Damascus*, Ha'aretz, 31<sup>st</sup> March 2000

generation to the next. Nothing in this transition can assume that in any way the Western-educated and Western-trained Syrian elite will by necessity also implement Western values of openness and democracy in a regime they have to thank for their current elite positions.

Beyond the specific circles of the security services stands a wider interest group or clan; that of the Alawi. Although the Alawi are estimated to account for less than 10% of the population, they form an essential part of the military and political backbone and support structure of the regime.<sup>12</sup> In the early history of the state, the Alawi escaped poverty by joining the military, which they soon came to dominate. The key threat to the Alawi is a wider redistribution of political and economic power outside their specific existing sphere of influence. However, as long as Bashar remains in power and retains the loyalty of the Alawi clan groups the Alawi will continue to play a major role in Syrian politics.<sup>13</sup> As discussed in Chapter 1, it should be noted however that interlinking elements of ideology, tribal and personal loyalties and bureaucratic legitimacy all play a part in providing the Syrian regime with a base of legitimacy. Although the above two groups (often indistinguishable) play the major role in the issue of special interest groups, the role of the Sunni should not be underestimated. They comprise around 80% of the population and prior to the 1970s formed the traditional ruling elite. There are clearly Sunnis in senior posts, including Vice-President Abdel-Halim Khaddam and Tlass, and although they are exceptions, the regime has been able to utilise elements of ideology, tribal and personal loyalties and bureaucratic legitimacy to weave a wider net of regime support

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<sup>12</sup> R.A. Hinnebusch, *Authoritarian Power and State Formation in Ba'athist Syria*, Westview Press, Oxford, 1990, p ix

<sup>13</sup> D.Pipes, *The Alawi Capture of Power in Syria*, *MES*, vol 25, no 4 (1989)

than simply a narrow tribal base. If any particular common interest lies at the heart of these different groups, it could be defined as the interest in the maintenance of the status quo, or, if that were not possible, the continued maintenance of the position of a particular group within the regime structure.<sup>14</sup>

All these above factors will obviously influence a decision to invest in the general sense. The specific political risk outlook for investors is dominated however, much as in other countries of the Middle East, by the historic preconditions of the region.

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<sup>14</sup> This structure of regime support is examined in more detail in Chapter 1

### 4.3 External Factors – Political and Economic

By 1989, Syria faced a severe balance of payments crisis owing to an ever-widening trade deficit. It became clear that the accepted policy of a state-dominated economy, based on a policy of import substitution, had failed. Tentative steps towards economic reform were therefore initiated. Hafez al-Assad believed that Syrian participation in the 1991 Madrid Conference that followed the Gulf War would bring immediate economic dividends; as Zisser has commented,

The Syrians recognised that they could reap additional dividends from participating in this process – for example in the form of generous financial aid from the United States. Such aid was perceived as an important part of the effort to ensure long-term economic stability in Syria.<sup>15</sup>

Regional and international realities also played a role here in Assad's determination to avoid a 'treaty of submission'<sup>16</sup> without Syrian participation. However, protracted peace negotiations between Israel and Syria finally came to an end when the parties were unable to continue negotiations following Shimon Peres' Labour defeat in 1996.<sup>17</sup> Conflict with Israel has been an enduring, powerful and permanent feature in the political life of Syria. It has been used in the past and is used in the present to justify both the repressive political environment and the continued state control of the economy. In this respect it is essential for it to be recognised as a fundamental factor in determining domestic regime policy. Steadfast resistance to Israel and rhetorical defence and support of the Palestinians are vital and fundamental aspects of the political framework and ideological identity of the Syrian state; any relaxation of this stance would be detrimental

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<sup>15</sup> E Zisser, *Asad's Legacy – Syria in Transition*, Hurst, St Martin's Press 2001, p 105

<sup>16</sup> *ibid*, p 104

<sup>17</sup> *ibid*, p 111

to the president's standing among both the population as a whole and key supporters of the regime in particular. As a result, Syria is unlikely to agree to a peace agreement with Israel unless it regains all land occupied by Israel following the 1967 conflict. Bashar's insistence on the resumption of talks with Israel at the point they left off (with the acceptance of previously agreed Labour Israeli concessions) is a clear indicator of his boxed in position; without preconditions the current Israeli government will not begin to negotiate, but his domestic precarious position will not allow him to deviate from a position which is seen as a rare Syrian success. The issue of external political factors however must be seen in terms of the Syrian experience. The historical domestic Syrian view of Syria as the 'hapless victim'<sup>18</sup> of successive invasions and dismemberment means that external political threats cause an even greater closing of ranks than possibly elsewhere. It must be said however that in a society so imbued with official patriotism (hence the insistence of the regime in maintaining the tatters of the 'frontline state' myth) any perceived threat from abroad allows Ba'athist critics to label reformers as foreign agents and in receipt of foreign finance.<sup>19</sup> In addition, the greater the threat from outside appears, the better the reaction from traditionalists. This is a traditional approach which both Hafiz and Bashar are part of. Whether it be the aftermath of the 1973 War, the invasion of Lebanon by Israeli forces or the Syrian participation in the Gulf War against Iraq in 1990/91; all Syrian policy domestically felt the impetus of foreign action. How could it not be? With one of the pillars of authority for the regime resting on the premise of the frontline state and the economic prosperity of Syria resting on oil revenue and expatriate income, the regime was particularly sensitive to domestic repercussions as a

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<sup>18</sup>ibid, p 166

<sup>19</sup>ibid, p 167

result of international events. In the wider international economic climate, the collapse of the USSR in 1991 is clearly the outstanding event which forced the regime to think about policy areas it otherwise might not have entertained. However it should be noted also that, as Perthes argues;

‘there can be no doubt that the Arab-Israeli Peace Process or the disappearance of the Soviet bloc has some influence on the economic reform process. In general however their impact should not be overstated, and oversimplifications which directly relate Syria’s economic opening-up to a changing international and regional environment should be warned against.’<sup>20</sup>

However one can argue that aspects of Syrian policy have been clearly linked to the formulation of policy and its promulgation. One example is the continued frontline state status which Syria has been at pains to uphold. Following the Baghdad Summit of 1978 following the Camp David Accords Syria was promised a US\$ 1.8 Billion annual grant for the next 10 years, a substantial proportion of which was actually paid for the first five.<sup>21</sup> Financial assistance amounts to more than half of Syria’s projected development and investment budgets and the decrease in aid flow during the period 1985-1990 did not cause the economic crisis of 1989, but rather exposed the situation that the investments made during the 1970’s were not as successful as anticipated and were not able to reduce the dependency on imports.<sup>22</sup>

An additional issue and an example which illustrates the underlying isolation of the Syrian Arab Republic is the refusal to join the WTO. This is a clear indicator of the regime’s continuing approach to controlling imports and exports and the hold the regime

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<sup>20</sup> Perthes, V., *The political economy of Syria under Asad*, IB Tauris, London, 1995, p 6

<sup>21</sup> *ibid*, p 34

<sup>22</sup> *ibid*, p 35

continues to extend over the economy. Currency evasion, smuggling and the economic relations with Arab neighbours, the EU and the USA all contribute to an uncertain situation. In addition the assassination of Rafik Hariri and the subsequent withdrawal of Syrian forces from parts of Lebanon ahead of Lebanese elections in 2005 will have added an additional level of uncertainty and political tension.

External financing and the search for political rent has clearly been a factor in Syria's regional policy. Certainly pragmatic economic policy-making has been based on the political and social interests of the regime elite. Perthes argues convincingly that

'as the economy had to function reasonably well to allow the pursuit of political goals, particularly the maintenance of national security and regime stability, economic needs were taken into account and economic crises could so bring about policy changes. This has evidently been the case for the ongoing economic adjustment process of the 1980's and early 1990's.<sup>23</sup>

In addition the scale of the challenge is immense if Syria is placed within the scale of an economic survey conducted in 2002. Syria was placed 102<sup>nd</sup> out of 185 countries, a decline from 92<sup>nd</sup> in the previous survey.<sup>24</sup> Mass protests at failing standards of living have shook other Arab countries ( Algeria, Morocco, Egypt, Jordan and Lebanon) and the regime is plainly clearly aware of the growing problem.

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<sup>23</sup> Perthes, V., *The political economy of Syria under Asad*, IB Tauris, London, 1995, p 36

<sup>24</sup> George A., *Syria - Neither Bread nor Freedom*, Zed Books, London, 2003, p 162

#### 4.4 Economic risk factors

After recording robust real GDP growth for most of the 1990s (averaging 8.8% in 1990-98), the economy contracted by 2.0% in 1999 (partly reflecting the impact of drought on the agriculture sector) and recorded weak growth of 0.6% in 2000.<sup>25</sup> The strong performance of the 1990s reflected the development of the oil sector; the oil industry attracted investment from the public sector and foreign participants, such as Royal Dutch Shell.<sup>26</sup> In addition, oil proceeds gave the government the resources to invest in other sectors of the economy. At the same time, Syria's participation in the 1991 Gulf War to oust Iraqi forces from Kuwait paved the way for substantial economic aid from Kuwait and Saudi Arabia. Following the war, Syrian labour was also welcome as an expatriate workforce in the Gulf economies (approximately 250,000 to 500,000) and in Lebanon (approximately 500,000)<sup>27</sup>; hard currency remittances remaining an important source of foreign earnings<sup>28</sup>, along with tourism revenues. However, Syria was unable to build on these achievements and sustain this economic development. An inability to attract any substantial investment and structural problems with the economy (notably the high degree of state ownership and inefficient financial system) caused the economy to continue to deteriorate. Private consumption, investment and government spending all declined (although the public sector remains the dominant force in the economy). By the mid-1990s, many oil companies were reducing their commitments in Syria or

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<sup>25</sup> Rivlin, P., *The Syrian Economy in the 1990's*, in Syria: Domestic Political Stress and Globalisation, Moshe Dayan Centre, Tel Aviv University, 1999, p 33

<sup>26</sup> *ibid*, p 43

<sup>27</sup> EIU, *Syria Country Report 1998*, pp 5-16

<sup>28</sup> Zisser, E., *Syria at a Crossroads*, in Syria: Domestic Political Stress and Globalisation, Moshe Dayan Centre, Tel Aviv University, 1999, p 24

withdrawing altogether owing to the lack of viable oil discoveries and the challenging operating environment. Oil production reached a peak of 590,000 barrels per day (bpd) in 1996 and has been declining steadily ever since, reaching 500,000 bpd in 2003.<sup>29</sup> Prior to the 2003 war in Iraq, Syria was importing an estimated 200,000 bpd of oil from Iraq (in violation of United Nations sanctions) at discounted prices in order to free up its own oil for export. However, this ceased with the outbreak of the Coalition attack on Iraq, leaving the outlook for crucial oil revenues highly uncertain.

Although not the only factor determining real GDP growth, movements in international oil prices play an important impact role. To that extent, although not an oil rentier economy, Syria is continuing to depend on its oil revenue. Moreover, the loss of export earnings from oil following the war in Iraq is estimated to have significantly reduced real GDP growth in 2003 to 2.0% from 3.3% in 2002. Syria was importing Iraqi oil at below market prices to fuel its own power, freeing up more of its own resources to export at a premium. GDP growth may have been even weaker than the above estimate in 2003 (the risk is certainly present), although the oil-effect would have been offset by strong government spending and a good agricultural harvest, both of which bolstered private consumption. In 2003, in terms of expenditure components, the latter accounted for the largest share of real GDP (almost 60%). Gross fixed capital formation made up a further 20%, government consumption 12% and the foreign balance (i.e. net exports) the remaining 9%.<sup>30</sup> Consequently, domestic demand made a strong positive contribution to growth in 2003, but this was partly offset by a negative contribution from net exports.

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<sup>29</sup> *Syria Country Profile 2004*, EIU

<sup>30</sup> *Syria Country Profile 2004*, EIU

Syria's national accounts are released with considerable delay, so the data for 2003 is yet to be released (2005). There has been some effort to speed up the release of official statistics, but their accuracy is often somewhat dubious. In terms of the national accounts, reported investment growth for 2001-02 was very strong, but must be treated with suspicion as it appears to lack corroborating evidence. The accuracy of data concerning government consumption is difficult to assess as there is the potential for large historical revisions. In terms of assessment and judging the prospects for investment firms should bear in mind the poor quality of official statistics when conducting business dealings with Syria.

Private consumption remains the most significant component of GDP growth. Despite an overall decline as a proportion of real GDP since 1993, it accounted for a 58.7% share in 2003. Agriculture in this context is key to private consumption trends. Agriculture accounted for 30% of employment and 60% of non-oil exports in 1993.<sup>31</sup> Successive years of drought in 1998-2000 had a significant impact on rural incomes, as only a minority of the cultivated land is irrigated, the rest being rain fed. Rivlin makes the point well that

Large investments have been made in irrigation. [It] has accounted for up to 75% of the state budget for agriculture. The objective is much higher production: the 15% of cultivated land which is irrigated produces 50% of total agricultural production. The other incentive was that production on rain-fed land fluctuated greatly each year.<sup>32</sup>

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<sup>31</sup> UNESCWA, *Survey of Economic and Social Developments in the Region 1993* (UN, New York, 1994), p 100

<sup>32</sup> Rivlin, P., *The Syrian Economy in the 1990's*, in *Syria: Domestic Political Stress and Globalisation*, Moshe Dayan Centre, Tel Aviv University, 1999, p 47

The wider impact of the agricultural sector cannot be underestimated; industries closely related to agriculture such as textiles, leather, tobacco and food processing accounted for 25% of output in the economy and around 50% of employment.<sup>33</sup> The agricultural downturn is believed to have forced significant migration from rural to urban areas and a consequent rise in poverty levels as these forced migrants failed to find jobs. The good rainfall season in 2003 (which prompted an increase in the area planted with cotton seed, an important agricultural product) will have boosted private consumption again.

Another factor affecting private consumption is unemployment. The economy is under pressure to provide sufficient jobs for a rapidly growing population (population growth averaged 2.5% between 1994 and 2001). Officially, unemployment stands at 11%, but it could be as high as 30% or 40% among young Syrians.<sup>34</sup> In 2001, the government established an Unemployment Committee and formulated a five-year plan (2002-06) to tackle the problem. Under the plan, the government aims to spend US\$1 billion to create 800,000 jobs over five years, with the help of international donor funds. Some 70% of funds will be allocated to providing loans for small businesses, 20% to improving the investment environment (including infrastructure) and the remaining 10% to training.

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<sup>33</sup> Rivlin, P., *The Syrian Economy in the 1990's*, in *Syria: Domestic Political Stress and Globalisation*, Moshe Dayan Centre, Tel Aviv University, 1999, p 46

<sup>34</sup> Zisser, E., *Syria at a Crossroads*, in *Syria: Domestic Political Stress and Globalisation*, Moshe Dayan Centre, Tel Aviv University, 1999, p 24

#### 4.4.1 Reform attempts

Looking ahead to the 2006-2010 period, state planners have been trying to fresh a new approach to boost the reform process, integrate local businesses and sharpen their competitive edges. Yet, as holistic as the new approach hopes to be, critics of the plan range from those concerned about injecting more efficiency and flexibility into the system to those labelling the whole process as outmoded.

The government line is, however, somewhat different - and stresses the usefulness of the plan to conducting reform. Abdullah Dardari, minister of state for planning affairs and head of the State Planning Committee (SPC), has formulated the rationale behind the plan as to co-ordinate the various strategies currently developed at ministerial levels with the ultimate goal of establishing a market economy. These include strategies in economic reform, export promotion, investment, agriculture and industry - as well as in social policy. Also called the National Indicative Plan (NIP)<sup>35</sup>, the 5-year scheme is the result of 15 months of negotiations. The inclusion of the private and public sectors, as well as civil society, in the drafting of the plan this time also constitutes a major novelty.

To co-ordinate these efforts, 14 different sectoral workshops are to be set up, each of them with a clear and specified programme. These channels will hopefully maintain dialogue and ensure synergies. The private-sector's role in developing the plan stands as a testimony to its growing influence over the economy. Private business now accounts for 60% of total GDP<sup>36</sup>, and there is no doubt it has become the major driving force of the

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<sup>35</sup> *Syria Country Profile 2004*, EIU

<sup>36</sup> *Syria Country Profile 2004*, EIU

economy. In society at large too, some 1m Syrians are widely believed to fully depend on private charitable institutions for their living, making them partners to be reckoned with.

Also boosting the private sector's importance has been the shift in government revenue streams over the last five years. In the past, oil revenues meant taxation was only rarely enforced. But with Syria likely to start importing major quantities of crude oil in the next few years, government revenues will have to come more from taxes. Reform of the tax system has therefore been a recent priority. But many argue that one issue the government must also concentrate on is its outdated productive assets. Bearing in mind that privatisation is still not acceptable<sup>37</sup>, the government wants to bring private investment and management into loss-making firms - mainly food-processing industries - through build-operate-transfer (BOT) contracts. This process, also named corporatisation, might actually mean little more than applying trade laws to these companies, making them private only in form, but not in substance. Yet as none of the country's many loss-making industries have actually gone through this process, it is hard to predict how successful it might be. For the small number of textile, engineering and chemical firms which do break even, however, the government seems resolute to pump in extra cash and modernise them. But in case of failure, there would be little other option than to call for external help. As far as the few profitable businesses are concerned, the state has made it clear it will remove any protectionist measures assisting them within two years. They would then have to compete on an equal basis with other companies.

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<sup>37</sup> George A., Syria - Neither Bread nor Freedom, Zed Books, London, 2003, p 167

Elsewhere, the government has committed to applying the principles set by the Euromed Charter for Enterprises endorsed in October 2004.<sup>38</sup> The charter aims to facilitate access to both financing and new markets, streamline administrative procedures, upgrade the education and training for entrepreneurship and improve quality control and transparency. Promoting this charter is also another way to support small- and medium-sized enterprises (SMEs), whose contribution to the economy is increasing.

Part of the reason for this heightened role is the dominance of SMEs in rapidly developing sectors such as IT. These businesses are taking on more outsourcing, a niche market in which local IT firms, such as Inana Group or Syriacomm, have already secured a place. As Syria is lagging behind in technology, the government has significantly deregulated the framework in which service companies operate.

The Syrian economic landscape appears therefore to be becoming more polarised. On one side, IT firms are becoming models to emulate by setting new demanding operating standards at all levels. But on the other, the state is engaged in a race to dismantle and/or upgrade its inefficient assets. Attempting to bridge these two extremes has become the difficult task entrusted to the hands of the SPC. However, the project has been hindered by bureaucratic difficulties and although this new development is of some note, as Nyrabia has commented,

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<sup>38</sup> EUROMED Charter for Enterprises 2004, EU Brussel 2004

'at the core of the issue lie [once again] the deeply established interests that have strong roots and that tend to obstruct any change and to bury it in general concepts in order strip it of its contents.'<sup>39</sup>

In addition, the target for job creation is too modest: an estimated 150,000-350,000 jobs would be required just to absorb new entrants to the job market each year.<sup>40</sup>

At the same time, wages have not seen adequate advancement. The government employs the vast majority of working Syrians, but prior to 2000 had failed to provide substantial wage increases. In 2000, buoyed by the rise in oil prices, the government announced plans to increase public sector wages by 100% over three years. The government instigated a further 20% wage hike in the first half of 2004 to boost consumer confidence in the face of US economic sanctions; this move may be replicated in 2005 if external pressures continue as it represents the most direct route to providing an immediate expression of loyalty and an outlet for economic protests and demands. In addition, the government has paid a number of bonuses in recent years to public sector employees. However, despite these increases, state and private sector salaries remain low, limiting the ability of many Syrians to make discretionary consumer purchases. The government's tighter fiscal position will make it more difficult to increase wages and offer bonuses in future years.

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<sup>39</sup> The Syria Report, No 11, October 2003, p 4

<sup>40</sup> *Syria Country Profile 2004*, EIU

#### 4.4.2 Population Growth

The labour force is expanding rapidly and represents a key stress point for the country. From around 17.5 million in 2004, the population is expected to reach the 20 million mark by 2010, which means the economy must absorb around an estimated 200,000- 250,000 new job entrants each year.<sup>41</sup> This demographic trend also implies that the economy must grow by at least 2.4% per annum to maintain current living standards. The number of people of working age (15-64 years) is expected to rise by 39.3% in 2000-2010, resulting in a sharp drop in the dependency ratio from 0.78 (78 dependants per 100 workers) to 0.44 in 2025. Beyond that date, the dependency ratio is expected to rise gradually.

Ideally, the growing young population should provide a long-term boost to the country's economic development by maintaining a buoyant level of demand in the economy and providing Syria with a sufficient pool of labour. However, this is unlikely to prove the case. The government's persistent failure to provide adequate funds for education means that many of the new entrants to the workforce are ill equipped to meet the needs of employers or Syria's general economic requirements. If they graduate from the system, their qualifications are often outdated or useless. Pay scales are pitiful by international standards<sup>42</sup> and Alan George has made the point that

'many of the better graduates are forced to emigrate in a brain drain that deprives the country of its most talented young people. Thousands of Syrian doctors, engineers and teachers work abroad, in particular in the Gulf countries and the United States.'<sup>43</sup>

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<sup>41</sup> George A., *Syria - Neither Bread nor Freedom*, Zed Books, London, 2003, p 163

<sup>42</sup> George A., *Syria - Neither Bread nor Freedom*, Zed Books, London, 2003, p 152

<sup>43</sup> *ibid*, p 153

In particular, fiscal tightening has prevented an increase in already low education spending; and the rapid growth of the population quickly absorbs any small increase in available funds. This effect has been compounded and accelerated by the swift rate of urbanisation, which has meant that schools and universities in the major cities have been overwhelmed. Although the Syrian state made it a priority to ensure universal education, the actual quality of that education is debatable. As George has again commented;

‘The education system remains in the grip of a bitter legacy. Rapid expansion with limited resources has taken its toll on the quality of facilities and teaching. Despite constant clean-up campaigns, corruption and political favourism are as endemic here as elsewhere in the system. The problems are compounded by fear of upsetting the authorities and a related fear of taking initiatives, and by a tradition of rote-learning which discourages independent and creative thinking.’<sup>44</sup>

All these factors have combined to limit human capital growth. Although private schools and universities have emerged in this environment these will benefit only a very small segment of the population and have little effect on the broader labour market. In 2003 four new private universities were given authorisation to establish themselves, with fees ranging from US\$ 1,500 to US\$ 5,000 per annum depending on the university and faculty<sup>45</sup>; clearly out of reach of the vast majority of Syrians, with average wages around US\$ 100.

Productivity ratios have fallen since the late 1980s, although precise figures are unavailable. Nevertheless, the fall in capital investment and under-investment in human capital, combined with anecdotal evidence, suggest that Syria failed to increase its productivity in the 1990s. The manufacturing sector in particular has suffered from

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<sup>44</sup> *ibid*, p 148

<sup>45</sup> The Syria Report, No 11, October 2003, p 5

under-investment and remains inefficient and unable to compete effectively in world markets. Furthermore, controls on direct investment and the capital account impede the transfer of foreign capital and human technologies into Syria. In addition the paucity of employment opportunities and the lack of access to modern equipment and business practices have encouraged skilled and educated Syrians to seek employment abroad, mainly in the Gulf states and in the United States. This long-term trend has not diminished since 2000. The government has made some effort to accelerate the process of computerisation since Bashar's ascent to power. Although personal computer usage is quite low, it is increasing. In addition, the government has awarded contracts to a Chinese company to upgrade the telecommunications system operated by the Syrian Telecommunications Establishment. Internet usage is allowed but is more strictly controlled than in the West. Since Bashar came to power, internet access and mobile phones have been allowed to proliferate, mainly because he once headed the Syrian Computer Association and is enthusiastic about new technologies. Although websites are strictly monitored and banned if necessary, and the poor cannot afford the technology, the increased usage is positive for productivity growth and consequently long-term economic potential.

#### 4.4.3 Capital

The economy failed to benefit from an upward trend in the savings rate throughout the 1990s. In 1991, the domestic savings rate reached a low of 10.3% but climbed to a high of 23.0% in 2000. This was in line with the contraction in both private and public consumption in that period. However, widespread distrust of the formal banking system and the lack of developed financial products in Syria mean that the economy has almost no method of harnessing the increased level of savings to provide funds for domestic investment. Very few Syrians possess a bank account and savings vehicles such as deposit accounts and private pensions are virtually unknown. Many Syrians, in contravention of the existing financial law, hold their funds in Lebanese bank accounts. This will change slowly as the banking system is liberalised and modernised under the government's current reform programme<sup>46</sup>, but substantive change will only occur over the longer term. The lack of investment funds has left much of the country's capital stock outdated and obsolete. The country requires substantial investment to ensure that its infrastructure can meet the demands of the rapidly growing population. Power and water shortages are common, particularly in the Greater Damascus region, as basic services struggle to cope. Equipment in factories and offices is also out of date and businesses are struggling to improve efficiency and productivity, limiting the country's economic development and long-term outlook.

Syria's longer-term economic outlook is therefore encumbered by significant political and economic challenges. Under the leadership of Bashar al-Assad, the country has begun to take tentative steps towards reform; this reform however is only economic,

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<sup>46</sup> The liberalization program allowing private banks to operate in Syria took effect in 2004

not political. Even then, the process of economic reform has been slow, and out of alignment with the demands of a rising population, which will place undue pressures on the state's finances and social stability.

The economy has a long way to go in transforming itself from a closed, centralised and state-controlled regime to a fully-functioning market economy with respect for the rule of law. There is considerable resistance to any change involving relinquishing state control of the economy, which extends into all sectors. Promotion of investment, private banking and the talk of the establishment of a stock exchange are all encouraging. However, the economy is firmly controlled by the state and the process of privatisation has been ruled out while the war with Israel formally continues; ultimately, this represents a bridge that must be crossed if Syria is to become more productive and grow at rates sufficient to boost living standards.

The pace of change will demand political reform, but this will be hard to come by in a state dominated by the intelligence services and the military, and without formal democratic institutions. Syria is a bureaucratic and legislative nightmare for business dealings. Economic sanctions imposed by the US only make matters worse, and if these continue for several years, this will further weaken any inflows of foreign investment, which are crucial to boosting future growth prospects. Given all of these obstacles, together with the country's narrow structural base, inadequate capital stock and inflexible labour market, there would appear to be little prospect of high potential growth rates in the future.

The monetary environment of cash based transactions puts additional strain on the viability of attracting investment options to Syria. The twin elements of inflation and the balance of payments issue both serve to depress and put off options to put investment into the SAR. In addition, the growth rate of per capita GDP in Syria is as stated a vague and uncertain beast and the reality of the investment situation is far less viable if investment decisions cannot be based on certain economic data. The link between GDP growth and the state reliance on international oil markets as a primary source of income is another weak factor. Syria continues to be an oil dependent country, a major factor which will impact on investment decisions to a high degree. The only viable areas for potential investors to operate in are in the exporting business of textiles or handicrafts, oil or tourism. Syria's long term potential is therefore weakened and major structural factors impede on any possible investment opportunity in the country.

Syria's legal system recognizes and facilitates the transfer of property rights, including intellectual property rights. Acting on Syrian law, the government has raided shops known to pirate computer software. In April 1995, the Syrian government announced its intention, in principle, to join the Paris Union for the International Protection of Industrial Property. The government also stated that it is considering joining the 1967 Stockholm Intellectual Property Rights Agreement. However the Syrian government is not a signatory to the WTO and so therefore a foreign investor could not use the additional safeguards of that agreement if in dispute. Although the WTO legal procedures are not open to individual companies, it would be feasible (as with the EC

taking action on behalf of her auto manufactures against Japanese imports) for a sovereign state to take action against the Syrian Arab Republic.

#### 4.5 Attitude of the Syrian state towards FDI

Has the reform process led to an ‘institutionalisation’ of economic reform? Clearly not – Investment Law No 10 is still operating within a tight framework of competing legislative hurdles. Ba’athist policy and individual reluctance by a civil servant to assume control or responsibility on the one hand continue to drive the overall state attitude towards foreign investors or the loosening of the control over state dominated industries. Without additional payment to assuage the risk of accepting responsibility for a project which might compete against a regime company or might fail, most bureaucrats will not ensure a smooth path through the administrative jungle. In addition the multitude of competing state organisations overseeing the operation of business in Syria (which forces many Syrian medium sized businesses to remain small and therefore unnoticed)<sup>47</sup> means that the amount of bureaucracy is formidable and complex.

Even if these bureaucratic problems could be overcome, what of the climate regarding the stability of the investment legislation? The climate of investment certainly seemed to change in 1991 with the introduction of the Investment Law, and again in 2000 with Bashar al Assad’s ascension. But the difficulty remains that the speedy introduction of Investment Law No 10 could also set a precedent for the speedy removal of that same legislation.

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<sup>47</sup> This is of particular relevance when placed in the context of tax legislation.

The regulatory and legal systems are simply not fair and predictable; in addition the role of Syria within the WTO must be examined. No framework of international rules is applied consistently and no independent systems of arbitration in law exist, there are arbitrary rule changes in terms of ownership, there is the role of taxes and hidden payments to consider, the issue of currency controls and conflicts in trade and contract law.

Competent government structure is essentially measured by the stability of currency and the stability of the political apparatus. There is also the issue of capital flight and illegal holding of currency in Lebanon and elsewhere.

#### 4.6 Aim of investment

Is it worth investing in Syria? Commercial risk assessment and overall Trade environment is clearly not overall attractive to investment, yet the picture is not completely bleak. Between 2003 and 2005 alone in the Gas and Oil sector there were 8 major new investment or exploration ventures announced. These included a joint venture for city gas distribution<sup>48</sup>, a marine oil survey with the Norwegian Oil Establishment, oil exploration agreements with Soyouz Petrol, Bouchamaoui, and HBS International, an expansion and development agreement of the Oudeh oil field with Tanganyika Oil and the completion of the first private joint venture petrol refinery in Damascus.<sup>49</sup> In the manufacturing sector, KIA motors and LG have agreed to build an assembly plant in Syria, Daimler-Chrysler have obtained permission to re-enter the Syrian market, Khodro (a SIAMCO joint venture) has begun the construction of an automotive assembly plant<sup>50</sup> in Damascus and Proton have also announced plans to begin assembling cars in Syria. Despite the apparent slump in tourist stream towards the Middle East, Syria has managed to attract investors from Dubai, the Saudi BinLaden Group, Inconnu, the Emirates, Andratos Developpment, and the UAE for a variety of tourism projects in Damascus and along the Mediterranean coast. The introduction of private banks into Syria has also led to a surge of applications for the operation of private banks. Byblos, Banque Audi, the Housing Bank for Trade and Finance and the Syrian – Bahraini Bank are all examples of the demand which exists in the Syrian sector for private alternatives to the state operated incumbents. Areas of interest to investors would therefore include the oil and oil-related

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<sup>48</sup> 21 March 2005 Gail Energy

<sup>49</sup> Euro-Mediterranean Network of Investment Promotion Agencies data 2003-2005

<sup>50</sup> *ibid*

areas, in particular machinery, maintenance and logistics, including upgrades and the development of gas-related developments (especially in Palmyra). In addition specialised investors would be able to look at specific agricultural projects and equipment (in particular for specialist produce such as pistachio nuts or dates), textiles and textile production and licensing agreements (Benetton is already a operator here – competition from Jordan already exists with the production of Nautica sportswear there). In addition the areas of Pharmaceutical agreements and licensing factors could also prove lucrative, as could Import and Export agreements of materials and products occupying a niche market (olive oil soap, traditional artefacts, textiles). Finally there is always tourism operations in a specialised market (Mediterranean coastline and antiquities).

## 4.7 Conclusion

The blanket assessment that Syria is simply not worth investing in is therefore inaccurate. However it can be clearly stated that Syria is a risky country to invest in. It can clearly be worthwhile if the investor is well-connected, able to operate within the system and is accustomed to the 'Syrian way' of doing business. Connections can be useful and productive, can open doors to further investment opportunities otherwise denied. Therefore Syria will remain closed to those companies that do not take account of local peculiarities and sensitivities. The fundamental problem however still remains the need to reform the economy. In practice any reforms simply mean a larger role for the private sector supplementing and replacing the state controlled areas of the economy. This however implies a relative marginalisation of the poorer sections of society which have the highest stakes in the continuation of Ba'athist rule. The beneficiaries of such limited liberalisation, often individuals with regime connections, if not regime figures themselves, often tend to display their wealth conspicuously, triggering much resentment in a country where hundreds of thousands live under the poverty line. Economic reform has therefore to be constrained by the need to appease – or not to provoke – the very classes on which the regime had traditionally depended. Corruption was a similar problem; although successive campaigns targeted corruption in the bureaucracy higher levels of the regime remained untouched because Assad valued political loyalty above all. As Van Dam has correctly commented;

Various campaigns to eradicate corruption were successful only to a very limited extent, as the corrupt elements of the higher-placed Alawi (and for that matter also non-Alawi) military elite belonging to the direct entourage of the President, as well as their clientele, were to a great extent left untouched. Disciplinary action against the most

important supporters of the President could have directly undermined the whole regime, and therefore was not undertaken [...] After having enriched themselves and having obtained all kinds of privileges to defend, the same elite turned into a major obstacle to the reform of abuses enveloping the state.<sup>51</sup>

Therefore Western commentators who urge the regime towards the adoption of ever-increasing free market reforms or Western governments who see the Syrian regime as the next domino to fall in the area of the Middle East dictatorships need to be wary. Syria is not easy to change.

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<sup>51</sup> Nikolaos Van Dam, *The struggle for power in Syria, Politics and Society under Assad and the Ba'ath Party* (London IB Taurus 1996) p 142

## **Chapter 5: Politics and the Economy in Syria**

### **5.1. Introduction**

The discussion of Investment Law No 10 and its repercussions for Syria has to be seen within the political situation of Syria. Like Western states, economics and economic decisions in Syria are naturally connected and intertwined with politics. Unlike Western states, these bonds and structured links between politics and economics in Syria are particularly strong and intense. This chapter will endeavour to point out the various individual linkages between politics and economics in Syria that have become apparent during the course of this study. In this way it is hoped that observers of Syria and Syrian politics and economics will be able to continue to analyse the complex structure of the Syrian state and find it helpful to assess the particular nature of the Syrian situation.

The overall aim of this chapter is to point out the political factors that shaped and influenced the formulation and the content of Investment Law No. 10.

## 5.2. The Economic and Political Background to the Law

Since the Corrective Movement seized power in 1970, the aim of the regime has been to maintain Ba'athist domination over the state and public sector domination over the economy, whilst alienating as few interest groups as possible. The regime essentially re-incorporated private capital after the alienating period that followed the coup of 1963 into a broad cross-class coalition. This cooperation between the regime and private business saw these groups benefit from the massive influx of financial aid into Syria following the 1973 war. Private-sector businessmen set up as subcontractors for state companies and overall the convergence of interests – as private businessmen cultivated regime officials, and regime officials in turn set up their own business ventures, a group Waldner has described as the 'new bourgeoisie'<sup>1</sup> - saw the development of the new type of regime support; a loyal group of businessmen, whose loyalty had been purchased by preferential public policies.

This is the atmosphere into which Investment Law No. 10 was introduced. To determine to what extent Investment Law No. 10 was a genuine attempt to liberalise and to 'open up' the Syrian economy, the linkages between Investment Law No. 10 and possible political issues need to be examined. The first step is to examine the actual law to see whether it fits into an established framework of economic legislation. If it indeed does so, the rationale for arguing that the legislation was primarily politically motivated would be necessarily weakened. However, as demonstrated in Chapter 3, the legislation in fact sits uncomfortably alongside other economic legislative measures, often contradicting them or creating a sense of confusion and uncertainty within the broader

economic legislative framework. For a major investment law it is extremely short, only comprising 39 articles. Far from overriding contrasting and contradictory established legislation, and removing barriers to investment, the legislation often adds to the complex economic legislative structure in Syria. As we have seen in Chapter 4, the additional domestic and international barriers to wide scale and substantial private investment in Syria outside the remit of Investment Law No. 10 are formidable. Investment Law No. 10 therefore appears to be a law that could only really work as part of a wider package of reforms - yet substantial further economic reforms have not been forthcoming. Despite the genuine potential for economic development in Syria and despite the existence of Investment Law No.10 on the statute books for more than a decade, the actualities of investment in Syria by private individuals outside the influential circle of regime supporters remain difficult and awkward.

If Investment Law No. 10 has remained an exception in legislative terms, the question then has to be asked why it was passed in the first place. The continuing ability of the existing elite in Syria to control the levers of political power partly depends clearly on their ability to control the economy and the income generated by the state. In terms of budgetary income, the taxation system is inefficient and clumsy, open to widespread and systematic abuse and evasion. The continued oil-rentier income from the Syrian Petroleum Company and its additional affiliation with Elf Aquitaine and Royal Dutch Shell through the medium of the al-Furat petroleum company<sup>2</sup> is generally accepted to

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<sup>1</sup> Waldner, D., *State-Building and Late Development*, Ithaca, Cornell University Press, 1999, p 89

<sup>2</sup> Al-Furat Oil Company is a Syrian-based private oil company, in which the Syrian Government and Dutch Shell Oil hold undisclosed stakes. No Syrian-based Shell manager was willing to comment on the internal

provide the continuing financial crutch needed for regime survival. The lack of private firms allowed to independently operate within the oil-rentier sector without the need to sign affiliation agreements with the Syrian Petroleum Company shows that the regime intended and continues to intend to keep close control over the sectors of the economy it deems essential to its survival. However at some point the oil is going to run out.

A further argument along these lines concerning Investment Law No. 10 is the following:

A straight-forward approach to the analysis of the political aspects of Investment Law No 10 is to argue that this law simply marked an incremental development in the continued attempt by Hafez al-Assad to secure the economic and political viability of the Ba'athist regime. Following this line of argument, the regime was, by introducing Investment Law No. 10, simply following a multi-faceted approach to politics by allowing the tightly controlled expansion of the private sector into areas previously denied to them. What then are the primary economic and political advantages for the regime that would seem to result from this decision?

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industry rumour that the Syrian operations of the company are the 4<sup>th</sup> most profitable worldwide for Shell. Al-Furat currently controls 179 oil wells in Syria.

### 5.2.1. Capital Advantages

Firstly, the regime hoped to attract expatriate Syrian capital back into the country and thus hoped to benefit from the immediate influx of hard currency. One of the misconceptions that foreign observers of the economic climate and development of Syria have developed since 1991 was the (possibly natural) assumption that Investment Law No. 10 was primarily aimed at **foreign** private investors, rather than **Syrians**. This misconception was understandable given firstly the enthusiasm of Syrian officials to emphasise the radical departure away from the economic norm that Investment Law No. 10 represented, secondly the paucity of genuine private domestic investment or economic openness evident in Syria until that time, and thirdly the then current international fashion for foreign direct investment legislation<sup>3</sup>. The results of Investment Law No. 10 (as shown in Chapter 3) however show that in contrast, the vast majority of Investment Law No. 10 projects are small-scale family size Syrian-run affairs, often with only a modest amount of start-up capital (at least by international standards). Most of this capital originates not from officially held sources, but from the substantial covert hard currency holdings Syrians have accumulated since 1963 in banks in Lebanon or further afield. Traditional Syrian commercial activity (as elsewhere in the Levant, but this is a particularly Syrian trend) is strongly family-based,<sup>4</sup> and the amount of capital an extended family can raise is often surprisingly substantial, at least by Syrian standards. And even if

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<sup>3</sup> One example among many are the 'Provisions for the Encouragement of Foreign Investment' initiated by the Chinese Government in 1986. See Dunning, J.H., & Narula, R., Foreign Direct Investment and Governments, London, Routledge, 1998, pp 396.

<sup>4</sup> Indeed, one of the reasons for the economic survival of many Syrians is the existing wide family network; cousins, brothers, uncles etc. all contribute to the family income, and often work within family enterprises. In addition, many Syrians hold down two or more jobs, explaining why civil servants or academics on very small salaries are able to survive.

this capital raised is modest by international standards, Syrian wages and incidental start-up expenses are low and most projects are on a small scale. One concrete indicator of this effect is the operation of the majority of projects under Investment Law No. 10 in one particular sector of the economy. As discussed earlier in Chapter 3 the majority of projects operating under Investment Law No. 10 are in the transport sector of the economy. These projects are overwhelmingly small-scale, with the majority of firms supplying hire-cars or minibuses to private individuals. Hire cars, if imported under Investment Law No. 10, are still exempt from import taxes (as they are classified as equipment) and foreign cars continue to attract (if imported outside the application of Investment Law No 10) levels of taxation between 150% and 300% of the car's value. These projects offer a three-fold advantage over other projects in other economic sectors; there was pent-up demand in Syria before 1991 for foreign cars<sup>5</sup>, immediate profits from rental agreements were assured, and start-up costs were low.

The argument holds that the regime, by passing Investment Law No. 10, hoped to legitimise these cumulatively substantial currency holdings (domestic and international) and to re-introduce them into the official economy. To that end, the official exchange rate between the Sy£ and the US\$ has been kept at around 90% of the black-market rate ever since the reforms were introduced. The official or apparent advantages of operating (and profiting) from a legitimate base have apparently outweighed the immediate pecuniary

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<sup>5</sup> Indeed, although import taxes were prohibitive, in a number of cases it was still profitable for individuals to import a car (if equipped with the rare import allowances), pay the taxes and sell the car in Syria. Depreciation was almost unheard of. An interesting parallel can be drawn with the former German Democratic Republic; before 1991 ownership of a car was seen as the ultimate status symbol – one of the first consumer items East Germans acquired after 1991 was a Western car.

loss of 10% of capital. In addition the recent partial abrogation of Law No. 24 of 1986 concerning the holding and trading in foreign currency to allow Syrian individuals to legally hold foreign currency (although still not to trade in it) should also be considered. The aim of this decree (apart from the obvious relaxation of pressure on the overworked judicial system) is three-fold; politically it offers a further incremental concession to prominent economic critics of the government, but, by not completely removing Law No. 24 from the statute books the regime can simultaneously assuage conservative and traditional power groups within the regime that the full measures of Law No. 24 can always be re-introduced if necessary. The third aim is that this measure will re-introduce further substantial hard currency holdings into the wider legitimate economy.

The regime has in fact felt the need to substantially amend and effectively disable a major piece of Syrian legislation with a strong ideological message barely 14 years after its introduction (a short time period by Syrian legislative standards). This is a strong indicator that Investment Law No. 10 in its legislative isolation has indeed been acknowledged as falling substantially short of at least one of its stated aims, and that additional measures are indeed needed to encourage investment. An additional point is that the regime since 1991 has seen fit to pass no fewer than seven executive orders<sup>6</sup> amending or clarifying Investment Law No. 10 – a strong indicator that it had not been as successful as initially hoped. A further indicator of the unseemly haste is the comparatively rapid legislative process which Investment Law No. 10 was passed – another indicator that the law was designed not to form the basis for a fundamental

restructuring of the legislative framework for private investment in Syria, but as the short-term solution to a particular parlous political and economic situation.

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<sup>6</sup> For examples of *Executive Orders 6 & 7* (the most recent) see Appendices 2 & 3.

### 5.2.2. The Economy of Emotions?

A second point to consider is the wider economically emotional (for want of a better word) effect the passing of Investment Law No. 10 achieved. It went further than simply satisfying the small elite groups at the head of the regime in allowing them to invest illicit hard currency they had previously accumulated; (this in particular applies to army officers smuggling a range of prohibited goods (including medicines) between Lebanon and Syria).<sup>7</sup> Syrians in general saw opportunities open up to them which appeared to be previously closed or impossible. Whether or not these opportunities were actually realised by them is a moot point - simply the theoretical opportunity for private investment and commercial activity was a great moral boost for many individuals and lead to a renewed growth of confidence in the country (at least amongst certain elements of the property-owning classes). Indeed the wider impact of the legislation was that middle-class Syrians were able to utilise their existing client networks in the political sphere and use them to set up new private enterprises.<sup>8</sup>

Now although the actual direct and specific economic effects of Investment Law No. 10 are difficult to quantify and impossible to isolate within the larger scope of the Syrian economic picture, the emotional effect of the legislation was immediate. Interviewees in the business community spoke of their relief and anticipation when the legislation first appeared<sup>9</sup> that Syria was to finally emerge from the stranglehold of economic constraints and fulfil its true economic potential. The actual result after

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<sup>7</sup> Interview 26, Damascus, 2<sup>nd</sup> May 1998

<sup>8</sup> Interview 18, Damascus Countryside, 15<sup>th</sup> March 1998

Investment Law No. 10 has been in operation for just over a decade is somewhat different.

One of the stated aims of Investment Law No. 10 was that new projects should contribute directly to the creation of employment opportunities and to the reduction of unemployment. However, data from the Department of Employment in Syria does not show a dramatic fall in unemployment from 1991 onward, rather it shows that the already identified trend of gradually falling unemployment in Syria since 1986 has continued.<sup>10</sup> The identification of Investment Law No. 10 as a contributory factor to the continued fall in official unemployment cannot be discounted; but it would be incorrect to identify Investment Law No. 10 as the prime reason behind this continued fall. Again however it is necessary to stress that there remains a clear difference between actual levels of unemployment and official levels of unemployment or underemployment.

But one wider economic indicator that can be identified from Investment Law No 10 is of particular interest and importance in this respect. The **sheer number** of projects submitted under Investment Law No 10 to the Council for Investment between 1991 and 1998 is a defining indicator of the huge possible potential and apparent readiness for investment in Syria which was and continues to be present among the Syrian population, despite the well-publicised continued and substantial economic, political and bureaucratic difficulties of operating a private business in Syria. Interviewees all expressed great pride in Syria and (sometime obviously by necessity) in the then President Hafez al-Assad and

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<sup>9</sup> Interview 5, Interview 13, Interview 18, Interview 25, Interview 27, Interview 29, Interview 30

the Ba'athist regime. The option of being seen to allow a degree of economic freedom was an inspired one by the regime, and one that certainly allowed it to regain some credibility amongst the Syrian petite bourgeoisie. Although that initial optimism seemed to have faded after the first three to four years of operation of Investment Law No. 10, after it became clear that further reforms were not immediately forthcoming, the Syrian business community nevertheless remains of the opinion that the long-term economic potential for Syria is great. In this respect it should be recognised that this feeling appeared to affect more groups than the traditional regime supporting networks. Therefore the regime could conceivably be attempting to reach out and gain support from hitherto not approached classes of entrepreneurs.

In contrast the current difficulties of operating in Syria seem to Western firms and officials to be so acute that Syria is now seen as an almost impossible market. A number of Western firms when interviewed were adamant that they would not contemplate operating in Syria at all in the present or near future.<sup>11</sup> This is indeed a further indicator of the previously made point that Investment Law No 10 was **not primarily** aimed at international foreign investors, but at affiliated Arab and domestic Syrian investors.

However grim the economic situation might appear to a Western investor, from a Syrian domestic commercial perspective, the simple legislative enactment of Investment Law No 10 seemed to be a momentous event. It appeared to symbolise the first crack in an otherwise tightly controlled economic system. Although the results are difficult to

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<sup>10</sup> Again, it should be pointed out that official data is extremely unreliable and subject to manipulation

quantify, the economic atmosphere in domestic private Syrian firms during the late 1990's cannot be compared to the atmosphere in the same firms during the 1970's or early 1980's. From that perspective, Investment Law No. 10 by itself was a success by re-invigorating the commercial and entrepreneurial spirit of Syrian businessmen in general. In this context it should be stressed that a number of expatriate Syrians returned to Syria after the enactment of the 1991 legislation and set up business in Aleppo and Damascus.<sup>12</sup>

From this point of view, the enactment of Investment Law No. 10 could either be seen as a conscious shift by the regime towards a greater degree of openness; or equally as an essentially short-term measure designed to appease elements within the regime. On the balance of arguments I would contend that Investment Law was a short-term measure designed as an economic safety valve. I would suggest that the view that Investment Law No. 10 marked a first step towards a pluralist economic system is essentially incorrect and shows an incomplete grasp of the complexities and influences prevalent within the Syrian economic context.

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<sup>11</sup> Interview 16, Interview 20

<sup>12</sup> Interview 15, Interview 30, Interview 31

### **5.3. The Short-term role of Investment Law No. 10**

As the regime allowed the tightly controlled expansion of the private sector into areas previously denied to them, it must have had a clear notion that even this slight economic loosening would have political implications. It indeed seems that the introduction of Investment Law No 10 had as many political aims as economic ones. The continual difficulty is to assign a comparative level of value to these respective aims, but one thing is absolutely certain; the overall political aim behind the introduction of Investment Law No 10 (as was the case with all of Hafez al-Assad's decisions) was to ensure his regime's stability and continuity. There are however a number of individual factors within this paradigm that deserve closer attention.

### 5.3.1. The Ability for Criticism of the Economy

Firstly there is the question of the ability to voice criticism of the economic situation. Ba'athist Syria under Hafez Al-Assad and continuing under Bashar Al-Assad did not and does not have a tradition of allowing or welcoming open political criticism. Criticism or discussion of political matters tends to be carried out behind closed doors within the inner circles of the Ba'ath Party, if at all. Indeed the examples of Members of Parliament being charged on a number of charges relating to allowing discussion of topics relating to political reform are legion.

However, criticism of the government on economic matters has traditionally been if not widespread then certainly more tolerated, in particular from Members of Parliament, after the introduction of Investment Law No. 10 in 1991. To observers of the regime, it has seemed that the years since 1991 have been ones where economic criticism of the government by prominent businessmen or Members of Parliament (these roles are often combined) has been allowed by the regime authorities and sometimes positively welcomed. Indeed, the level of criticism allowed has on occasion surprised and almost baffled veteran Syrian observers.<sup>13</sup> The Syrian Parliament, after years of loyal service as a rubber-stamping institution, has apparently begun to act as a safety valve for criticism of the government from areas of potential opposition. Criticisms are voiced by both the clique of 'new' businessmen (foremost amongst them Riyad Seif), frustrated with the continuing blocks and impediments to their individual commercial expansion and development, and from the 'old' group of traditional Ba'athists or members of the

National Progressive Front who see the government leaning too strongly towards further reform.<sup>14</sup> The regime can thus offer both sides a venue for impassioned debate on economic matters, whilst keeping politics to the sidelines, and can subsequently steer a moderate incremental course between them on economic matters. The degree of debate and the levels of criticism voiced are unprecedented in a supposedly 'closed' popular socialist-type democracy. It is interesting and illuminating to note that Investment Law No. 10 is the first piece of Syrian economic legislation to be allowed this kind of openness in debates within the Parliament. To judge on whether the regime **intended** the discussions over Investment Law No. 10 to act as a safety valve for political discontent would be difficult. However, what **can** be said is that the regime realised that once the legislation had been passed, a measure of economic debate would have to be allowed in Parliament. In the past, debate in Parliament on the Syrian Development Plans had been worthy and predictable, simply because they did not indicate a departure from the political norm. However, Investment Law No. 10 did exactly that – although it was supposedly set within the state-controlled economic sphere, it brought a taste of non-Ba'athist economic pragmatism into the previously closely-controlled world of Syrian economic *dirigisme*. It is certain that the regime after 1991 would not have allowed any measure of open political debate; and the sycophantic and (at least outwardly) smooth transition of power from Hafez al-Assad to Bashar al-Assad in July 2000 without any

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<sup>13</sup> the degree of open economic debate in Parliament still seems anachronistic to many observers

<sup>14</sup> One example of this was the impassioned debate regarding the development of wasteland in the centre of Damascus for a proposed luxury hotel. Opposition was raised in 1997 in Parliament by Communist MP's anxious about the fate of squatting families on the site of the proposed hotel. Embarrassing for the government was the fact that the hotel project was a Investment Law No. 10 project with particular exemptions and a joint venture between the Syrian Tourism Ministry and a Saudi Prince. The Syrian investment in the project was the provision of the site for construction – which was very obviously occupied by squatters.

measure of open dissent from within the country or the Parliament (witness the indecent haste in which the Constitution was amended to allow the ascension of Bashar al-Assad to the Presidency following his father's death) has indicated the continuing strong control the regime exerts over the external political arena.<sup>15</sup>

Nevertheless, I would argue that the effect of Investment Law No. 10 in allowing a measure of freedom in debating the economic future of Syria for the first time in Parliament was either directly intended by the regime, or was seen pragmatically after the introduction of the legislation as a useful way of allowing discontent and debate concerning the economic situation to be aired, whilst still maintaining a strong grip on the political arena. However, the previously solid appearance of the Syrian Ba'ath Party has begun to appear, post-1991, as a looser federation and alliances of various power groupings within the Party, all obviously intent on securing their prosperity and continual power base. Sources within Syria<sup>16</sup> have suggested to the author that parts of the regime have used Parliament and certain Members of Parliament to embarrass other parts of the regime by leaking or placing information with them. In fact, the economic debate within Parliament by necessity will, at some point, touch upon the political structure of the Syrian state. It remains to be seen whether the regime (as distinct from the government) will allow that. However the current feeling amongst Syrians is that the regime (and the controlling parts of the regime) continue to watch and monitor Parliament (and its debates) very closely, despite the recent ascendancy of Bashar al-Assad.<sup>17</sup> The arrest in

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<sup>15</sup> ArabicNews.com, *Syria PA Committee approves Bashar al-Assad's nomination for President*, 27<sup>th</sup> June 2000

<sup>16</sup> Interview 4, Interview 24, Interview 26

<sup>17</sup> Interview 24, Damascus & Aleppo, 12<sup>th</sup> & 13<sup>th</sup> May 1998

2002 of Riyad Seif, following a partial relaxation during the ‘Damascene Spring’<sup>18</sup>, can be seen in this context as a clear signal that whilst economic development and debate is something the regime can tolerate and encourage within closely controlled boundaries, elements within the regime continue to keep a close eye on the boundaries they allow individuals to reach when debating economic change and reform.

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<sup>18</sup> Perthes, V., Geheime Gärten, Berlin, Siedler Verlag, 2002, p 203

### **5.3.2. Support for Investment Law No. 10 Within the Regime**

The central political aspect of the introduction of Investment Law No 10 is one on which most Syrians would still be reluctant to express an opinion. Clear indicators exist that the regime intended to pacify certain specific powerful interest groups within the regime by passing legislation that allowed them to launder foreign capital accumulated from various enterprises. These indicators are obviously indirect, but they cannot be discounted. The common opinion (although not publicly or officially expressed) of a number of private and public individuals, both Syrian and foreign, is that a combination of groups who were close to Hafez al-Assad were exploiting Investment Law No. 10 for their own gain and were actively resisting any further reform of the economic system or the law. This is indicative of a wider problem in the introduction of Investment Law No. 10 - the balancing act between regime survival and necessary change. The regime itself, made up in its core constituencies of groups who had advanced under socialism, had a clear interest in maintaining the controlling interest of the state in the economy. The elite at the top of the Ba'ath party had historically been recruited through a socialist party and a sectarian-based advancement system and were clearly reluctant to allow an economic free-for-all that would immediately weaken their own power base and allow their traditional enemy – the Sunni dominated petite bourgeoisie – to re-enter the political arena. This issue was combined with the presence of corruption, either through illicit currency transactions or smuggling or through accommodations to the elite from businessmen in order to set aside bureaucratic regulations. The traditional losers in any economic liberalisation programme – public sector workers and employees – were part of the traditional groups who supported the regime, whilst the traditional beneficiaries – the

Sunni-dominated bourgeoisie – were the traditional rivals for power which the regime could not become too dependent upon. Therefore, continued survival of the regime and its legitimacy depended on supplying its traditional supporters with economic opportunities, the volatile urban population had to be provided for and the state economic sector (in particular oil and gas generation and exploration/exploitation) needed to be protected as the main revenue base of the state as long as tax demands on the private commercial sector could be easily evaded. The demands on the state that the military establishment made as long as the conflict with Israel continued, in itself another legitimising factor for the continued existence of the regime, also meant that state control over the economy had to be maintained.

On the other hand the continuing economic pressures the regime faced in the late 1980's were essentially forcing the regime's economic planners to look towards economic liberalisation. The issue of the 1990 Syrian stance against Iraq was rewarded and in a sense put off the day of reckoning, but the eventual collapse of the Soviet Union in 1991 left no alternative but to look to the private sector and selective liberalisation. In addition, the availability of Gulf investment capital for Syria was going to take the form of private investment rather than direct state aid, and there was the possibility of tapping into illicit funds held by Syrians and accessing existing expatriate Syrian capital. In a sense therefore, the state-connected bourgeoisie within Syria wanted economic liberalisation, but only as long as it was linked to the continued existence of the state sector. The traditional non-state bourgeoisie remained largely commercial and rentier-

based<sup>19</sup> and therefore the immediate beneficiaries of the liberalisation process and Investment Law No. 10 were to be the alliance between elements of the regime and their closest supporters, the state-connected 'new bourgeoisie'.

The majority of the individuals interviewed and willing to discuss this aspect of investment legislation believe that for a major investment project to succeed, payments will have to be made to a member of this elite<sup>20</sup>. One source went so far as to comment that the legislation and the legislative process were controlled by 'traitors'<sup>21</sup> using the loyalty pact with the President as a cover for their own advancement. Abdul Rahman Khaddam, Mohammed Maklouf and Major-General Mustafa Tlas were all seen as profoundly corrupt (this assessment includes by definition their relatives, especially their sons). The above group apparently selected information to pass to Hafez al-Assad, deceiving him if necessary, and ensured his continued ignorance of the situation. Hafez al-Assad was apparently, according to one senior source, "lazy, ill, unable to concentrate and able to work only a few hours a week"<sup>22</sup> and was simply not interested in domestic politics or the day-to-day economic affairs of state. One senior source<sup>23</sup> (who, according to another interviewee<sup>24</sup> had himself close ties with the Muchaberat) said that all major government decisions and laws during the 1990's were in fact drafted by the Muchaberat. They were then presented to the President as a *fait accompli*. Investment Law No. 10 was

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<sup>19</sup> Hinnebusch, R., *Syria, Revolution from Above*, London, Routledge, 2001, p 133

<sup>20</sup> Interview 21, Interview 22, Interview 23, Interview 27, Interview 28, Interview 29, Interview 30, Interview 31

<sup>21</sup> Interview 25

<sup>22</sup> Interview 25

<sup>23</sup> Interview 21

<sup>24</sup> Interview 5, Damascus, 24th February 1998

seen by this source simply as a direct means for highly influential businessmen and politicians to launder their corruptly acquired capital.

This capital almost certainly partially came from the extensive smuggling operations operating between Syria and Lebanon. A large proportion of the 30 000 strong SAR armed forces stationed in Lebanon until 2005, in particular the commissioned officers, were clearly involved in smuggling activities, despite repeated and continued crackdowns by the regime. However, crackdowns are not necessarily driven by any honest desire to eradicate smuggling, they often simply served as merely a warning for the most blatant excesses to be curbed. In effect, smuggling is all-prevalent in Syrian society, at all levels. Very few Syrian neighbourhoods are without the ubiquitous cigarette-seller, who is offering Western brands 'imported' from Lebanon at Sy£ 50/pack. Similarly, Western medicines smuggled from Lebanon fetch absurd and inflated prices on the black market, whilst comparable quality, Syrian medicine is cheaper and readily available.<sup>25</sup> Nevertheless, a number of Syrians, conditioned by the traditional belief that a Western product carries a certain cachet, and governed by the sometimes accurate preconception that quality is not high on the list of issues addressed by certain Syrian domestic manufacturers, still prefer the imported products. The profits from these operations during the 1980's had to be held and stored somewhere. Overseas bank accounts and deposits held in Lebanon were the obvious answer and the funds deposited therein were an obvious target for the legislation enacted in 1991.

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<sup>25</sup> Interview 31

#### 5.4. Conclusion: Investment Law No. 10 and Beyond 2000

As we simply cannot validate the specific reasons behind the actual introduction of Investment Law No 10, we need to step back and recap the overall position. By 1990 powerful socialist ideological resistance to liberalisation had been weakened by the gradual acceptance of bourgeois norms and values by the existing elite.<sup>26</sup> Business partnerships developed between co-opted businessmen and the second generation of the political elite, who unlike their fathers, had no intrinsic opposition to economic liberalisation. The weaknesses of the public sector and the loss of the Soviet Union forced the acceptance of the private sector as full partners in these new enterprises. The focus on liberalisation using Investment Law No 10 stimulated the expansion of the private sector and for the first time since 1963, private investment exceeded the state investment budget.<sup>27</sup> This new private investment was however simply not enough to substitute for diminishing public sector investment as, demonstrated above, private investment was largely confined to the tertiary sector; if private businesses did invest in industry, it was to set up consumer industries producing goods (one example is pharmaceuticals) under European licence, which could deliver a rapid return on investment.

The added difficulty was that institutionalised problems remained. Bureaucratic obstruction, corruption and Law No. 24 all still hampered genuine economic expansion. Payment of consultancy fees to the bureaucratic elite resembled little more than protection money.<sup>28</sup> Private sector growth continued into the small business sector due to the avoidance of government bureaucracy, the official labour laws and the continued

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<sup>26</sup> Hinnebusch, R., Syria, Revolution from Above, London, Routledge, 2002, p 133

<sup>27</sup> Hinnebusch, R., op.Cit., p 135

<sup>28</sup> *ibid.*

lack of public financial markets that would be able to finance expansion. The difficulty with Investment Law No. 10 is that it simply provided a short-term solution for a long-term problem. The law was simply designed to allow the immediate legitimisation of foreign currency holdings and allowed their reintegration into the Syrian economy, giving an influential group, well connected to the regime, an opportunity to profit from a certain degree of economic activity, benefiting in turn the traditional middle classes and bolstering regime support. The introduction of Investment Law No. 10 gave the new generation of business leaders and entrepreneurs in concert with the sons of the regime elite an opportunity to operate within Syria, benefiting the economy as a whole, and in parallel allowed the measured voicing of criticism of the government in economic terms, acting thus as a safety valve for the high level of political frustration accumulated during the last 20 years.

In addition, the introduction of Investment Law No. 10 would improve the image of Syria abroad; foreign investors would at least show a passing interest in the economy, and the EU might be willing to part with funds to update the economic and financial infrastructure. Although this thinking behind the enactment of Investment Law No. 10 might seem to be rather Machiavellian, the results are manifest. The regime continues to survive, the various interest groups inside the regime have benefited directly from the legislation, pressure on Syria to reform further has lessened (in particular after the regulation of its outstanding international debt), and Syria has been in negotiations since 1998 with the EU concerning the EU-Mediterranean Partnership Agreements and has been able to secure EU financial assistance for a series of projects aimed at reforming the

state financial sector. It seems then that the intention behind Investment Law No. 10 was not singularly economic, it was not designed simply to offer the private sector new areas of opportunity, but carried with it a multi-faceted economic and political array of intentions, all however with one basic aim and intention in mind, the continued survival of the Ba'athist regime. It would thus seem appropriate to assess the impact of Investment Law No. 10 as a vehicle for achieving short-term political goals rather than a piece of legislation simply designed to attract private investment and to reach economic aims. In that sense then, Investment Law No. 10 has set a precedent for reaching these political goals whilst appearing to strive towards developing the economic attractiveness of the Syrian Arab Republic. Indeed the increasing frailty of Hafez al-Assad in 2000 and the prior collapse of the Arab-Israeli peace process (such as it was) in 1996 essentially paralysed the economy and provided a clear example of the continuing relative importance of political stability over economic reforms. In addition the succession of Bashar al-Assad in July 2000 marked not a new beginning for Syria, but rather a gradual reassessment of immediate political aims and ambitions.

Hafez al-Assad's death and the succession by Bashar al-Assad essentially marked the coming together of three forces within the leadership elite, the will of the dying President for his son to succeed him, the will of Bashar himself to succeed his father, and most importantly, the combined will of the regime apparatus - military and security, the Ba'ath Party itself, the state bureaucracy and the state co-opted bourgeoisie - to maintain the internal stability and the regional influence of Syria – the two achievements of the Assad regime which even opponents will acknowledge. Economic considerations were given a secondary role until the new President felt secure enough in his position to tackle

these outstanding problems. From late 2000 onwards, a series of reforms have been introduced under his leadership, including a recent banking law allowing the establishment of private banks and the introduction into Parliament of a bill allowing the operation of a stock exchange. In addition the appointment of Dr Hassan al-Nuri as Minister for Bureaucratic Reform<sup>29</sup> and the temporary toleration of the publication of two manifests demanding greater democratisation during 2000 and 2001<sup>30</sup> indicated a slight but significant shift away from the policies of his father.

Under the old regime the clear emphasis and goal of the regime was to achieve a settlement on favourable terms of the Arab-Israeli problem, and to maintain the regime in power. Under Bashar al-Assad there seems to be an understanding that Syria needs to address the basic economic problems as well as addressing the traditional issues dear to the Ba'athist heart. His emphasis on the need for change has however a clear tradition; by appealing to the young of Syria, Bashar is trying to build up and develop his own, as opposed to an inherited, powerbase. Yet as the new President is still in the first years of his Presidency, he is reliant on the established forces which organised his succession. When Investment Law No. 10 was passed in 1991, it was a clear indicator of how delicate a balance had to be struck between economic necessity and political expediency. Bashar al-Assad has not laid aside the careful consideration of either just yet.

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<sup>29</sup> Perthes, V., op.Cit., p 202

<sup>30</sup> Perthes, V., op.Cit., p 205

## Conclusion

Investment Law No. 10 of 1991 has generally been viewed as a piece of legislation simply designed to attract private and foreign investment to Syria. If we now return to the research questions the following answers emerge;

### **1. What was the political-economic situation in Syria at the point of introduction of Investment Law No. 10?**

It is clear that for most of the 1980's leading up to the introduction of Investment Law No 10 the Syrian economy was struggling to develop and faced a series of severe economic crises including a foreign exchange crisis which developed into a wider economic depression. Diminishing public resources and austere budgets forced the government gradually to open additional areas to the private sector and to abandon some of its instruments of control. This austere situation was further compounded by the collapse of the COMECON bloc and the loss of the USSR as a trading partner. This dire situation, only slightly bettered by the abnormal foreign rent influx following the 1990/91 Gulf War, the Syrian response to which was itself an example of the changed international and regional outlook at the time, contributed to a change in the government's overall development strategy and the transfer of some of its economic levers to the private sector. The regime introduced a number of reforms in agriculture and in tourism allowing the concentration of private ownership of agricultural land and the mobilisation of private capital, both Syrian and foreign, into productive investment projects, primarily in export-orientated or foreign currency

earning enterprises. With these measures came a liberalization of trade regimes and a wider policy of encouraging private investments, particularly in industry.

**2. Why did the regime introduce Investment Law No. 10 at that time and in that form?**

The introduction of Investment Law No 10 was to encourage private investment particularly in manufacturing industries. The stated objective was to mobilize domestic, private resources rapidly to make up for the inability of the state not only to maintain the state-led growth strategies of the past decade, but also to secure the supply of imported consumer goods and production inputs both for the private and public sector. Investment Law No 10 intended to open the space for private investors to launch projects in almost all areas of the economy, exempt from taxes for a fixed period of years. It led to an unprecedented rush of short-term investment projects, particularly from Syrian businessmen with close ties to the regime, requiring the minimum of investment and delivering the maximum return on capital. Investment Law No.10 was a useful statement of aims but an imprecise piece of legislation. There has been some suggestion that Investment Law No.10 was fashioned deliberately in that way to allow fine-tuning by Presidential Decree once its initial effect on the economy had been observed. However it is best described as a working paper, rather than a piece of legislation, effective as a general statement of intent but lacking in essential legal detail. Individual articles leave far too much room for interpretation and therefore allows investors either to deliberately exploit or to contravene the law. There are shortcomings in Investment Law No. 10 which seriously damage its attractiveness and effectiveness as a vehicle for investment in Syria. Some of these can be remedied within the framework of specific legislation but others demand more fundamental change within the general economic structure of Syria.

**3. How has the view of Investment Law No. 10 changed since that time among domestic and international investors?**

Despite the incentives offered, Investment Law No.10 merely provided a further bureaucratic obstacle course for investors and the introduction of Investment Law No.10 was a 'quick fix' and not the correct answer to Syria's long term economic development needs. Essentially Investment Law No.10 proved to be a law that encourages short-term investment. Moreover, the incentives it provides were only really suitable for Syrian investors already familiar with local market conditions. Certain aspects of the practical application of the law make it less attractive to foreign investors and to any investor considering initiating a long-term project, which may take time to yield significant profits and results. It is clear that in isolation, and in purely economic terms, Investment Law No. 10 has failed to live up to its premise. Foreign investment projects were slow to appear on the Syrian economic scene and continued to be scarce, and the hoped-for subsequent economic reforms following the enactment of Investment Law No. 10 have largely failed to materialise. The legislation did little to remove the already formidable barriers to foreign private investment in Syria, indeed in a number of instances it simply added to the overall picture of confusion by introducing new layers of bureaucracy. Businesses continued to be reliant on an informal network of individual contacts and agents within the structure of government, and business dealings in Syria (both by foreigners and Syrians) continued to be facilitated by the widespread use of inducements to officials. The expansion of existing foreign businesses to exploit new opportunities outside the traditional areas of supply and support for the oil industry did not occur to any large extent. If new foreign investors, encouraged by Investment Law No. 10, entered the

Syrian scene, they were faced with continuing formidable obstacles. There are failings in Investment Law No. 10 which seriously damage its attractiveness and effectiveness as a vehicle for private investment in Syria. A number of these could be addressed within the framework of specific legislation on foreign investment but others demand more fundamental change within the general economic structure of Syria. In domestic economic terms, the legislation did however enable a substantial number of Syrian businessmen to operate their own privately owned businesses for the first time, some with a notable degree of success. These businesses are based in various economic areas previously not open to private investors. These opportunities have changed certain aspects of the domestic Syrian economy, but the underlying structure has not been substantially altered.

#### **4. What influence has the political system had on the operation of Investment Law No. 10?**

The overall political aim behind the introduction of Investment Law No 10 was to ensure his regime's stability and continuity. It has become clear that Investment Law No. 10 was enacted with a number of underlying political objectives in mind, centred on the overriding need to contribute in economic form towards the survival and stability of the regime and in reaction to a number of factors, drawn from both the economic and political spheres, both domestic and international. It should be stressed that the overriding emphasis of enacting Investment Law No. 10 was regime survival in the face of domestic and international pressure and not reform of the domestic economy in any significant way nor the loosening of the tight control the regime holds over the political levers of power. The political reality of the operation of Investment Law No 10 is that a combination of interest groups exploit Investment Law No. 10 for their own gain and actively resist any further reform of the economic system or the law. Essentially the regime itself, made up in its core constituencies of particular overlapping interest groups, had a clear interest in maintaining the controlling interest of the state in the economy. These groups were clearly reluctant to allow an economic free-for-all that would immediately weaken their own power base and allow their traditional enemy – the Sunni dominated petite bourgeoisie – to re-enter the political arena. The option of being seen to allow a degree of economic freedom was an inspired one by the regime, and one that certainly allowed it to regain some credibility amongst the Syrian Sunni petite bourgeoisie. Initial optimism faded after it became clear that further reforms were not immediately forthcoming and the regime was faced with the need to amend the legislation substantially and at length on

a number of subsequent occasions. In this respect however it should be recognised that the introduction of Investment Law No 10 affected more groups than the traditional regime supporting networks. Therefore the regime could have conceivably have been attempting to reach out and gain support from hitherto not approached classes of entrepreneurs. However this has not been successful. The deeper problem regarding the ability of the regime to change in any substantial way is the continued existence of entrenched and conservative power groups and networks within the regime resistant to any more than incremental change if this threatens their established position. These groups welcomed the introduction of Investment Law No 10 because it suited their particular economic needs, but remain resistant to any wider economic reforms. Investment Law No 10 essentially was a tool for elements within these networks to increase their economic influence.

**5. How did the research question change with the developing analysis of the topic over the duration of the thesis ?**

When the research question was first formulated, the view of Western analysts of Investment Law No. 10 was that this was the beginning of a gradual and incremental reform process which would lead to further economic liberalisation and culminate in the establishment of a fundamentally open, free-market economy. With Investment Law No. 10, the Syrian government seemed to have given the signal for the country to follow a new path of pragmatic, cautious development, moving towards liberalisation throughout the 1990's. This assessment prompted a wave of interest amongst academics.<sup>1</sup> As the research progressed however and as more evidence was accumulated, it became clear that the reasoning behind the introduction of the legislation was more complex than simple economic liberalisation. Subsequent Syrian legislation did not appear to be supporting an incremental reform process, neither did the legislative detail in Investment Law No 10 fulfil the criteria for the encouragement of investment. Investment Law No.10 appeared essentially to be a useful statement of aims but a very imprecise piece of legislation. The articles comprising the law were badly formulated, imprecise and took no account of the realities of investment in Syria. The actual executive framework designed to implement the law was essentially inefficient, ineffective and marginal in determining the actual operation of the legislation. When this became clear, the analysis moved from examining the operation of the law itself to the wider political and economic issues surrounding the legislation; in particular the characteristics and timing of its introduction. The question that the

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<sup>1</sup> Pölling, S., *Investment Law No 10: Which Future for the Private Sector ?* in Kienle, E., *Contemporary Syria*, London, British Academic Press, 1994. See also Hinnebush, R., *Syria: The politics of economic liberalization*, in *Third World Quarterly*, Vol 18, No 2 (1997), pp 249-265, and

research began to focus on was why, if the investment was so badly drafted and introduced in such haste, was it introduced in the first place ? The outcome of the research has been that far from being a simple piece of investment legislation designed to encourage foreign investors, Investment Law No 10 was a short-term measure designed as an economic safety valve to meet a number of demands. It allowed elements of the ruling elite to access and invest foreign currency holdings and allowed their wider family groups to expand further into the private economic sphere. In addition it allowed the a large number of short-term projects within the transport and tourism sector to be introduced. Finally, by allowing a measure of economic-centred debate and criticism within institutions, it deflected attention away from the fundamental inequalities and weaknesses of the political system. The assumption that Investment Law No. 10 marked a first step towards a pluralist economic system is essentially incorrect and shows an incomplete grasp of the complexities and influences prevalent within the Syrian economic and political context.

### **Concluding remarks**

The fundamental problem for Bashar al-Assad remains that if he pushes ahead with an ambitious economic reform package, he risks alienating the very power groups which helped him into power following his father's death. His ascendancy presents a problem for Syria in a number of ways.

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Hopfinger, H. and Böckler, M., *Step by Step to an Open Economic System: Syria sets a course for Liberalization*, in *British Journal of Middle Eastern Studies* (1996) 23 (2) pp 183-202

On the one hand his comparable youth and his Western education made him a popular image for reformists to latch onto when he first came to power– in particular in the West. This is also apparent if you view the initial success in which he has been able to harness support from the young people of Syria.

On the other hand it is clearly premature to believe that this new Assad is in any way fundamentally different from his father. He has attempted to be a powerbroker, like his much more successful father, operating between different power groups and interests. Indeed the interim success of the Bashar administration can be explained by the ability of Bashar to accommodate existing power structures within the regime. It is clear that Bashar did not become President in 2000 (ignoring a Constitutional Stipulation that would have made Vice-President Khaddam interim President)<sup>2</sup> following a rapid amendment to the Constitution lowering the minimum age for the President from 40 to 34<sup>3</sup>, simply by virtue of being Hafez al-Assad's son. His father had clearly intended him to replace his elder brother Basil as the heir apparent after Basil's death in 1994 and Bashar's role had become clear in 1999 when he headed an anti-corruption drive which led to the then Prime Minister Mahoud Zoghbi committing suicide and Salim Yassin the Transport Minister being jailed for corruption over a purchase of Airbus transport aircraft in 1996.<sup>4</sup> This alone would have not been enough to secure his succession. It is also clear that at this particular time it suited the groups surrounding the President that Bashar be chosen and confirmed as heir. Bashar has been able to build for himself a measure of support amongst the existing cliques of the Syrian leadership group but Bashar has not earned

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<sup>2</sup> Business Week, September 4<sup>th</sup> 2000, p36

<sup>3</sup> The Times, June 13<sup>th</sup> 2000, p 21

this position only by virtue of effort – as his father had done – and it is rather a case that the entrenched interest groups within the Syrian elite tolerate him rather than he tolerate them. One question which is yet unanswered is the long-term effects the withdrawal from Lebanon will have on the framework of power within Syria. The 10<sup>th</sup> Ba’ath Party Congress in June 2005 did not fulfil expectations in that it did not offer anything beyond a symbolic rearrangement on ministerial chairs and the predictable closing of ranks in the face of perceived foreign aggression.

The picture for the future of Syria and the economy then is a mixed and contradictory one. The modernisation drive which Bashar initiated as head of the Syrian Computer Society before his father’s death gave rise to the following comment:

“if you want to computerise, you are considered to be displacing power from one generation to another. Managers get the equivalent of US\$ 160 a month – and they drive a Mercedes. And these people are dead against reform. So right now we are in a system where there are a few hundred people in charge and they have an enormous stomach cramp about modernising.”<sup>5</sup>

The issue for Bashar is that these are precisely the groups of people he needs support from. Without the backing of the influential groups within the regime structure his position is untenable. However to deliver true reform and growth in the Syrian economy he needs to attack precisely the entrenched positions these groups have managed to establish within the Syrian hierarchy – yet he himself is a product of that hierarchy.

Certainly Bashar al-Assad’s transition to power marks a new phase in Syria’s development. Assad is still reliant on the support of the existing groups of the

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<sup>4</sup> Business Week, September 4<sup>th</sup> 2000, p35

previous regime; neither willing nor able to embrace reform; he has no major support base of his own, and he certainly would not wish to ally himself with the more open oppositional groups calling for more reform – in particular as this would lead to a criticism of his own inherited regime.

Nevertheless things have changed. The modernisation of Syria is being attempted incrementally. The new technocrats of the Syrian elite are drawn from the same interest groups Bashar's father also cultivated – in effect Bashar is following his father's example by developing his own powerbase. What is different is that this transition of power is occurring incrementally and following a generational change, rather than following a revolutionary change as in 1970. This gradual and generational transformation is helped by the fact that the majority of technocrats are from within the existing power groups and structures of the regime. In effect Bashar is gradually attempting to achieve *en masse* what he achieved as an individual in 2000.

This generational transformation from a highly personalised quasi-tribal authoritarian state to a modernised authoritarian one, possibly a slightly pluralistic one following the Egyptian model<sup>5</sup>, is only then to be expected when the new generation of technocrats Bashar has put in place have fully replaced and supplemented the existing elite of the old regime. But it cannot be expected that individuals from within this new group will in any way risk their own positions or their role in the implementation of the reforms the President is aiming for by demanding rapid or excessive change to the existing political power structure. They, like Bashar himself, are largely children of the Ba'ath elite, and therefore conditioned by heritage and

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<sup>5</sup> *Financial Times*, 26<sup>th</sup> November 1999

<sup>6</sup> Perthes, V., *Geheime Gärten*, Berlin, Siedler Verlag, 2002, p 215

upbringing. In addition it is clear that any internal changes in Syria are dependent on the progress of foreign policy. A solution acceptable to both sides of the Israeli-Palestinian issue, a peace accord between Syria and Israel, or the peaceful withdrawal of Syrian troops from Lebanon might very well trigger the possibility of internal debate; further escalation of the conflict or the further entrenchment of the Israeli position will lead to a stiffening of Syrian foreign and internal policy.

Therefore demands of Bashar and his generation of new Syrian technocrats should be modest. Certainly we cannot expect that the new President will allow free elections to the Syrian Parliament, and in particular not in his first seven-year period as President. But we cannot pretend that the brief opening of political debate following the death of Hafez al-Assad has not touched or changed Damascene and Syrian society. In that respect, the death of Hafez al-Assad and the ascension of his chosen heir have done much more to open Syria and to prepare Syrian society for change – even if it is incremental – than Investment Law No. 10.

Composition of the main figures in the Syrian Cabinet in March 2000

Muhammed Mustafa Miro	Prime Minister (*)
Lt General Mustafa Tlas	Deputy Premier & Defence Minister
Naji al-Otari	Deputy Premier for Services (*)
Khaled Raad	Deputy Premier for Economic Affairs
Farouk al-Shara	Minister for Foreign Affairs
Muhammed al-Imadi	Minister for the Economy and Foreign Trade
Khaled al-Mahayni	Minister of Finance
Muhammed Maher Jamal	Minister for Oil (*)
Radwan Marteini	Minister of Communications (*)
Adnan Omran	Minister of Information (*)
Muhammed Harba	Minister of the Interior

(\*) designs new appointments

## Investment Law No. 10, 25<sup>th</sup> April 1991

### Introduction

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

### Law No. 10

The President of the Republic, Recalling the rules of the Constitution and Approval by the People's Assembly in its session held on 25.4.1991, issues:

#### Article One

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 Two

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 for 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 rule 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 in charge = Public authority concerned
- (g) Foreign fund = Fund primarily supplied from abroad by Syria, Arab or foreign citizens.

## Chapter I: Fields of investment

### Article Three

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 Four

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 rationalising imports
- (e) to use up-to-date machines and technologies which are suitable for the national economy needs
- (f) that the stable 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 Five

(a) 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 a deciding member

(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 Six

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 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 authority in charge.

### Article Seven

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

### Article Eight

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 up 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 Nine

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

### Chapter III: Franchises, privileges and facilities

#### Article Ten

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 concerned 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 buildings 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.

#### Article 14

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.

#### Article 15

By a decision of the council, an additional period of two years may be added to the duration of exemption quoted in Article (13) of this law, should the total revenues in foreign currencies actually transferred into the Syrian Arab Republic through its banks and realized by the project's exports of merchandises and services exceed 50 % of the total production of the project during the original period of exemption.

#### Article 16

(a) In addition to the facilities given by the rules and regulations in force on foreign currencies, the investor may open in favor 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:

- (1) 100 % of payments made in foreign currencies of the project's capital and of the loans granted to the project in foreign currencies.
- (2) 75 % of the total foreign currencies realized from the revenues of exports and services of the project.

On the debit side of the afore-mentioned 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 project, according to rules of this law.

(b) Regardless of any text in force, the investor may use his foreign currency funds in financing projects licensed to be set up according the rules of this law, or contribute to the capital or buy shares of these projects.

#### Article 17

(a) The Bank shall put the investor's funds deposited at it accord 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 fu deposited at it in favor of the project's account and in harmony the current interest rates.

Article 18

Investor may borrow local currency from the state's banks in favor 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) Joint-stock companies licensed by the rules of this law, in which the public sector takes part at 25 % at least of the capital, take the form of a society anonym shareholding company or a limited liability company.

(b) Founders shall set a draft for the company's bylaws in conformity the nature of its being . This bylaws is issued by a decision by the Prime Minister after it is approved by the council.

### Article 20

(a) The joint-stock company will have a board of directors in which Share-holders 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 Labor Law No. 91 of 1959 and its amendments. This bylaws 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

The joint-stock companies coming to being according to the rules of this law shall be exempted from the stamp tax levied on the share issuance.

## Chapter 5: Special rules on investment of 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, or of Arab or foreign nationals, are allowed, after the elapse of five years from the investment of the project, to re-transfer abroad the net value of their share in the project in foreign currencies on the basis of the actual value of the project, provided that re-transfer of funds should not exceed the capital brought in by them in foreign currencies, and according to executive instructions issued by the council in this regard.
- (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 the 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

Investors of Arab or foreign nationals may insure their funds invested in the approved projects at the Inter-Arab Investment Guarantee Corporation or any other establishment with the approval of the concerned authority.

## Chapter 6: General Rules

### Article 27

(a) Investor shall apply to the concerned Ministry for approval of his project and that it is covered by the rules of this law. Application form shall be accompanied by papers and documents that indicate the prerequisites, elements, and aims of the project and its economic feasibility and the legal form it will take.

(b) The concerned 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 may cancel the decision of approval, if the project propose fails to take serious procedures to initiate his project within one-year period from the date of issuance of decision of licensing, unless there are justified reasons accepted by the council to extend the given duration of implementation.

### Article 28

The proposer of the project approved shall:

(a) keep books as per the commercial law.

(b) present an annual balance sheet and a statement of profits and losses ratified by an authorized auditor, within a four-month period from the end of the fiscal year of the project.

(c) keep a special register in which all details relating to the project funds, which, as per the rules of this law, enjoy franchise, privileges or facilities, are taken down, together with the, movement of these funds and overhead expenditures.

(d) 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 itself, the council may suspend the validity of franchise, privileges and facilities given to the project, wholly or partially, in case the project proposed 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 incurred 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 franchise, facilities and privileges specified in this law.

#### Article 31

By a decision by the council, franchise, privileges and facilities quoted in this law may be given, except the exemption from taxes and fees, to any of the standing projects. All obligations quoted in it remain in force

#### Article 32

In case the ownership of Projects approved is transferred, wholly or partially, to a new owner, then the new proprietor replaces the old one in rights, obligations and duties he had to fulfill as per the roles of this law and the regulations and instructions issued in this regard. Capital profits ensued by the sale of the stable assets are subjected to profits 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 effected by it before this law is put in effect.

#### Article 36

Projects approved shall be subject to the roles of the Commercial Law No. 149 of 1949 and its amendments, provided that 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, the chairman of the Higher Council of investment, shall issue the instructions necessary for the implementation of the rules of this law.

Article 39

This law shall be published in the official gazette.

Damascus, 4<sup>th</sup> May 1991

President of the Republic Hafez Al-Assad

Out of the desire to direct the surplus of funds towards Development Law No.10 encouraging investment 1991

Investment Law No. 10, 25th April 1991

ORDER NO. 7 O.M.: Implementory Instructions for Law No.10/1991

Law No. 7 Promulgates Investment Law No. 10

### Introduction

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

SYRIAN ARAB REPUBLIC  
PRESIDENCY OF THE COUNCIL OF MINISTERS  
ORDER NO 7

### Implementory Instructions for Law No.10/1991

The President of Council of ministers, In accordance with provisions of article 38 of Law No. 10 issued on 4.5.1991, With resolution adopted by the Council of Ministers at its meeting on 28.5.1991, And with resolution adopted by the Supreme investment Council at its meeting on 8.6.1991, issues the following instructions,

### Definitions

#### Article 1

The following terms shall have the meanings given to them hereunder:

Investment Law: Law No.10, issued on 4.5.1991

Council: Supreme Investment Council

Chairman: Chairman of the Supreme Investment Council

Office: Investment Office

Project: Project established by a natural or juristic person with local or foreign capital, or both, and approved under the provisions of investment law.

Investor: The natural or juristic person who obtains a permit to establish a project under the provisions of investment law.

Competent authority: Concerned Public Authority

Foreign capital: Capital lawfully brought from abroad by Syrian, Arab or foreign nationals in accordance with the provisions of article 23 of investment law.

## Article 2

Beneficiaries from the Law Shall benefit from the investment law economic and social development projects approved by the council and established with local or foreign capital, or both, by the following natural or juristic persons:

- 1) Syrian Arab nationals residing in the Syrian Arab Republic and those treated as such.
- 2) Syrian Arab nationals residing abroad, whether or not they have obtained the nationality of the host country.
- 3) Nationals of Arab and foreign states.
- 4) Juristic persons (corporations) which are authorized by the council to establish projects under the provisions of investment law.

## Investment Fields

### Article 3

Economic and social development projects mentioned in article 3 of investment law shall mean projects established under the provisions of the said law in the following fields:

- 1) Agricultural projects, in both plant and animal production fields, as well as all ancillary, connective or complementary activities, such as construction of greenhouses, refrigerated storage facilities, fruit and vegetable sorting, packing and wrapping facilities (whether or not the goods are produced by the same project).
- 2) Agricultural products processing plants (whether plant or animal products).
- 3) Industrial projects which may be established by private sector and by joint (public and private) sector enterprises.
- 4) Transport projects.
- 5) Projects approved by the Council in other fields.

## Grounds and Criteria to be Applied by Council for Granting Approval

### Article 4

The council shall grant approval to a specific project, in order to benefit from the provisions of investment law, on the basis of the following considerations:

- Being in line with the objectives of the State development plan.
- Extent of use of locally available resources and of sharing in growth of national product and increase in employment opportunities.
- Capabilities of the project in the field of increasing export and import rationalization.
- Use of modern, up-to-date, machinery and techniques, suitable to the needs of the national economy.
- Value of fixed assets (plants, machinery, tools, equipment, instruments, installations, instruments, utility, means of transport touristic' and other means of production definitely, not temporarily imported from abroad) invested for use exclusively in the project shall not be less than ten million Syrian pounds calculated on the basis of current exchange rate in neighboring countries, as published in the Foreign Currency Exchange Bulletin issued by the Commercial Bank of Syria. The Council of Ministers may amend this minimum and such amendment shall be promulgated by order of the President of the Council of Ministers.

### Supreme Investment Council

#### Article 5

- a- The council shall meet periodically, at least once every two months, at the invitation of its chairman.
- b- Invitation to the meeting shall be addressed at least three days in advance and shall be accompanied by the meeting agenda and copies of papers and documents pertaining to the subjects which shall be discussed.
- c- The council shall lawfully meet if the majority of its members are present. Resolutions shall be adopted by majority vote of those present and entitled to vote. In case of equal vote, the chairman's side shall prevail. The council may form, among its members, specialized committees to study specific subjects and report thereon to the council. Such committee may seek the assistance of such experts and technicians as it may deem appropriate from the various ministries and public administrations from the public and joint sectors.
- d- The chairman may invite such persons as being specialized in or concerned with the subject which shall be discussed to attend the council meeting but without right to vote.

## Powers of the Council

### Article 7

In its quality as supreme authority in the field of investment, the council shall have the following powers:

a - To study any request for establishing a project under the provisions of investment law, when such request is referred to it by the office in the form adopted by competent authorities, accompanied by all relevant documents and exhibits. The council shall issue its decision within thirty days as from reference of the request to the council by the competent authority. Such decision shall be duly notified to ministries and other concerned public administrations and to interested parties. Said ministries and other concerned administrations shall be under obligation to implement the council decision by taking the following actions:

1) Issue all required permits and authorizations (e. g. administrative permit, industrial permit...)

2) Provide the project with all essential public utilities (electricity, water, fuel, telephone...) at the investor's expense. The investor shall also, if necessary, bear additional infrastructure expenses required to connect the project to such utilities.

In case of approval, the council decision shall generally contain the following information:

- Beneficiary's name
- Legal form of the project
- Project capital
- Objects, nature of Production and capacity of production
- Period necessary for Project establishment
- Investment costs
- Sources of financing from abroad

In case Of refusal, the decision shall state the grounds of such refusal and the council may review such decision should the interested party submit new data justifying the project or refuting the grounds for its refusal.

b- To determine the percentage participation of the state in the capital of projects taking the form of joint sector companies (corporations or limited partnerships) and the nature of such participation (in cash or in kind)

c- To approve draft by-laws of joint sector companies and such approved by laws shall be promulgated by order of the president of the Council of Ministers.

d - To ratify the value of foreign capital invested in the project as assessed by the competent authority. .

e - To approve the number of transport means of various types, required by the project, as determined by the competent authority.

- f - To approve requests for assignment, merger, or conveyance of projects.
- g- To decide upon requests for disposal of some of the project imports through sale in the local market or through export to foreign markets, or upon requests for use of such imports for purposes other than the project needs, as required by article 12 of investment law.
- h - To issue implementorv instructions about how permission shall be given to non-resident Syrian investors and to investors from Arab and foreign countries to retransfer abroad the net worth of their shares in approved projects, on the basis of the actual value of the project, provided that the retransferred amount shall not exceed the value of foreign capital brought by them from abroad in foreign currencies, such retransfer to take place at least five Years after the beginning of the project operation.
- i- To approve retransfer abroad of foreign capital, in the same form in which it had been brought in, six months after its original transfer to Syria should its investment in Syria he prevented by circumstances beyond the investors control, to be appreciated at the council discretion, and in certain cases, to approve retransfer abroad of such foreign capital without abiding by the above-mentioned time-limit.
- j- To cancel the approval decision if the project owner does not take, within one year as from the date on which such decision has been notified to him, serious measures to implement the project, unless he justifies such delay on grounds acceptable to the council which shall thereupon grant an extension of time. In all cases, conclusion of binding contracts, according to the usual generally accepted and adopted forms, for the project implementation shall be deemed a serious measure towards such implementation.
- k- To grant extension of the exemption period, in accordance with the provisions of article 15 of investment law, if the return from project exports of goods and services, duly transferred in foreign currency to Syria through its banking system, exceeds 50% of total project production during the initial exemption period. For this purpose, the council shall rely upon official banking documents issued by the Central Bank of Syria or the Commercial Bank of Syria and upon the project balance sheets and profit and loss accounts.
- m- To suspend exemptions and other advantages and facilities granted to the project, in whole or in part, in case the project owner does not fulfill, in whole or in part, its obligations under article 28 of investment law, concerning the keeping of records, books and accounts and the provision of information and data to the council or to the competent authority, such suspension to remain in force until the project owner shall have remedied his failure. The suspension period shall remain a part of the exemption period granted to the project.
- n- To decide upon requests submitted by owners of enterprises and projects existing before the promulgation of investment law, seeking to benefit from some advantages and facilities provided for in the said law, except tax exemption, on the condition that the owners of such enterprises and projects undertake to comply with all obligations prescribed in the investment law. The council decision in this matter must state in details advantages and facilities granted to the existing enterprise or project, the

period during which such advantages and facilities shall remain in force and the conditions and obligations with which the project owner should comply.

o- To entrust to competent authorities the task of preparing economic and technical studies for a number of investment projects having special priority in order to propose such projects to would-be investors.

p- To direct the organization, of conferences and meetings and to invite to seminars held in the country or abroad for the purpose of promoting investment in the country and publicizing opportunities for such investment.

q- To study the development and modernization of investment legislation in the country, and to adopt plans aiming at creating a suitable climate for investment.

r - To study and decide upon all matters and questions relating to investment.

### Investment Office: Creation of the Office

#### Article 8

An office, known as "the investment office", is hereby created and attached to the Vice-President of the Council of Ministers for Economic Affairs. It shall be headed by a public servant having the rank of vice- minister.

#### Article 9

The office shall be staffed by a number of civil servants having the required qualifications and practical experience, especially in the following fields:

- Administrative and legal affairs
- Financial affairs
- Economic affairs
- Technical affairs
- Public relations,

together with the necessary clerical personnel and assistants.

The office staffing shall be determined by order of the President of the Council of Ministers.

### Duties of the office

#### Article 10

Within the scope of its Purposes, the office shall carry out and perform the following duties:

- a - To receive and register investment requests referred to the council by competent authorities, to complete information and data concerning each request in close co-operation and co-ordination with the competent authority, to prepare a file for each

request and to distribute copies of such file to the chairman and members of the council at least three days before the day of the meeting on which such request shall be discussed.

b - To keep a special record of foreign capital, brought from abroad in foreign currency or in the form of tangible or intangible assets after approval of its valuation by the council. The office may issue certificates of foreign capital registration, in the form of transcripts from the said record, showing the share in foreign capital belonging to each investor, such certificates shall be issued under the signature of the office manager and on his responsibility.

c - To record minutes of meetings held by the council and resolutions adopted at such meetings, to follow up the implementation of the said resolutions by competent authorities, to submit to the council reports on the progress of each approved project, stating the stage it has reached, the difficulties and problems encountered in the course of its implementation and proposing suitable solutions for such difficulties and problems in co-operation with the said competent authorities.

d - To receive complaints from investors, investigate and remedy such complaints, to assist them to obtain from competent authorities the necessary permits and authorizations, to help such investors in the establishment of their projects and in overcoming any difficulties hindering the implementation of such projects, and to refer to the council any proposals or opinions submitted by the investors concerning any matters related to investment and project implementation.

e - To keep records and registers as necessary for the performance of the office duties in the field of applying the provisions of investment law, in such a manner as to ensure that the said provisions are duly and correctly applied and in addition, to collect, co-ordinate, sort out and study all reports and data concerning approved projects, balance sheets and profit and loss accounts, and to submit reports thereabout to the council.

f - To prepare studies about draft by-laws of joint sector companies, having the form of corporations or limited liability partnerships, created in accordance with the provisions of investment law, and also about draft amendments to such by-laws and to refer such drafts and studies to the council for discussion and approval.

g - To publish and issue leaflets, booklets and other publications containing information about investment in the Syrian Arab Republic, both in Arabic and in various foreign languages, according to the council directives.

h - To co-operate with organizations belonging to the private, public and joint sectors in organizing advertisement campaigns abroad, among Syrian immigrants and among nationals of Arab and foreign countries, for the purpose of informing them about investment opportunities in the Syrian Arab Republic within the framework of the investment law, according to the council directives.

i - To carry out all other tasks entrusted to it by the Council.

## Article 11

All public authorities, administrations and establishments shall be under obligation to extend all possible help and assistance to investors in the field of accomplishing all required formalities and deciding upon all outstanding matters without any delay. They shall also be under obligation to reply to all questions and inquiries submitted to them by the office within one week, at the latest, as from the date of registration of such questions or inquiries.

## Article 12

All data and information submitted by investors to any official authorities, including banks, concerning the establishment and implementation of their projects shall be considered as confidential and will not be divulged.

## Exemptions, Advantages and Facilities

### Foreign Currency Account

## Article 13

a- The investor may open, for the benefit of his project duly approved under the provisions of investment law, an account in foreign currency with the Commercial Bank of Syria. Such account shall be credited with:

- 1) 100% of project capital paid in foreign currency and of loans obtained in foreign currency.
- 2) 75% of project income in foreign currency resulting from export of goods and services. The remaining 25% shall be sold to the Commercial Bank of Syria at the exchange rate referred to in article 4 of these instructions.

The said account shall be debited with all amounts required to cover all foreign currency charges, needs and requirements of the project, including but not limited to:

- Value of plants, machinery, equipment, vehicles, materials and supplies necessary for the establishment, operation, exploitation, development and/or extension of the project.
- Raw materials, semi-processed materials and auxiliary materials required for production process.
- Spare parts and replacement of fully depreciated machinery.
- Reimbursement instalments and interests due on loans obtained by the project in foreign currency.
- Interests, profits and dividends permitted to be transferred abroad each year by non-resident Syrian investors and investors from Arab and foreign countries, as well as earnings permitted to be transferred abroad by non-Syrians or assimilated employees

of approved projects. Such transfers shall be made through the Commercial Bank of Syria, after due confirmation by the office.

- Any amounts due by the project in foreign currency, as proved by authenticated papers and supporting documents, after checking by the office and approval by the Exchange Office.

- Expenses which must be paid in foreign currency in the Syrian Arab Republic.

- Insurance premiums which the project is under obligation to pay in foreign currency.

- Indemnities and bonuses of non-Syrian company directors.

b- The project shall bear complete responsibility for ensuring all its requirements in foreign currencies by lawful means. No official authority in the Syrian Arab Republic shall bear any liability to ensure any amount in foreign currency for the benefit of the project or of the project owners.

#### Article 14

The investor may invest any amounts in foreign currency being in his possession inside the country or held by him abroad and brought to the country by lawful means through financing projects duly approved under the provisions of the investment law or through participating in the capital of or buying shares in such projects without being held criminally liable under the provisions of any existing penal law.

#### Article 15

a- The bank shall keep investors' monies, deposited with it in accordance with the provisions of article 16, paragraph "a", of investment law, at their disposal upon first request and shall take all necessary measures to ensure the same.

b- The bank shall pay interests on amounts deposited in the project account in foreign currency at a rate in line with current interest rates.

c- The investor may deposit some of its assets in foreign currency in a time account with the Commercial Bank of Syria.

d- A special type of cheque books shall be remitted to investors having deposits in foreign currency and such cheques shall be used only for the benefit of the project.

e- The Commercial Bank of Syria shall ensure the transfer abroad of all charges, needs and requirements of the project in foreign currency according to rules contained herein.

#### Article 16

The investor may obtain loans in local currency for the benefit of his project from state-owned banks, under the guarantee of his personal assets located in the Syrian

Arab Republic, in accordance with rules applied by the said banks for granting such loans.

#### Other Exemptions, Advantages & Facilities

##### Article 17

Each project shall be considered as an independent economic enterprise, without regard to the persons of its owners, and shall benefit, as such, from all exemptions, advantages and facilities provided for in the investment law and detailed herein.

##### Article 18

a- Notwithstanding any legal provisions to the contrary, concerning prohibition, restriction or monopolization of imports or concerning direct import from the country of origin, and not withstanding any foreign exchange regulations to the contrary, the project may import the following:

1) All its requirements of plants, machinery, equipment, instruments, installations, tools, vehicles (including buses and micro-buses used for the service of the project) and other materials and supplies required for the establishment, development and/or extension of the project.

2) Tourist vehicles for the service of the project.

3) All materials and supplies required for the operation and exploitation of the project (raw and primary materials, semi-processed and processed materials and all other materials necessary for the production process and entering in the composition of the final product manufactured by the project). The competent authority shall determine the number and types of all transport means required by the project according to criteria adopted by the council.

b- Project imports specified in item 1 of the preceding paragraph shall be exempted from all fiscal and municipal taxes, custom duties and other taxes and duties provided they are used exclusively for the purposes of the project.

c- The project may not dispose of any imports specified in item 1 of paragraph "a" here above without obtaining the prior approval of the council and only after payment of all taxes and duties due and payable on them in their current state at the time of disposal, including capital gain tax mentioned in article 32 of investment law, according to laws and regulations being in force. Similarly, the project may not dispose of any imports specified in items 2 & 3 of paragraph "a" here above or use them for purposes other than the project purposes without obtaining the prior approval of the council on the basis of grounds justifying such disposal acceptable to the council. The above provisions do not apply to packing materials (pallets, drums, etc.) or to manufacturing wastes according to internationally acceptable proportions. For the purpose of applying the provisions of article 12, paragraph a", of investment law, imports shall mean all plants, machinery, equipment, instruments, tools, vehicles, service buses and micro-buses and other imported materials and supplies necessary for the establishment, extension or development of the project and which shall be

disposed of, in whole or in part, to third parties on an individual basis, either before or after their use, with the prior approval of the council. As to disposal by assignment or transfer of property of the project, in whole or in part, after due approval by the council, it shall be governed by the provisions of article 32 of investment law.

#### Article 19

a- Projects belonging to individuals or to companies other than joint sector companies, their profits and dividends shall be exempted from all taxes on income as well as from taxes on real estates and fixed assets (including machinery) in respect of real estates and fixed assets owned by them and used exclusively for their own purposes. Such exemption shall be for a period of five years as from the beginning of actual production or actual exploitation according to the nature of the project.

b- Joint sector projects established under the provisions of investment law, in which the public sector participation is not less than 25% of their capital, shall take the form of corporations or limited liability partnerships. Such joint sector companies, their shares, funds, profits and dividends shall be exempted from all taxes on income as well as from taxes on real estates and fixed assets (including machinery in respect of real estates and fixed assets owned by them and used exclusively for the purposes of their projects, such exemption shall be for a period of seven years as from the beginning of production or of exploitation, according to the nature of the project, of each project duly licensed under the provisions of investment law.

c - For the purpose of applying the provisions of paragraph "a" and "b" of this article, beginning of actual production or exploitation shall mean the date on which commercial production or exploitation will start.

d - For the purpose of applying the provisions of article 14 of investment law, the establishment period shall begin on the day immediately following the date on which the order issued by the competent authority giving permission to establish the project shall have been published in the official gazette.

#### Article 20

By resolution of the council, the exemption period provided for in article 13 of the investment law shall be extended by two additional years if the return from the project exports of goods and service, actually transferred in foreign currency to the Syrian Arab Republic through its banking system, exceed 50% of the total project production during the exemption period, calculated at the end of the said period.

#### Article 21

Joint sector companies established under the provisions of the investment law in the form of corporations shall be exempted from stamp duties on the issue of their shares.

## General Provisions Concerning Establishment of Joint Sector Companies

### Article 22

The founders shall prepare a draft of the joint sector company by-laws, taking into consideration its legal form, and such by-laws shall be promulgated by order of the President of the Council of Ministers after approval by the council.

### Article 23

Joint sector, companies established under the provisions Of investment law shall be considered as private sector companies and provisions and restrictions contained in laws and regulations governing public sector companies shall not apply to them whatever high may be the participation of the state and public sector enterprises in them.

### Article 24

a- Without regard to the provisions of law No. 134 for the year 1958 and of legislative decree No. 49 for the year 1962, the board 'of directors shall prepare a draft of personnel regulations for each joint sector companies, with due regard to the provisions of Labor Law No. 91 for the year 1959. Such personnel regulations shall be promulgated by order of the President of the Council of Ministers.

b- The board of directors of each joint sector company shall ratify and promulgate the financial regulations and the accounting regulations of the company with due reference to models prepared by the Ministry of Finance. Other internal regulations of such company shall he promulgated by resolution of the board of directors.

### Article 25

a- The joint sector company shall be managed by a board of directors whose number shall be determined in the company by-laws. Directors representing the public sector shall be named by order of the President of the Council of Ministers upon proposal of the concerned minister.

b- The general manager shall be named by resolution of the board of directors. He may not be at the same time a director of the company.

## Special Provisions Concerning the Establishment of Joint Sector Companies Taking the Form of Corporations Whose Shares are to be offered for subscription by the General Public

### Submission of Request for the Establishment of the Corporation

### Article 26

a- The founders shall submit to the concerned ministry a request to establish a joint sector corporation, accompanied by a preliminary economic feasibility study and stating its purposes, objectives, capital, projects to be undertaken, names of founders,

percentage of capital to be subscribed by each founder and percentage of capital to be offered to public subscription. The request may also contain an authorization given to one or more persons to sign the draft by-laws and the final text of the by-laws after their approval.

b- The concerned ministry shall give its opinion about the economic feasibility of such corporation and its conformity to the objectives of economic development in the country within 30 days at the latest as from the day of submission of the request, accompanied by all required documents, and shall refer the same to the council, through the office, proposing at the same time the public sector enterprise which will participate in the corporation. The concerned ministry may ask the investors to submit such information and documents as it may deem necessary to help it study the matter, provided that such demand will not delay reference of the request to the council beyond the said thirty days.

c- The council shall decide upon the request referred to it within thirty days as from the date of its registration at the office. In case of approval, the President of the Council of Ministers shall issue an order creating the corporation according to the attached form.

d- In case the projects to be undertaken by the proposed corporation are varied and concern several ministries, the request shall be submitted directly to the council which will refer it to the various concerned ministries so that they may give their respective opinion about the projects which concern each of them on the basis of the economic feasibility study and compatibility with the state economic and social development plan of each project. Each ministry shall give its opinion to the council within thirty days as from the date of registration of the referred request with it. The council shall, thereafter, decide upon the request according to the same procedure prescribed in paragraph "c" of this article.

#### Procedure for Establishing a Joint Sector Corporation

##### Article 27

a- The Private sector founders, in co-ordination with the public sector enterprise which will Participate in the corporation capital, shall organize and control public subscription operations in the corporation founders in accordance with the provisions of Syrian Commercial Law No. 149 for the Year 1949, as amended.

b- A notice inviting the Public to subscribe in the corporation shares, containing all information required by the Commercial Law, shall be prepared and published in the Official Gazette and in at least two daily newspapers appearing in the town where the main office of the corporation is located as well as in one newspaper at least in each town in which a subscription centre is located.

c- Shares may be subscribed during two months as from the date of publication of such notices.

d- If the shares are over-subscribed, the number of shares subscribed by each person shall be proportionally reduced, with preference given to small subscribers.

c- If the subscribed shares, including the state participation, do not reach three quarters of the total capital shares, subscription may be extended for a similar period by order of the concerned minister. If, after the elapse of the new period, the subscribed shares still do not cover at least three quarters of the total capital shares, Provisions of article 112 of Commercial Law shall be applied, unless the competent authority, with the council approval, accepts to cover the unsubscribe shares.

f- If the total capital shares are not subscribed in full, but the subscribed shares Cover three quarters or more of the capital, including the state participation, formalities for the establishment of the corporation shall be pursued as if all the shares have been covered in full.

g- Subscription shall be made at one or more Syrian banks inside the country and at banks approved by the Commercial Bank of Syria outside the country.

h- 50% of the nominal value of each share shall be paid at subscription and the balance shall be settled within the period or periods specified in the by-laws. The value of shares subscribed by non-resident Syrians and by nationals of Arab and foreign countries shall be paid in foreign currency on the basis of current exchange rates in neighbouring countries as published in the Exchange Rate Bulletin issued by the Commercial Bank of Syria.

i- In all matters not specifically dealt with in investment law, joint sector corporations shall be governed by the provisions of Commercial Law promulgated by legislative decree No.149 for the year 1949, as amended by their own by laws and by the present instructions.

#### Special Provisions Concerning the Establishment of Joint Sector Corporations Whose Shares are not to be offered for Subscription by the General Public and of Joint Sector Limited Liability Partnerships

##### Article 28

Establishment of joint sector corporations whose shares are not to be offered in public subscription and of joint sector limited liability partnerships shall be governed by the provisions of investment law, their own by-laws and articles 20, 21, 22, 23, and 24, of the present instructions. In matters not specifically dealt with in the above references, they shall be-governed by the provisions of Commercial Law promulgated by legislative decree N' 149 for the year 1949, as amended, in respect to establishment procedures, notices and management.

#### Special Provisions Concerning Establishment of Projects by Individuals and by Companies not belonging to the Joint Sector

##### Article 29

a- The investor, or his duly authorized representative, shall submit to the competent authority a request, according to the form elaborated by the said authority for this purpose, asking for permission to establish a project owned by an individual or by a company not belonging to the joint sector. Such request shall be accompanied by all

required documents. It shall be registered, on the date of its submission in a special record kept for this Purpose and a receipt, showing the number and date of registration, shall be remitted to the concerned party.

b- The competent authority shall study the submitted request and refer it, together with its own opinion thereabout, to the council within thirty days as from the date of registration.

c- The council shall study the request at its first meeting after receipt thereof. It may ask the competent authority and/or the investor to submit further data, explanations or documents as it may deem necessary to decide upon the request.

d- The council shall issue its decision within one month as from registration at the council of the request. In case of approval, such decision shall prescribe grounds and rules for the project establishment, including its legal form, purposes, capital, investment costs, value of plants, equipment and materials to be imported from abroad, and sources of financing.

e- In case the request for establishment of the project is not approved, the concerned party may submit a petition directly to the office and the council shall review its decision on the light of new documents or explanations accompanying or contained in such petition.

## Foreign Capital

### Article 30

Foreign capital shall include the following

a- Foreign currencies transferred from abroad by Syrian nationals or nationals of Arab or foreign countries through one of the banks operating in the Syrian Arab Republic, or by any other means approved by the exchange office, and deposited in a special investment account opened in the name of the investor with the Commercial Bank of Syria. Funds thus transferred and deposited shall be registered in the special record kept by the office in accordance with the provisions of article 10 paragraph "b", hereof on the basis of a certificate issued by the concerned bank.

b- Plant, machinery, equipment, installations, vehicles, buses, minibuses and other materials and supplies necessary for the establishment, extension or development of projects benefiting from the provisions of investment law,, as well as material and supplies needed for the operation of such projects if they are imported from abroad. Numbers, quantities and specifications of such imports shall be determined by the competent authority, which issued the permit to establish the project. Their value shall be registered in the special record kept by the office on the basis of official invoices and vouchers issued by the exporters and duly checked, under its own responsibility, by the competent authority.

c- Intangible assets used in the projects, such as patents and trade-marks duly registered in a country member of the International Union for the Protection of Industrial Property or in accordance with international registration rules specified in

international conventions concluded for this purpose. The value of such intangible assets shall be assessed on the basis of international usages by a committee having as chairman the office manager and as members the Director of the Department of Protection of Industrial Property at the Ministry of Supply and Internal Trade, the Director of Industrial Testing and Research Center, a financial expert named by the Ministry of Finance, a member named by the Union of Chambers of Commerce and Industry and an expert named by the project owner.

d- Profits, returns and reserves resulting from the investment of foreign capital in development projects, whether they accrue in foreign currency or in local currency, provided they are used to increase the capital of the concerned project or, invested in other projects approved under the provisions of investment law.

### Investor's Obligations

#### Article 31

The owner of an approved project shall:

- 1) Keep all accounting books and trade records required by the Commercial Law.
- 2) Submit, for each fiscal year, a balance sheet and a profit and loss account, duly approved by a certified auditor, within four months as from the end of the said fiscal Year, to the competent authority and to the council investment office. The submission of such balance sheet and profit and loss account to the said authority and office shall not exempt the project owner from the legal obligation to submit end-of-the-year financial statements to the tax authority in accordance with the provisions of income tax law issued by legislative decree 85 for the year 1949.
- 3) Keep a special record in which shall be registered all details concerning the project funds which benefit from exemptions, advantages or facilities under the provisions of investment law as well as all operations and disposals carried out on such funds. The said record shall remain open for inspection by concerned authorities at all times.
- 4) Provide the council and the competent authority with all information, data and explanations requested by them about the project.

#### Article 32

Should the property of an approved project be transferred, in whole or in part, the new owner shall succeed the precedent owner in all his rights, obligations and duties under the investment law and the present instructions. Capital gain accrued from the sale of fixed assets shall be subject to capital gain tax in accordance with laws and regulations being in force. No capital gain shall be deemed to have accrued in case of transfer of property through inheritance and such transfer shall not be subject to capital gain tax. The provisions of law No. 101 for the year 1952 shall, however, apply to transfer of property through inheritance.

## General Provisions

### Article 33

Investors having the nationality of Arab and foreign countries may insure their funds invested in projects approved under the provisions of investment law with the Arab Establishment for Investment Insurance or with any other insurance establishment against non-commercial risks with the approval of the Ministry of Economy and Foreign Trade.

### Article 34

a- All Public administrations and agencies shall give top priority to formalities undertaken by investors in accordance with the provisions of investment law. Each concerned ministry shall entrust to a public servant of a rank not inferior to the rank of sub-director the task of following up investors' matters and affairs and of extending to them all possible help in bringing to completion the required formalities with his ministry and with other concerned authorities.

b- The investor may at any time submit a complaint to the office, explaining the difficulties and problems he is encountering. The office shall immediately investigate the complaint, take the necessary measures with the concerned authorities to find suitable solutions to such problems and difficulties and follow up the matter, within a period not exceeding two weeks as from the date of registration of the complaint at the office.

### Article 35

Legislative Decree No. 10 for the year 1986 shall remain applicable to joint sector agricultural companies. Such companies, whether existing or to be formed in the future, shall not be governed by the provisions of the investment law.

### Article 36

Provisions of existing laws and regulations concerning touristic projects shall continue to apply to such projects which shall not be governed by the provisions of the investment law, whether they are already existing or will be established in the future.

### Article 37

Provisions of legislative decree No. 348 for the year 1969 shall continue to apply to projects established under them before coming into force of the investment law, They shall not be governed by the provisions of the investment law.

### Article 38

Projects approved under the provisions of the investment law shall be governed, in all matters not specifically dealt with in the said law, by the provisions of Commercial Law No. 149 for the year 1949, as amended.

### Article 39

Experts, technicians and workmen being nationals of Arab or foreign countries, who are employed in projects approved under the provisions of investment law shall be permitted to transfer abroad, in foreign currencies resulting from the project activities, 50% of their net wages, salaries and allowances and 100% of their end-of-service indemnities.

### Article 40

The council shall, by resolution, issue regulations governing the dealing in the shares of corporations formed under the provisions of investment law. Such regulations shall aim at encouraging individuals to invest their savings in the said shares, to facilitate the dealing in them and to make available basic information about the said corporations, their business and their activities. Such resolutions shall be considered as an integral part of the present instructions.

### Article 41

The present instructions shall be published and notified to whom it may concern for their implementation. They shall come into force as from the date here below.

Damascus, 10.6.1991

President of the Council of Ministers sign.

Law No. (7): Promulgates Investment Law No. 10

President of the Republic  
Pursuant to the provisions of the Constitutions  
And what was adopted in the People's Assembly

Promulgates the Following:

Article 1

To amend the provisions of Articles (6, 13, 14, 15, 16, 19, 22, 24, 26 and 31) of Investment Law No. 10 issued on 4<sup>th</sup> May 1991 as follows:

(1) The paragraph f of the following texts shall be added to Article 6 thereof:

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.

(2) Paragraph c of the following text shall be added to Article 13 of said law:

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 February 1952 that exempt the natural persons and jurisdictional persons who deal with the Marine Transportation from the tax imposed on income of profits.

- Paragraph 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.

(3) Article 14 of said Law shall be amended and become as follows:

a- Where the initiation period of the project licensed according to this law exceeds three years, the period in excess shall be deducted from the taxation relief period stipulated in paragraph a & 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 doesn't exceed five years. Not be deducted from the original tax exemption period stipulated in paragraph a & b of Article 13 of this law.

(4) Article 15 of the Law shall be amended and become as follows:

By a decision from the Council, an additional exemption period shall be added to the two taxation exemption periods stipulated in paragraph a & b 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, fertilisers etc.

c- Two years if the industrial or agricultural investment project is established in one of the developing governorates: Raqqa, AI Hassakah, Deir Ez Zor.

(5) The following paragraphs c, d and e shall be added to Article 16 of the Law

c- 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.

d- 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.

e- 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 neighbouring markets.

(6) Article 19 of the Law shall be amended and become as follows:

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 funders 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 abiding 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 following their decision, to apply the provision of paragraph (b) of this article to the shareholding or limited liability companies which are non joint and created 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.

(7) Article 22 of the Law shall be amended and become as follows:

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.

(8) Provisions of paragraph a Article 24 shall be amended and become as follows:

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 the Council in this respect.

(9) Article 26 thereof shall be amended and become as follows:

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 as of the date 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:

i) Resort to Arbitration

ii) Resort to the Syrian jurisdiction

iii) Resort to Arab Investment Court formed under the Corporate Agreement For The Investment of Arab Capital in the Arab Countries in 1980.

iv) Or that the 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 citizen 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.

(10) Article 31 thereof shall be amended and become as follows:

a- 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 and Article 34 of this law shall be considered amended ipso facto, in line with the provisions of this article. 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 3a) provisions of items (1,2,3,5,8,9,10) of first article of this law shall be applicable to the agricultural, industrial and marine transport investment projects licensed or to be licensed under Law No. 10 for 1991.

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.

The ratio of income tax on net profit realized by the shareholding companies that announce their shares for general writings in the private and joint sector that have their headquarters in Syria for all activities shall be determined for 25% inclusive contribution to the military effort. This tax shall be excluded from the addition to the interest of local administration.

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

Provisions of paragraph a) of this Article shall be applicable as of tax impositions of 2000 cycle.

## Article 2

This law shall be published in the Official Gazette.

President of the Republic  
Hafez al-Assad

13May 2000

Executive Instructions No.6 dated 26<sup>th</sup> July 1998 For The Implementation of Investment Law No.10/1991

Article 2: Beneficiaries from the Law

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

- 1.Syrian Arab citizens residing in the Syrian Arab Republic and those who are treated as such.
- 2.Expatriate Syrian Arab citizens whether they retain their original nationality or have obtained the nationality of the host country.
- 3.Nationals of Arab and foreign states.
- 4.Juristic persons who will be licensed by the Council to launch enterprises under the rules of investment law.

Article 3: Investment Fields

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

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

Article 4 :Basics and Criteria for the Council to Grant Approval

For a project to benefit from Investment Law the Council shall decide its approval of it in light of the following considerations:

- 1.The project must be in line with the state development plan.
- 2.The extent of the project's use of available local resources, its contribution to the growth of Domestic Product and to the opening up of more job opportunities.

- 3.The project's potentials in promoting exports and rationalizing imports.
- 4.The project's usage of modern up-to-date machinery and technology that meet the needs of the national economy.
- 5.The value of the project's fixed assets (machinery, vehicles, instruments, equipment, tools, installations, non-touristic transport means and all other production means which are definitely, not temporarily imported) that will be invested solely and exclusively in the project must not be less than ten million Syrian pounds or the equivalent in foreign currency calculated at the exchange rate of neighboring countries as per the bulletin of exchange rates issued by the Commercial Bank of Syria.
- 6.The Council of Ministers may change the afore-said minimum value by a decision signed by the Prime Minister.
- 7.All machinery, instruments, tools, equipment, non-touristic transport means and all other production means imported solely and exclusively in favour of projects created under this law must be brand-new, not second-hand nor reconditioned.

#### Article 10 :Powers of the Investment Bureau

Within the extent of its specialization, the Investment Bureau has the following tasks to perform:

- 1.It receives and registers applications for investment which are referred to the Council by the concerned authorities. It has to update the information and data required for every application in close cooperation and coordination with the various competent authorities, and to prepare a file for each application. Copies of such files must be handed out to the chairman and members of the Council three days at least before the meeting of the Council.
- 2.It keeps a special record for the invested funds brought from abroad in the form of foreign currency or assets in kind or rights which are already adopted by the Council. On the basis of this record the Bureau may issue a certificate testifying each share of the invested capital in conformity with the registered data. Such certificate shall be signed by the Bureau Director who takes the responsibility thereof.
- 3.It receives investors' complaints and seeks to remedy them. It helps the investors get the required permits and licenses from the concerned authorities for their enterprises and helps them follow up implementation. It receives investors' suggestions and opinions on investment issues and project implementation and refers them to the Council.
- 4.It records minutes of the Council meetings and its decisions and follows up their implementation with the various authorities of concern. It must keep records of the Bureau's performance with regard to implementation of Investment Law in such a manner as to ensure the good and sound implementation. Besides, it must collect, classify and study report and data of the enterprises including their balance sheets and their profit-and-loss accounts and present to the council periodical report thereof.

5.It must study the draft by-laws of joint-stock limited liability companies created under Investment Law. It must also study the draft amendments of those by-laws and transmit those drafts and studies to the Council to consider approval thereof.

6.It must publish leaflets, booklets and other publications in Arabic and a foreign language about investment in the Syrian Arab Republic according to the Council's directives.

7.It has to co-operate with the various organizations in the public, private and joint sectors for the launching of publicity campaigns acquaint Syrian expatriates and nationals of Arab and foreign states with investment opportunities available in the Syrian Arab Republic under Investment Law, taking directives in this regard from the Council.

8.In coordination with the Ministry of Economy and Foreign Trade and Ministry of Finance, it evaluates the foreign capital.

9.It has the power to agree to the projects having the required touristic transport means as they deserve under the Council's Decision No.308 dated 05/08/1992 and amendments.

10.It has the power to agree to the projects having required communication means (telephone, telefax, telex) as they deserve under the Council Decision circulated by letter No.33/1/33 dated 15/02/1992 and the Decision circulated by letter No.404/1/33 dated 13/06/1994.

11.It studies and handles the following cases:

It studies and handles applications filed with it for an extension of the period of execution of the projects created under Investment law without prejudice to Article 13 of the said law with regard to the period of exemption.

It studies and approves applications filed with it concerning transfer of ownership, wholly or partly, of the approved projects in compliance with the rules of Investment Law and relevant Council decisions.

It studies and handles applications filed with it for altering the legal status of the projects. It studies and handles applications filed with it for changing the projects' purposes and production capacity, which if carried out do not entail any change in the projects' costs in the light of the study made by concerned ministry. All measures taken in this respect shall be incorporated in a decision to be signed by the Prime Minister, chairman of the Higher Investment Council, and notified by the Bureau to the concerned party.

12.The Bureau Director invites Investment Directors in the various concerned ministries to periodical meetings in order to follow up implementation of investment projects created under Investment law and to observe stages of execution of each and to exchange opinions on the manner of handling investors' issues referring those which require decisions to respective ministries or to the Council for the adoption of the necessary procedure.

13.It performs any other tasks assigned to it by the Council.

#### Article 12

All public authorities, departments and establishments shall have the obligation to extend all possible assistance and facilitate things to investors for the purpose of accomplishing formalities without delay. They also have the obligation of providing answers to questions and queries posed by the Bureau within one week from the Department of Finance filing the questions or queries.

#### Article 14 -Exemptions, Advantages and Facilities

On the opening of bank accounts in foreign currency:

A. in addition to the facilities provided for by the currency laws and regulations in force, the investor has the right to open in favour of his project created under Investment Law an account in foreign currency with the Commercial Bank of Syria which will have to be credited with :

1.100% of the project capital paid in foreign currency and loans obtained in foreign currency as well.

2.75% of the revenues obtained in foreign currency as a result of exportation and services, the remaining 25% of those revenues shall be sold to the Commercial Bank of Syria at the exchange rate specified in Article 4 above.

This said bank account shall be debited with the sums of money in foreign currency paid to cover the burdens, needs and requirements of the project such as:

1.Value of the machinery, vehicles, equipment, cars and all other materials needed for the creation, operation, development and expansion of the enterprise.

2.Value of raw and semi-processed materials and other auxiliary materials required for production.

3.Value of spare parts and costs of reconditioning worn-and-torn machinery.

4.The instalments of paying back loans and interest rates due on loans borrowed in foreign currency in favour of the enterprise.

5.The due interest rates and profits authorized for transfer abroad each year in favour of expatriate Syrians and nationals of Arab and foreign states who have transferred into the country in foreign currency the value of their shares and stakes through a bank based in the Syrian Arab Republic or by any of the means approved by the Currency Bureau in conformity with the regulations in force.

6.Also to be debited in the said account are the dues authorized for transfer abroad through the Commercial Bank of Syria in favour of workers in the project who are not Syrian nor treated as Syrians.

7.Sums of money due on the project which have to be paid by transfers abroad in foreign currency through the CommercialBank of Syria on the basis of authentic documents.

8.The expenses that have to be paid in foreign currency in the Syrian Arab Republic.

9.Insurance premiums which the enterprise must pay in foreign currency.

10.Remunerations due to members of companies' boards of directors who are not Syrian nor treated as such.

11.The Bureau must be notified by the Commercial Bank of Syrianof the sums of money that are being transferred.

12.The enterprise bears full responsibility towards making available the foreign currency that meets its needs by lawful means and no official party in the Syrian Arab Republic can have the obligation of providing any sum of money in foreign currency in favour of the enterprise or its owners.

#### Article 15

The investor has the right to invest the foreign currency he possesses inside the country, or the foreign currency existing abroad which he lawfully brings into the country in financing the projects created under Investment Law, or in contributing to the capital of enterprises or in purchasing shares. For such investment the investor is kept safe from any liability that falls under any clause of criminal law in force.

#### Article 16

1.The bank where the investors' funds are deposited in conformity with Article 16-A of Investment Law shall have the obligation of placing those deposits at their disposal upon demand and it shall take all necessary measures that ensure such action.

2.The bank shall calculate interest on the sums of money deposited with it in foreign currency for the account of the enterprise on the basis of current interest rates.

3.The investor may deposit some of his foreign currency assets in a frozen account at the Commercial Bank of Syria.

4.The bank shall deliver to the investor a cheque book special for investors which must be used solely and exclusively in favour of the enterprise.

5.The Commercial Bank of Syrian shall transfer all the project's burdens requirements and needs in foreign currency in harmony with these instructions.

6.The investor who opens a foreign currency account with the Commercial Bank of Syria in conformity with the currency regulations in force in favour of his project that is created under Investment Law may recover the balance of the money which was lawfully brought into the country and deposited in an account opened at the Commercial Bank of Syria after his project has been completely executed and all its

needs and operation costs as well as cost of its raw material, spare parts and operating capital have been paid in full in foreign currency.

The investor, moreover, may have this balance transferred abroad if he is a Syrian living abroad or a non-resident national of an Arab or foreign country provided that the project owner remains under the obligation of ensuring the availability of the foreign currency needed to cover future needs of the project through lawful bank channels.

#### Article 17

1. For the benefit of his enterprise, the investor may borrow loans in local currency from state-owned banks against the guarantee of his private money existing in the Syrian Arab Republic in conformity with those banks' regulations.

2. The investor shall bear all material and legal consequences resulting from foreign and local loans which he has taken or will take upon himself including payment of both instalments and interest in harmony with the laws and regulations in force and neither the state nor any other public body shall have the obligation of providing guarantees of whatever kind to any party whatsoever be it local or foreign. Such loans shall not be insured by the Arab Organization for Investment Guarantee or any other organization.

#### Article 19

Without being restricted to rules of prohibiting, restricting and monopolizing importation and rules of direct importation and rules of Currency Regulations, the enterprises may import:

1. All required machinery, vehicles, equipment, hardware, working cars including buses and minibuses destined to service the enterprises and other materials needed for the creation, development and expansion of the enterprises.

2. Touristic service cars.

3. All materials and requirements needed for the enterprise operation (raw materials, processed and semi-processed materials and all materials needed for production operations which can be considered part of the final product and one of its components).

The enterprise imports specified in item 1 of this Article shall be exempted from taxes, fiscal fees and municipal rates, customs duties and other fees provided that those imports are solely and exclusively used for the purposes of the enterprise. The enterprise may not relinquish any of the imports specified in A-1 above without a prior approval from the Council. Subject to this approval, those imports can be abandoned after the payment of all taxes and fees assessed on them in their current condition including the tax on capital profits as stipulated in Article 32 of Investment Law and in compliance with the regulations in force.

Furthermore, none of the imports mentioned in A-1 and 2 above may be

relinquished, nor may they be used in other than the enterprise purposes unless the Council agrees thereto and accepts justified reasons for this action.

Excluded from the rules of this Article are the packing materials of the imports(pallets, drums, ..etc) the left-overs, wastes and exhaust of the manufacturing process in harmony with the internationally recognized rates.

In implementing the rules of Article 12-A of Investment Law, imports shall mean all imported machinery, vehicles, equipment, hardware, working cars, buses and mini-buses required to service the enterprises and all other materials needed for the creation, development and expansion of the enterprises.

#### Article 20

1. Enterprises belonging to individuals or companies other than joint sector companies and their profits and dividends shall be exempted from all taxes levied on income, and from real estate and vacant plots of land taxes (including the tax on machinery revenues) occurring on the enterprises properties possessed for accomplishing the purposes and tasks for a period of five years as from the date of actual production or date of exploitation according to the nature of the enterprise.

2. Joint-sector companies in which the public sector possesses not less than 25 % of whose capital created under Investment Law shall take the form of Societe Anonym joint-stock company or limited liability company. Such companies and their shares profits, dividends and monies shall be exempted from all taxes levied on income and taxes (including taxes on machinery revenues) occurring on the enterprises properties possessed for accomplishing their purposes and tasks for seven years as from the date of actual production or date of exploitation according to the nature of each of its projects created under Investment Law.

3. In the process of implementing clauses A and B of this Article, the date of actual production or exploitation shall mean the date when commercial investment or production commences.

4. For the purpose of implementing Article 14 of Investment Law, the period of creating an investment project commences on the date when the decision providing for the creation of a joint-sector company, joint-stock company or limited liability company is issued. For enterprises belonging to other natural or legal persons the period of founding the enterprise commences on the date when the Higher Investment Council gives its approval mandating the creation of such enterprises.

#### Article 21

By a decision from the Council an additional period of two years shall be added to the exemption period stated in Article 13 of Investment Law if the total revenues resulting from exports of the enterprise's commodities and services actually transferred into the Syrian Arab Republic through Syrian Banks exceed 50% of its total production achieved during the original exemption period calculated at the end of the period.

Article 22

Joint sector companies created under Investment Law excluding all other companies shall be exempted from the stamp fees required on the issuance of its shares.

## Appendix 5: Free Trade Zones

### 1. Damascus Free Zone:

Situated in the centre of the city, behind the General Directorate of Customs. Activities carried out in this zone cover commercial activity (storage in private facilities), general warehouses, industrial activity, retail sales to transit passengers and to diplomats according to tax-free regulations. All investment areas were occupied during a site visit in 1998.

### 2. Adra Free Zone:

It is situated on the Damascus-Baghdad highway 35km to the north-east of Damascus. It has a dedicated railway spur. Certain small-scale cottage industries have been set up in this zone and there are storage units and two market places for the trade of foreign cars. All the sections are tenanted, although in 1998 there were a number of spaces which had not been occupied. A number of warehouses and yards are placed at the disposal of the Customs Directorate for the storage of goods awaiting clearance.

### 3. Damascus Airport Free Zone:

It is located at the western end of the airport. All facilities assigned to investment are apparently used for both commercial and industrial activities. It was not possible to carry out a site inspection.

### 4. Lattakia Free Zone:

Situated about 7 km from the port of Lattakia on the road junction, it has an area for investment with a number of generally adequate facilities and services. Both commercial and small-scale industrial activities are carried out here and at the time of the site visit in 1998 there were still a number of spaces available.

### 5. Aleppo Free Zone:

It lies 18 km to the north of Aleppo near the village of Musellemieh with direct access to a railway line for the transport of cargo. Commercial and industrial activities are practised in the zone although when inspected in 1998 there were still wide areas that were not utilised. A number of its warehouses and yards are used by the customs authority for storage of goods that await clearance.

## 6. Tartous Free Zone:

Situated on the Tartous-Lattakia highway, the free zone is adjacent to Tartous port, with a dedicated gate for the admission and exit of goods and cargo. It is provided with all facilities and services. Investment is geared towards commercial activity as a large part of the area in 1998 was being used for storage of cars, iron and timber. Close proximity to the port ensures that clearance and movement of goods is straightforward. The greatest parts of areas assigned for investment were occupied.

## Bibliography

### Abbreviations:

<b>BJMES:</b>	British Journal of Middle Eastern Studies
<b>EIU:</b>	Economic Intelligence Unit
<b>IJMES:</b>	International Journal of Middle Eastern Studies
<b>MEED:</b>	Middle East Economic Digest
<b>MEJ:</b>	Middle East Journal
<b>MEP:</b>	Middle East Policy
<b>SAR:</b>	Syrian Arab Republic
<b>TWQ:</b>	Third World Quarterly

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### List of interview subjects

Due to the often sensitive nature of the information requested, interview partners, especially from the non-governmental sector, often requested that they could either vet their contributions or remain anonymous. In addition a number of government officials were only prepared to comment off the record. In the interests of consistency all interviews have been given a particular number assigned at random. A number of interviewees have, by their own request, not been identified in the list below. Their job description or title has been substituted.

- Interview 1: Mohammed Saraqbi, SBI Head, Damascus, 11<sup>th</sup> March 1998
- Interview 2: Richard Salt, Head of Commercial Section FCO, Damascus, 30<sup>th</sup> January 1998
- Interview 3: Souk shopowner, Hammadiyah Souk, Damascus, 17<sup>th</sup> February 1998
- Interview 4: Political Officer, FCO, Damascus, 7<sup>th</sup> May 1998
- Interview 5: Dr Ali Kanaan, Economics Department Damascus University, Damascus, 24<sup>th</sup> February 1998
- Interview 6: Syrian economist, SBI, Damascus, 16<sup>th</sup> March 1998
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- Interview 10: Al-Hayat Reporter, Damascus, 20<sup>th</sup> April 1998
- Interview 11: Khalid Bakdash, Syrian Communist Party, 2<sup>nd</sup> May 1998
- Interview 12: Mohammed al-Iswan, GFTU Branch Secretary, 12<sup>th</sup> May 1998
- Interview 13: Amir Khabuttli, Damascus Chamber of Commerce, Damascus, 28<sup>th</sup> February 1998
- Interview 14: Lawyer, SBI, Damascus, 13<sup>th</sup> March 1998
- Interview 15: Bassam Ghraoui, Damascus, 24<sup>th</sup> March 1998
- Interview 16: Willi Vonckx, CEO Nestle Syria SA, Damascus, 20<sup>th</sup> March 1998
- Interview 17: Ms Al-Ayran, Commercial Attache, Australian Embassy, Damascus, 2<sup>nd</sup> February 1998
- Interview 18: Samir Hassan, Financial Officer, Nestle Syria SA, 15<sup>th</sup> March 1998
- Interview 19: Richard Salt, Head of Commercial Section FCO, Damascus, 24<sup>th</sup> February 1998
- Interview 20: Siemens AG, Head of Middle East Policy Area, Munich, 6<sup>th</sup> June 1997
- Interview 21: Jaques Hakim, Damascus 15<sup>th</sup> May 1998
- Interview 22: Rifaq Amir, Damascus, 18<sup>th</sup> May 1998
- Interview 23: Giovanni Di Girolamo, EU Commercial Attache, Damascus
- Interview 24: Ba'ath Political Officer, Ba'ath Regional HQ, Damascus & Aleppo 12<sup>th</sup> & 13<sup>th</sup> May 1998
- Interview 25: Riyad Seif, Member of Parliament, Damascus, 22<sup>nd</sup> May 1998
- Interview 26: Colonel of Security Services, Damascus, 2<sup>nd</sup> May 1998
- Interview 27: Nabil Sukkar, Syrian Businessman, Damascus, 2<sup>nd</sup> May 1998
- Interview 28: Ibrahim Marmabachi, Syrian Businessman, Damascus, 10<sup>th</sup> May 1988
- Interview 29: Abdullah Abrash, Syrian Businessman, Damascus, 8<sup>th</sup> May 1988
- Interview 30: Rifaat Fallaha, Syrian Businessman, Damascus, 11<sup>th</sup> April 1988
- Interview 31: Abdul Mansour, Syrian Businessman, Damascus, 12<sup>th</sup> May 1988
- Interview 32: Gerry Pridham, British Businessman, Damascus, 3<sup>rd</sup> March 1998

- Interview 33: Foreign diplomat, Damascus, 10<sup>th</sup> April 1998  
Interview 34: Syrian Businessman, Aleppo, 13<sup>th</sup> May 1998  
Interview 35: Syrian Businessman, Aleppo, 14<sup>th</sup> May 1998

