

Prospects for Restoring the Investment Flow to the Syrian Arab Republic

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ABSTRACT

Investment is the engine of economic growth because it leads to the establishment of many productive and service projects in various fields and creates new job opportunities. It also provides financial surpluses for the government and individuals.

In this paper, we outline the investment situation in the Syrian Arab Republic before the war that began in 2011. We highlight the problems that the investment climate in Syria suffers from and which constitute an obstacle to attracting local, Arab and foreign investments.

To deal with these problems, we propose a set of recommendations that, along with the attractive factors for investment that characterize Syria, can constitute an incentive for investors to invest their capitals in the different sectors in the country. As it is necessary to improve the investment climate, remove all bureaucratic obstacles and simplify procedures along with the advantages and exemptions that lead to attracting more investments.

Keywords: *investment climate, foreign direct investment, economic development, capital, incentives, barriers*

1. INTRODUCTION

Investments are the placement of capital for profit [1]. They are an integral part of the modern economy [2]. Investment leads to the establishment of many productive and service projects in various fields and creates new job opportunities [3]. It also provides financial surpluses for the government and individuals that are usually reused to secure their needs, which leads to increasing the absorptive capacity of the national economy, expanding consumption and improving the standard of living of the citizen [4]. Therefore, it is imperative to improve the investment climate, remove all bureaucratic obstacles and simplify procedures along with the advantages and exemptions that lead to attracting more investments, and improving the investment climate must be one of the most important goals of the economic reform program. This means maintaining existing investments and attracting more investments [5].

The investment climate is the totality of the legal, economic, political and social conditions that constitute the environment in which the investment takes place, and the components of this environment are highly variable and overlapping [6]. We have listed two groups of elements the investor builds his investment decision on. Each group affects the investment climate in a specific direction, the first one, the elements that attract investment, and the second one, the elements that drive out investment [4].

2. LITERATURE REVIEW

In domestic and foreign scientific literature there is a fairly large number of works concerned with individual areas and issues of studying the investment climate.

The investment climate as a condition for attracting foreign capital is considered in the works of such authors as V. Beshenkovsky, A. Kekadyrov and N. Voznesenskaya [7,8].

The research of E. Yasin, A. Folomey, V. Revazov, I. Tikhomirovaya, V. Androsoy, A. Shushurin is devoted to the problems of the impact of the investment climate on the economic development of the state [9,10].

In the scientific works of P. Vakhrin, I. Igoshin, V. Mylnik, G. Alexander, D. Bailey, W. Sharp [11,12] and others, the main issues that reveal the essence of the concepts of "investment", "investment activity", "investment process", etc. .

V. Novozhilov, V. Nemchinov, S. Strumilin, T. Khachaturov, G. Sorokin, Y. Kronrod, K. Velikanov, V. Krasovsky, D. Lvov [13] and others made a great contribution to the development of the fundamentals of the theory of investment efficiency.

At the same time, the accumulated theoretical material on this problem and modern world economic practice indicate that many aspects of the theory that considers the investment climate in particular and its impact on economic development in general, need to be rethought for deeper study and improvement, taking into account the existing world and emerging domestic experience.

3. AIM AND OBJECTIVES

This work aims to research how to improve the investment climate in Syria, which helps to restore investment flow to the country after the end of hostilities.

To achieve this goal, the following objectives were identified:

- Analysis of the investment climate in Syria and identifying the attractive and repulsive factors for investment.
- Proposing solutions to the problems faced by the investment climate in Syria, which helps to increase the country's attractiveness to investors.
- Clarifying the role of investment in economic growth in Syria and in revitalizing economic life in peacetime.

4. THE INVESTMENT CLIMATE IN SYRIA

The investment environment in Syria has witnessed a great and accelerating improvement since the process of modernization and development led by President Bashar al-Assad began since 2000, and in the context of the economic reform process that started carefully in 2002 and 2003 and began to accelerate in 2004 and 2005, especially after Adopting the social market economy policy approved by the tenth conference of the Arab Socialist Ba'ath Party in 2005. The policy became clearer during the preparation of the tenth five-year plan, confirming the integrity of the orientation and accuracy of goals after the government held its intention to achieve success in the transition to advanced stages in the development process [14].

In 2007, President Bashar Al-Assad issued Legislative Decree No. /8/ for the promotion of investment, and Legislative Decree No. /9/ regarding the creation of the Syrian Investment Agency. These two decrees appeared after several governmental and academic deliberations and discussions about the need for a general investment law in Syria that avoids gaps in the previous investment law (Law No. /10/ of 1991 and its amendments) after the government realized that tax exemptions are not the only way to attract investment, especially foreign ones, and do not constitute incentive on their own if not accompanied by other requirements for investors related to ease of work, simplification of procedures, opportunity to transfer of funds, feeling of security and freedom [15].

The encouragement and motivation of investment is not limited to providing incentives as it includes a set of interrelated elements that interact with each other: economic policies, infrastructure, guarantees provided to investors, legal procedures, simplification of laws and procedures, development of the banking system, development of the tax system ... etc [16].

Syria has recognized the need for frameworks that encourage investment, that include strong incentives for entrepreneurial initiatives and projects of strategic importance in the national economy. President Bashar Al-Assad has identified investment as a national goal, because national and foreign direct investment constitutes the strongest and most reliable engine for achieving sustainable development [15].

The Figure 1 shows the inflow of foreign direct investment (FDI) (current US\$) to Syria over the period from 2000 to 2011:

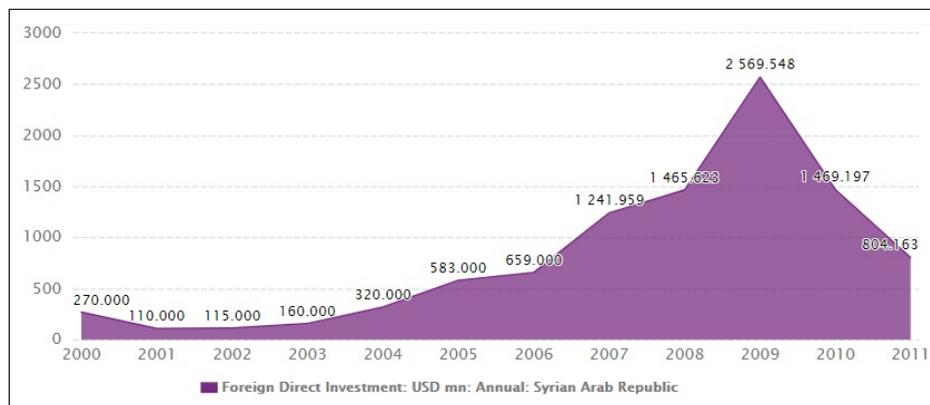


Figure 1. The inflow of foreign direct investment in Syria for the period from 2000 to 2011
Source: The official site of the World Bank

According to the World Bank, foreign direct investment inflows to Syria amounted to 270 million US\$ in 2000. In 2007, FDI in Syria amounted to 1.242 billion US\$. In 2009, the country experienced a significant increase in FDI, reaching 2.57 billion US\$. In 2010, FDI began to decline, amounting to 1.469 billion US\$. And in 2011, FDI amounted to 804.163 million US\$ [17].

The fierce war that started in Syria in 2011 hit all aspects of life in the country [18]. Political unrest leads to lower demand, private investment is declining as investors lose confidence, and public investment is declining as security concerns make funds reorient [19].

In 2017, the release of most of Syria was announced. Syria is expected to take years to recover from the devastating

effects of the war. Massive investments will be required to revitalize all sectors of the economy in Syria [18].

Syria has several factors that encourage investment, the most important of which are:

1- Syria's strategic geographical location:

- It is the crossroads of the three continents (Asia - Africa and Europe).
- It is located in the center of the Middle East.
- It owns an outlet on the Mediterranean Sea through the port of Latakia and the port of Tartus and other ports in neighboring countries such as Beirut Port [20].

2- Commitment to moving towards a social market economy:

- Economic policies based on supporting and encouraging the private sector.
- Economic pluralism and a real and effective partnership between the public sector and the private sector.
- Commitment to administrative, legal, economic and structural modernization and development [15].

3- Good and qualified human resources:

According to United Nations data, the population of Syria reaches about 17.368 million people in 2020. The workforce in Syria makes up 26% of the population, and it is well qualified in some fields and needs training in other fields. The population of Syria is also characterized by a high percentage of educated people, and a high percentage of the population receiving higher education [21].

4- Availability of acceptable level of infrastructure:

- A network of roads and transportation linking all Syrian villages and cities.
- Modern ports on the Mediterranean (Latakia - Tartus) and major shipping lines for ships.
- Direct flights by Syrian Airways to major cities in Arab countries, Europe, Africa and North America.
- The state telecommunications company provides telephone, fax and internet services, and two private sector companies provide mobile services.
- The electricity network reaches all Syrian cities and villages, and Syria is connected with Lebanon, Jordan, Turkey, Egypt and Iraq by the electrical link network
- Availability of industrial cities in the countryside of Damascus, Aleppo, Homs and Deir Al-Zour [22].

5- Access to Arab and international markets:

- Access to neighboring Arab countries, especially Lebanon, Jordan, Iraq, Palestine, Saudi Arabia and the Gulf, through joint Arab economic action and the Greater Arab Free Trade Area.
- Access to European Union markets through the Syrian-European Mediterranean Partnership negotiations.
- Bilateral agreements and preferential protocols with many countries of the world [14].

6- Efficiency of legal structure (laws, fairness, speed in procedures):

Since 2000, many measures have been taken to improve the legal structure in order to facilitate investment activity. Including, for example, the abolition of economic security courts, the abolition of Decree No. /24/ and Decree No. /6/ on the entry and exit of foreign exchange and precious metals [18].

7- The Banking System:

The banking system in Syria began to diversify. The aforementioned system consists of the Central Bank of Syria and the Syrian Commercial Bank in addition to specialized banks. Private banks began operating at the beginning of 2004 [18].

But on the other hand, the investment climate in Syria suffers from some obstacles that reduce its effectiveness in attracting investments and affect the effectiveness of the investments themselves. These include:

1. Infrastructure: The delay in the completion of industrial cities in all governorates equipped with all necessary services (electricity, water, roads, banks, telecommunications services, etc.) constitutes a major obstacle for investors, which pushes them to face the problem of securing suitable land that is permitted to be licensed. And they bear additional burdens, especially if these areas are far from the necessary services and put them in the problems of administrative licensing [15].

2. Banking system and financial transactions: Despite the establishment of a number of private banks, the banking sector in Syria still suffers from a clear lack in the provision of banking services (deposits, loans, credit loans, various other banking services). This is due to the lack of development of the banking business and keeping pace with the current changes in this field, in addition to the lack of competencies and banking expertise and the accompanying lengthy routine procedures, which hinders the completion of banking operations and prolongs their completion time, while banks compete in the diversity of banking services and the speed in providing the service. The Syrian banks lack flexibility in dealing, the lack of clarity in their credit plan, and the establishment of strict restrictions on bank credit, and this shows the low percentage of credit loans to bank deposits [18].

3. Interest rates: Stabilization of interest rates at a certain point for a long time is considered a neutralization of the most important tools of monetary economic policy that play an active role in encouraging investment and directing it towards economic activities that the state wishes to develop as some economic activities need support and care by the state and this is done in most of the countries by granting investment loans with reduced interest rates [23], while investors currently suffer from high interest rates on industrial loans, as the loan interest in some cases reaches 15%, including additional burdens [18].

4. Taxes and Fees: The application of a tax system characterized by clarity, transparency and fairness in commissioning is more important for a serious investor than generous exemptions followed by multiple and interlocking taxes and high rates that burden the taxpayer [24].

5. Dealing in foreign currencies: Investors stand at length in front of the restrictions and conditions placed on dealing in foreign currencies, especially the non-Syrian investor, and for some of them they constitute an unfortunate factor and give an unfortunate picture of the investment climate, it is true that some flexibility and easing restrictions on dealing in foreign currencies were given, but there are still

restrictions And conditions for dealing in foreign exchange cause a negative reaction by some investors.

On the other hand, investors suffer from problems in transferring profits abroad and securing the necessary currency for that, especially projects that do not have foreign exchange through its activity [15].

6. Administrative procedures: The multiplicity of the investment supervising bodies and the complexity of the procedures for obtaining the required licenses constitute a major obstacle for investors and cost them a lot of time, effort and money, in addition to what is experienced by some of the departments overseeing investment from the routine and bureaucracy, assisted by the presence of some of the systems and decisions that govern procedures for obtaining the required licenses. The most difficult of these licenses are the administrative license that requires the

approval of all parties to obtain it, and the temporary licenses that require the move to industrial areas [25].

7. Instability of the exchange rate of the Syrian pound against the US dollar:

During the month of September 2019, the value of the Syrian pound fell against the US dollar sharply, recording the lowest levels since Syria's independence from French colonialism in 1946.

The exchange rate of the Syrian pound on the black market in September 2019 amounted to 676 pounds for sale, and 680 pounds for purchase, thus being the highest number recorded by the exchange rate in the history of the Syrian lira, while the central bank still sets the official rate of exchange of the dollar at 434 pounds [17].

The Figure 2 shows Syria's exchange rate against US\$ for the period from 2011 to 2020:

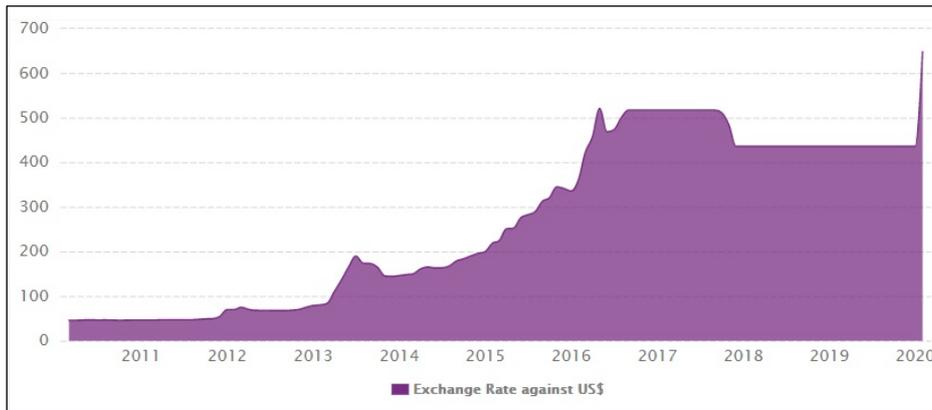


Figure 2 Exchange rate of the Syrian pound against the US dollar from 2011 to 2020

Source: The official site of the World Bank

The investor also faces other obstacles, most notably [15]:

1. The investor does not have sufficient information about investment opportunities.
2. Restrictions in investment legislation.
3. The number of official bodies that oversee the investment or that issue licenses and approvals.
4. The investor feels that there are not enough privileges available under the financing terms compared to other countries.
5. Tax and customs policies and the complexity of the procedures.
6. Slow resolution of judicial disputes that may arise between the investor and other parties.
7. Weak funding sources and the lack of development of insurance companies' methods and tools for insurance on investments.
8. The lack of a comprehensive guide to the feasibility studies of investment projects.
9. Some foreign products enter the local market through legal or illegal channels as they are sold at prices that are less than their Syrian counterparts and are in the level of their quality.

5. RECOMMENDATIONS

The country's success in attracting national, Arab and foreign investments alike requires the provision of a sound and stable investment climate, because this is the most important factor in the accounts of the domestic and foreign investor. High rates of inflation, or exaggeration in the value of the national currency, or the administrative determination of interest rates or the weakness of the banking system, all of this does not create the conditions for attracting national and foreign investments [26].

Below we will list some recommendations that help make Syria more attractive to investors:

1. Continuing to simplify governmental and administrative procedures that the investor must take to obtain approval to set up his project by following the one-stop shop system between the investor and the entity responsible for the investment.
2. Continue developing the existing banking system after issuing the law for creating private and joint banks and expanding lending operations to support industrial projects and encourage export.
3. The establishment of Islamic banks in order to attract a large hoarded mass that is in the hands of groups that deny interest.
4. Expedite the establishment of the stock market, securities and stock exchange.

5. Establishing a clear credit plan for investment loans, facilitating banking operations and transfers between banks, and improving banking services has become necessary and urgent.
6. Working to activate the interest rate as an important economic tool in directing economic activity and determining interest on loans according to the type of economic activity and its importance in line with the government's directions in developing economic sectors. And correcting the structure of interest rates in the market to allow a reduction in the investment cost.
7. Establishing small industrial zones equipped with basic services in all Syrian governorates and regions, and working to distribute their divisions to investors at encouraging prices.
8. Establishing specialized economic zones: industrial, technological and scientific that contribute to supporting economic development and the settlement of technology, knowledge and investments and provide job opportunities.
9. Investment legislation should be dynamic, so it must be constantly developed and modernized according to economic changes.
10. Continue comprehensive tax reform and reduce taxes on income brackets and make them more fair and reasonable. Determine simple and brief rates of income tax and profits that enable the taxpayer to pay and increase the state's tax resources. It can be shortened to two types of taxes:
 - A - Persons income tax, which is fixed at 10%.
 - B - A tax on the profits of the money companies, set at 15-20%.
11. Companies and projects are subject to the tax rate stipulated by the Income Tax Law, while allowing tax exemptions or benefits for companies operating in sectors or within specific regions in accordance with a single investment law.
12. Projects are subject to sales tax - if they produce goods or provide taxable services - in a way that achieves equality and on the basis that the tax is on the beneficiary and not on the project.
- 13- Providing export support and removing all obstacles that prevent it from competing in the global markets.
- 14- Unifying the exchange rates and making the Syrian pound a convertible and tradable currency in foreign capital markets.
15. Working to ease restrictions on dealing in foreign currencies and facilitating transfers, in addition to adopting the market price or a price close to it, to reduce the possible non-banking channels.
- 16 .Providing a normal balanced market for foreign currencies in which the elements of a free and balanced market are available, where the price moves daily to balance between demand and supply, and there is a single price for the currency, in which banks have the traditional role of financing foreign trade, providing foreign exchange for ordinary burdens, and exchange firms retreat to play the marginal role that it was created for it.
- 17- Reconsidering the structure of the customs tariff in the direction of reducing the customs fees imposed on the import of production requirements included in industry

and agriculture, and exempting the imported requirements by projects that export all of their production from customs duties.

18. Exempting the shares traded on the stock market from taxes resulting from capital gains and encouraging the establishment of joint-stock companies.

19- Setting a comprehensive investment map for all existing projects (public, private and joint), their production capacity and location, which clarifies the vision for new investors in terms of the nature and location of new projects, as well as explaining the possibilities of complementarity between them and existing projects.

20- Make the investor's relationship with only one official authority and not with multiple parties.

21. We must have a very open mindset with investors, and this mentality is the most important investment incentive.

22. Encouraging the establishment of investment joint stock companies specialized in setting up specific projects within the strategic directions of economic development in the country.

23. Continue the development of the judiciary, ensure its independence and trust, and enhance the investor's confidence and reassurance in the safety of its investment.

24. Follow up on administrative reform at all levels.

25. Launching economic activities in front of the private sector and freeing a large part of the state's resources for use in other areas.

26. Investing in the infrastructure of the new economy in cooperation with Arab and foreign companies in the telecommunications and internet sector.

6. CONCLUSION

Experience shows that the quality of macroeconomic policies far outweighs the importance of tax and customs exemptions and other fees. Some countries that grant very few advantages or that do not grant benefits at all have been able to succeed in attracting a large amount of investment, including Hong Kong, Taiwan and South Korea, and there are a large number of developing countries that have failed to attract capital despite what they grant of generous incentives and benefits. In any case, the quality of macroeconomic policies is the influencing factor [27].

It is necessary to continue the path of investment openness in Syria in order to develop and improve the investment climate and address the issues faced by investors, which leads to attracting investments and creating new job opportunities through the involvement of the Syrian, Arab and foreign private sector in the development process.

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