JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

MINISTRY OF INDUSTRY
GENERAL ORGANIZATION FOR TEXTILE INDUSTRY
THE SYRIAN ARAB REPUBLIC

STUDY ON THE DEVELOPMENT OF THE TEXTILE INDUSTRY IN THE SYRIAN ARAB REPUBLIC

(MAIN REPORT)

MARCH 1998

UNICO INTERNATIONAL CORPORATION
TOYOBO ENGINEERING CO.,LTD.

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PREFACE

In response to a request from the Government of the Syrian Arab Republic, the Government of Japan decided to conduct Study on the Development of the Textile Industry in the Syrian Arab Republic, and entrusted the study to Japan International Cooperation Agency (JICA).

JICA sent a study team, led by Mr. Taneo Maeda of UNICO International Corporation and constituted by members of UNICO International Corporation and TOYOBO ENGINEERING CO., LTD. to the Syrian Arab Republic three times from March 1997 to December 1997.

The team held discussion with the officials concerned of the Government of the Syrian Arab Republic, and conducted related field surveys. After returning to Japan, the team conducted further studies and compiled the final results in this report.

I hope this report will contribute to textile industry development in the Syrian Arab Republic and to the enhancement of friendly relations between our two countries.

I wish to express my sincere appreciation to the officials concerned of the Government of the Syrian Arab Republic for their close cooperation throughout the study.

March 1998

Kimio Fujita
President
Japan International Cooperation Agency

March 1998

Mr. Kimio Fujita
President
Japan International Cooperation Agency
Tokyo, Japan

Dear Mr. K. Fujita

Letter of Transmittal

We are pleased to submit to you our report "Study on the Development of the Textile Industry in The Syrian Arab Republic." The report contains the results of the survey including: the current state of the textile industry; an analysis of the major issues facing the industry; supply and demand forecasts for textiles; project proposals for the future promotion of the industry; recommendations on government policy to promote it; recommendations on export promotion policy; and improvement measures at an individual company level.

The textile industry in Syria consists of state-owned and private companies. It has become apparent to us that the efforts made so far have failed to address the issue for the development of the industry as a whole. This report sets forth and recommends development strategies for the entire textile industry, which are based on 8 projects, including the promotion of clothing exports. It should be noted that the majority of the projects will mandate the involvement of both state-owned and private companies in a cooperative manner, which will help propel the future development of the industry into a major industrial sector of the country.

The Syrian government has expressed much interest in implementing the proposed projects as well as in the recommendations. We sincerely hope that the proposals contained in the report will help lay the foundation for a sustainable development policy for the industry. At the same time, we believe that the proposals and recommendations will contribute greatly to the development of the textile and clothing industry under joint and concerted efforts of state-owned and private companies in a new partnership.

We wish to take this opportunity to express our sincere gratitude to your Agency, the Ministry of Foreign Affairs, and the Ministry of International Trade and Industry. We also wish to express our deep gratitude to the Ministry of Industry, the General Organization for Textile Industry, the State Planning Commission, and the authorities concerned of The Syrian Arab Republic for the close cooperation and assistance extended to us during our investigations and study.

Very truly yours,

Taneo Maeda

Taneo Maeda (Team Leader)
Study on the Development of the
Textile Industry
in the Syrian Arab Republic

Abbreviations

ASEAN	Association of Southeast Asian Nations
ATC	Agreement on Textile and Clothing
A/W	Acrylic/wool blended
CB	Convertible bond
CBS	Central Bureau of Statistics
CD	Certificate of deposit
CMO	Cotton Marketing Organization
CV	Coefficient of variation
DTY	Draw Textured Yarn
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FMD	Foreign material detector
FSU	Former Soviet Union
FTC	Foreign Trade Center
FY	Filament yarn
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Coast Conference
GDP	Gross domestic product
GOTI	General Organization for Textile Industry
HVI	High Volume Instruments
ICAC	International Cotton Advisory Committee
IPI	Imperfection index
ISO	International Standard Organization
ITMF	International Textile Manufacturing Federation
ITRC	Industrial Testing & Research Center
JCSFIF	Japan Cotton and Staple Fiber Fabric Inspecting Foundation
JETRO	Japan External Trade Organization
JSIF	Japan Spinners' Inspection Foundation
L/C	Letter of Credit
MEDA	Mediteranean Assistance
MFA	Multi Fiber Arrangement
MITI	Ministry of International Trade and Industry
NAFTA	North Atlantic Free Trade Area
Ne	Number of end
ODA	Official Development Assistance
OES	Open end spinning
OPT	Outward processing trade

P/C	Polyester/cotton blended
POY	Partially Oriented Yarn
P/R	Polyester/rayon blended
P/W	Polyester/wool blended
QC	Quality control
QR	Quick response
SASMO	Syrian Arab Organization for Standardization and Metrology
SEBC	Syrian European Business Center
SC	Sugar content
SF	Staple fiber
SLM	Strict low middling
SM	Strict middling
SOP	Standard operation procedure
SP	Syrian Pound
SPC	State Planning Commission
SSI	Self-Sufficiency Index
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TQC	Total quality control
U	Unevenness of yarn
WTO	World Trade Organization

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IMPORT TO SYRIA

Tab. 6.2-7 (Tab. S6.2-1) IMPORT OF TEXTILES TO SYRIA BASED ON EXPORTING COUNTRIES STATISTICS

(t)

		92	93	94
Cotton, Wool, Silk, Man-Made		2,509.8	3,284.2	4,075.3
FY, Textured-FY, Spun-Yarn		45,647.9	71,573.6	65,507.4
Woven Fabric		4,679.1	8,348.2	9,626.6
Knitted Fabric		803.5	1,086.1	1,086.1
Clothing	Woven	25.6	11.1	11.2
	Knitted	15.2	5.6	15.7
	Unknown	12.6	14.3	127.8
	Sub-Total	(53.4)	(30.9)	(154.7)
Others		1,431.8	1,867.5	1,301.1
Total		55,125.5	86,190.5	81,751.2

DOMESTIC CONSUMPTION

Tab. 6.2-10 (Tab. S6.2-3) DOMESTIC CONSUMPTION OF TEXTILES BY FIBER MATERIAL

(1,000 tons/y)

	Domestic	Import	Export	Domestic Consumption	
Cotton	63.0	1.7	19.0	45.7	40.6%
Wool	1.0	2.2	1.0	2.2	2.0
Polyester	-	32.1	0.9	31.2	27.7
Nylon	-	18.4	7.0	11.4	10.1
Acrylic	-	15.1	4.0	11.1	9.9
Synthetic	-	9.3	3.3	6.0	5.3
(Synthetic)	-	(74.9)	(15.2)	(59.7)	(53.0)
Rayon	-	4.2	2.0	2.2	2.0
Man-Made	-	0.5	0.1	0.4	0.4
(Synthetic, Rayon and Man-M	-	(79.6)	(17.3)	(62.3)	(55.4)
Other, Unknown	-	3.0	0.7	2.3	2.0
(Synthetic, Rayon, Man-Mad	-	(82.6)	(18.0)	(64.6)	(57.4)
Total	64.0	86.5	38.0	112.5	100.0

DEMAND FORECAST (-2010)

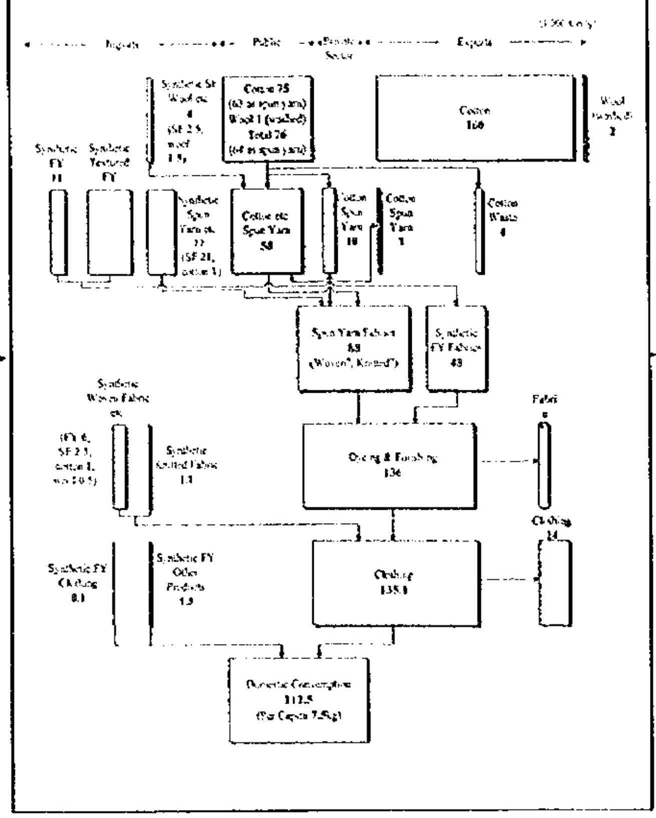
Tab. 6.3-7 (Tab. S6.3-4) FORECAST OF FIBER CONSUMPTION IN SYRIA(~2010)

(kg)

	GDP Growth (%/y)	2000	2005	2010
Per Capita Fiber Consumption (kg/y)	3	7.6 (7.6-7.7)	7.6 (7.5-7.7)	7.6 (7.5-7.8)
	5	8.0 (7.9-8.1)	8.5 (8.4-8.6)	9.0 (8.9-9.3)
	7	8.4 (8.3-8.5)	9.5 (9.4-9.6)	10.7 (10.8-11.0)
Total Fiber Consumption (1,000 ton/y)	3	124 (123-126)	144 (143-145)	167 (165-170)
	5	130 (130-131)	161 (159-163)	198 (197-202)
	7	137 (135-137)	180 (178-182)	235 (233-238)

SYRIAN TEXTILE INDUSTRY

Fig. 4.1-1 (Fig. S4.1-1) PRODUCTION, IMPORT AND EXPORT OF TEXTILE INDUSTRY (1)



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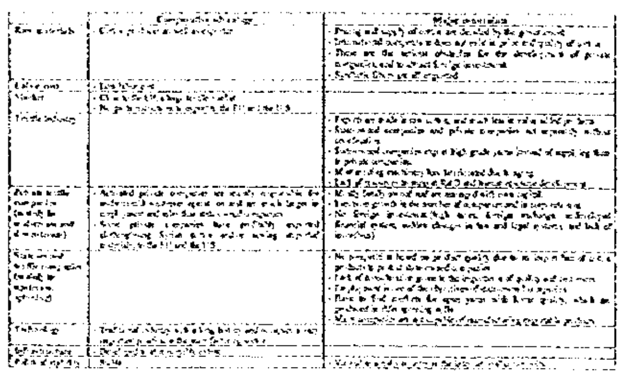

SYRIAN COTTON IN 2000

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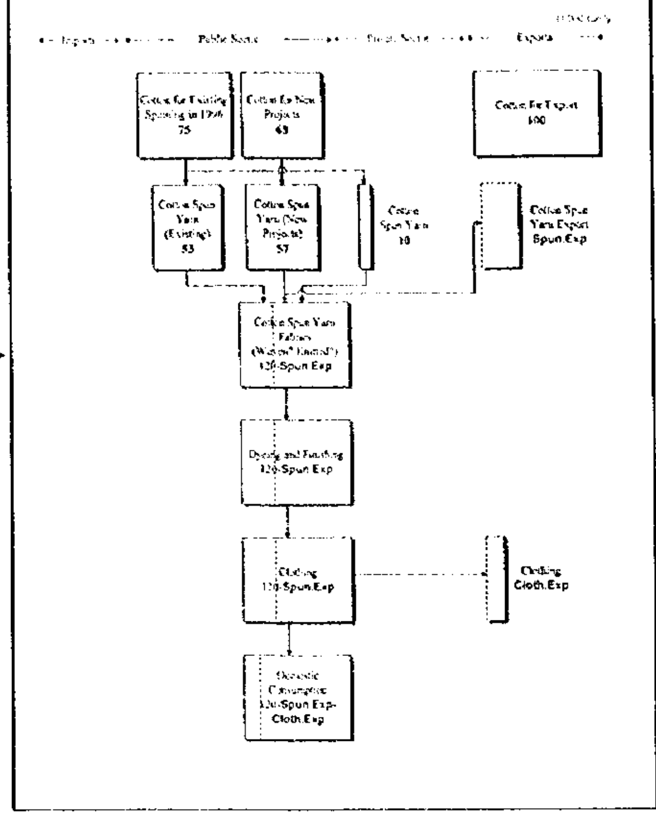

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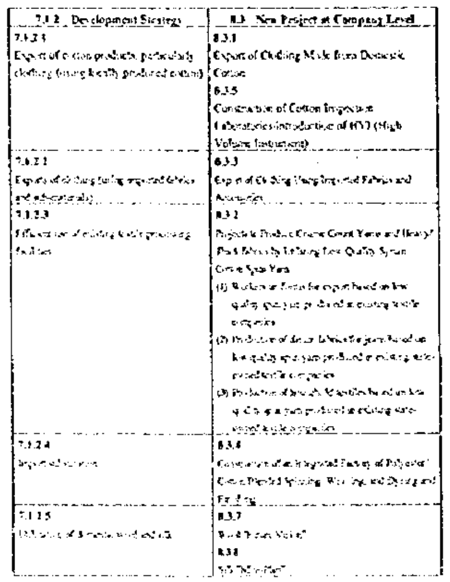

NEW PROJECT PROPOSAL

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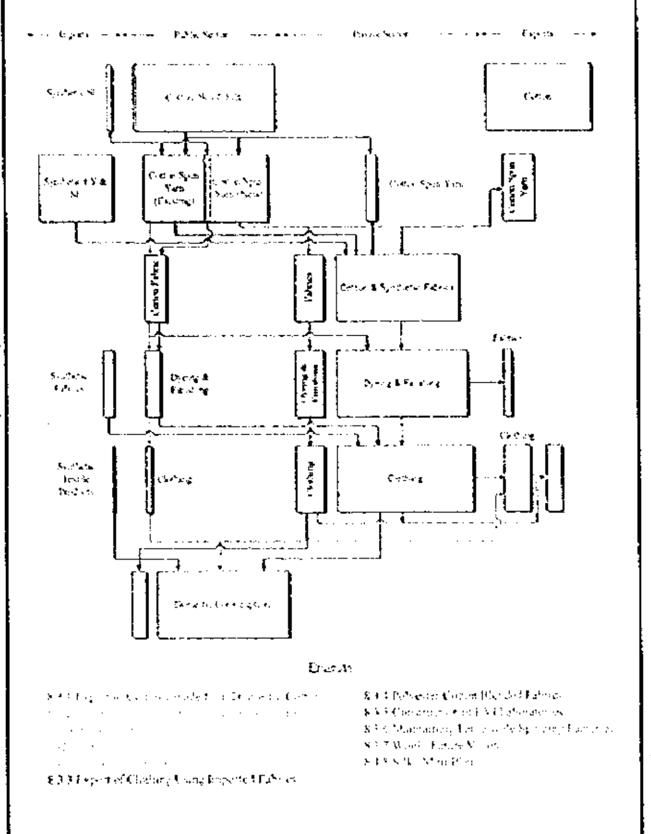

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EXECUTIVE SUMMARY WITH ILLUSTRATIONS (2)

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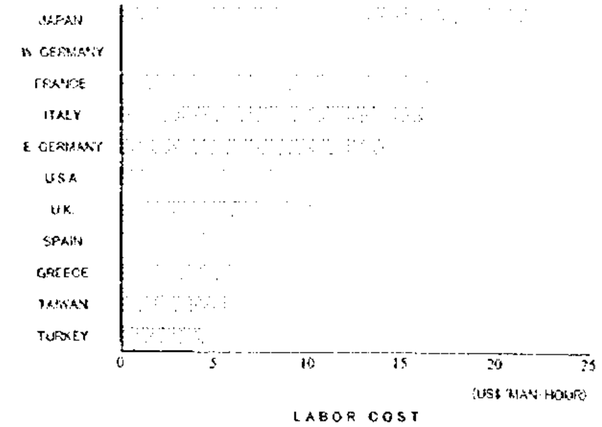

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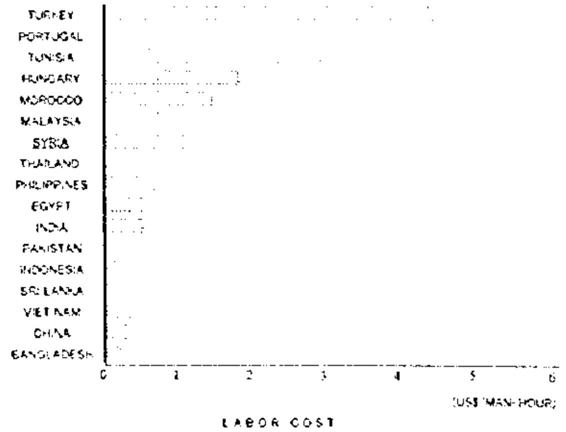

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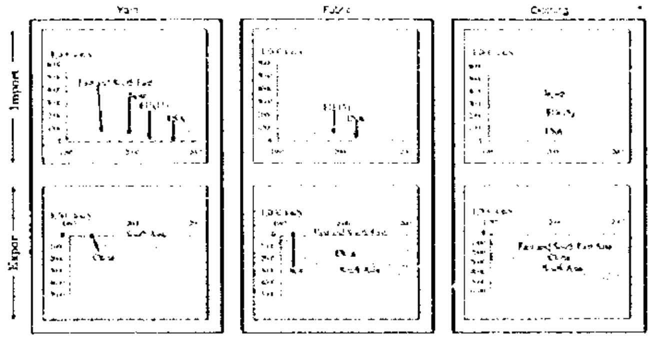

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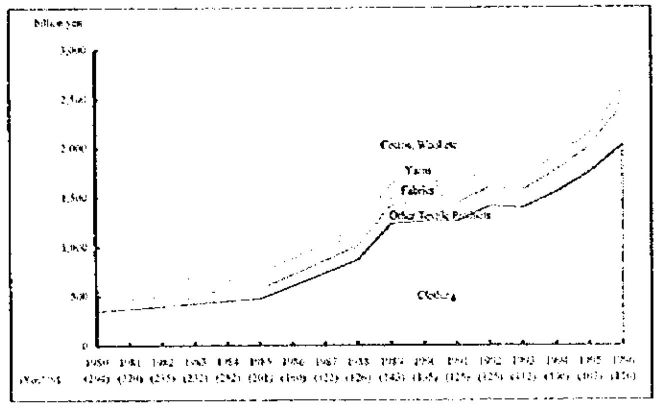

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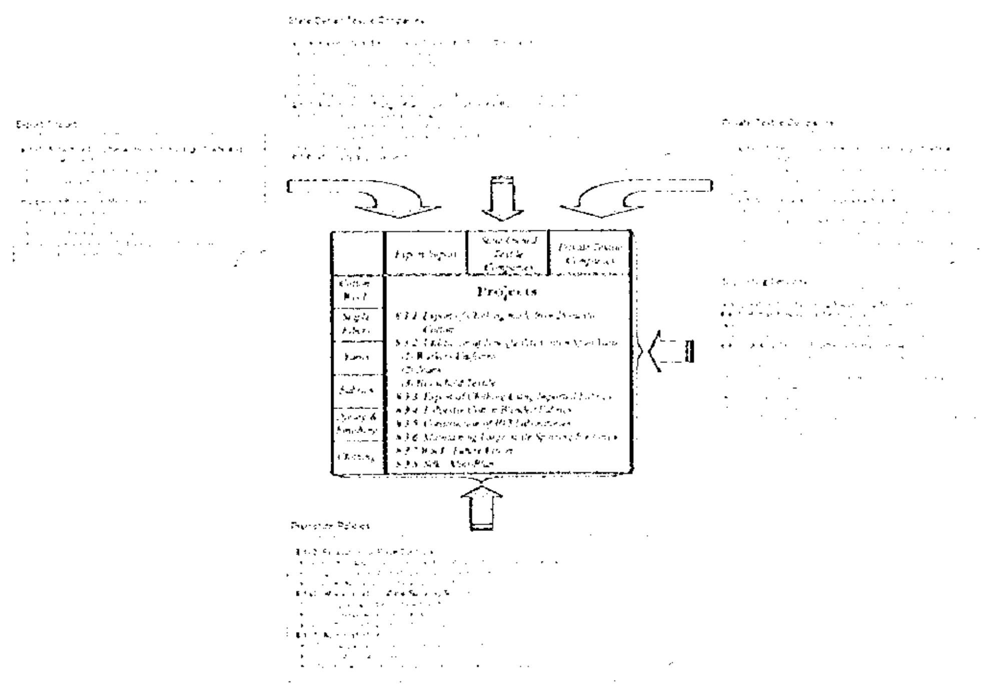

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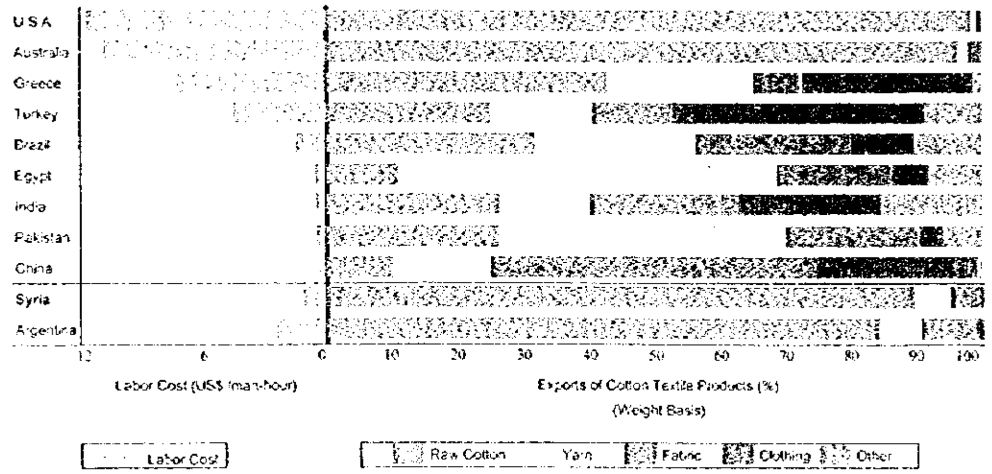


SYRIAN COMPETITORS

Tab.6.3-3(Tab.S6.3-1) EU'S TOP TEN CLOTHING SUPPLIES(1994)

Clothing

	Pullover	T-Shirts	Blouses	Dresses	Skirts	Trousers	Overcoats	Women's Suits
1	Turkey	[illegible]	[illegible]	[illegible]	[illegible]	Tunisia	[illegible]	[illegible]
2	[illegible]	Turkey	[illegible]	Turkey	[illegible]	Morocco	[illegible]	[illegible]
3	[illegible]	[illegible]	Turkey	[illegible]	Turkey	[illegible]	Turkey	Turkey
4	[illegible]	[illegible]	[illegible]	Morocco	Morocco	Turkey	Romania	Poland
5	[illegible]	Mauritius	[illegible]	Tunisia	Tunisia	[illegible]	Morocco	Morocco
6	Morocco	[illegible]	Morocco	[illegible]	Poland	[illegible]	Tunisia	Tunisia
7	Mauritius	Tunisia	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Romania
8	[illegible]	Morocco	Tunisia	[illegible]	Romania	[illegible]	Hungary	Hungary
9	[illegible]	[illegible]	[illegible]	[illegible]	Hungary	USA	[illegible]	[illegible]
10	[illegible]	USA	[illegible]	Hungary	[illegible]	Hungary	[illegible]	[illegible]

Tab. 6.3-4 (Tab. S6.3-2) USA : TOP TEN SUPPLIERS OF MFA TEXTILES AND CLOTHING, 1995

Rank 1995	Country	Value (US$ million)	Share 1995 (%)	Change 1995/94 (%)
1	China	4,803	10.9	-2.6
2	Hong Kong	4,391	10.0	-0.3
3	**Mexico**	**3,037**	**6.9**	**60.1**
4	Taiwan	2,757	6.3	-2.6
5	South Korea	2,271	5.2	-7.3
6	Dominican Republic	1,787	4.1	10.4
7	Philippines	1,704	3.9	17.0
8	**Canada**	**1,652**	**3.8**	**25.4**
9	India	1,615	3.7	6.3
10	Italy	1,454	3.3	15.1
Total		43,974	100.0	10.0

1. Background, Objectives and Scope of the Study

1. Background, Objectives and Scope of the Study

1.1 Objectives of the Study

(1) The general outline of the master plan for development of the textile industry toward 2010 is as follows:

1) Macro level

(a) Supply and demand forecast of textile and clothing products

(b) Recommendations on upgrading of textile industry promotion policy

2) Semi-macro level

(a) Plan to strengthen supporting functions to the textile industry

(b) Presentation of the future vision of forward and backward linkage of the textile industry

3) Micro level

(a) Recommendations on improvement of quality and productivity

(b) Modernization plan for selected state-owned companies

(2) Technology transfer to Syrian counterparts in related areas, including textile industry promotion and modernization of state-owned companies

1.2 Background of the Study

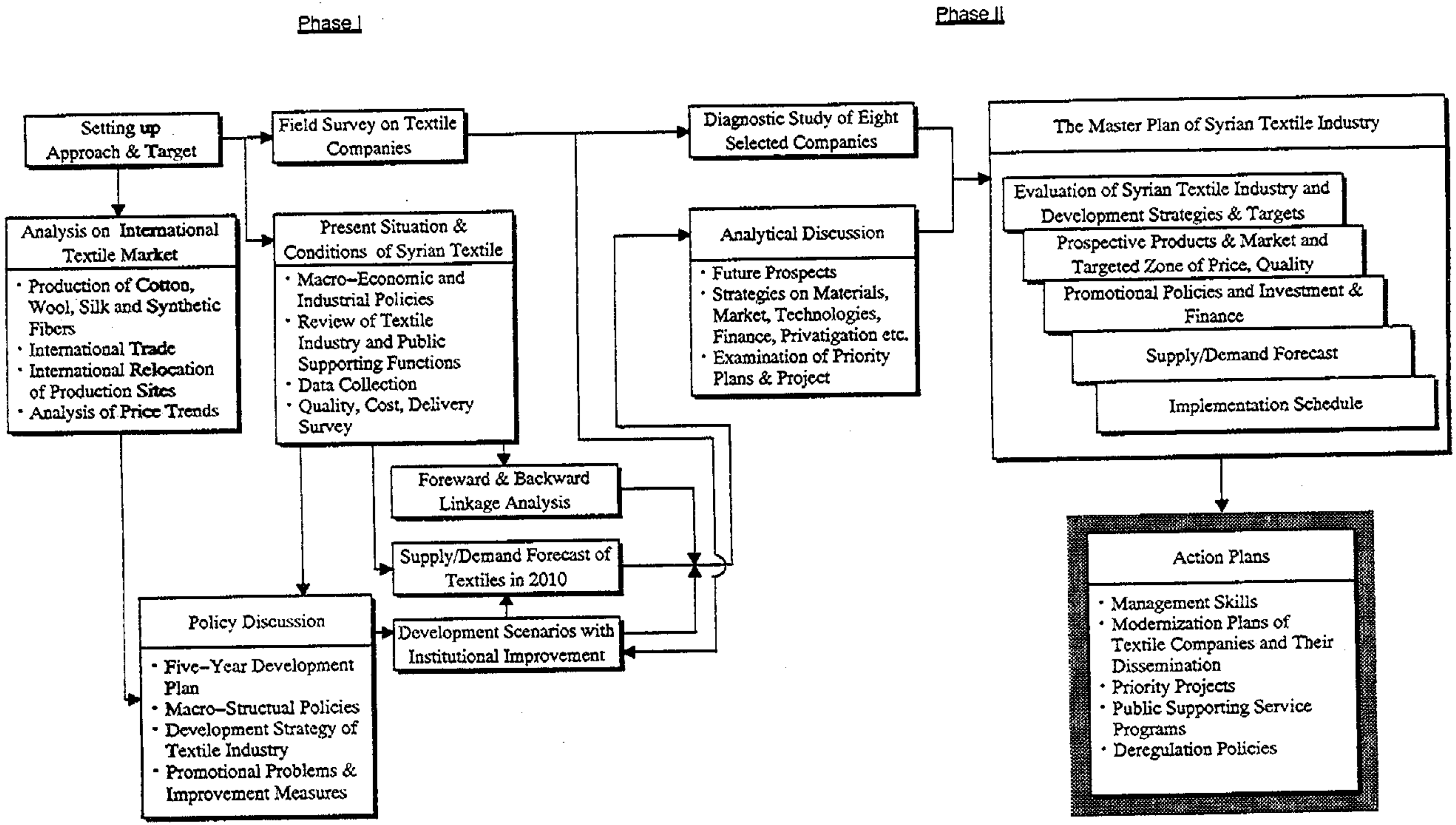
The textile industry in Syria is characterized as agro-industry utilizing local products such as cotton and wool, output of which occupies 27% of the manufacturing sector's total output (1994). Its value of exports accounts for 10.9% of total exports and 35.5% of manufacturing exports (1994). It has a long history and constitutes one of the major sources of employment in the country accounting for 21.7% of the public sector employment (1994).

At the same time, it is coming to a major turning point facing with a variety of issues, including rapid declines in exports to the former USSR and Eastern Europe, weakening international competitiveness in quality, inefficiency of management of state-owned companies under the socialistic economic system, deterioration of production facilities due to aging, and the need for effective measures to improve investment climate inside and outside the country by introduction of the private investment law. Under these circumstances, the Government of Syria has made an official request to the Government of Japan to extend assistance to formulate a master plan for promotion of the textile industry. In response, Japan International Cooperation Agency (JICA) has sent a survey team to select and confirm the project and to conduct preliminary study. Then, the general outline and framework of the full-scale study was agreed in the Scope of Work (S/W) which was signed by the two counterparts.

1.3 Subject and Scope of the Study

The study is to cover an entire area of Syria. The scope of the study is defined in detail in the Scope of Work, and the planning period will end in 2010 when Syria is expected to join the EU. The study period will last 11 months starting from mid-February 1997, which is divided into Phases 1 and 2, as shown in Figure 1.3-1.

Figure 1.3-1 WORKSTEPS OF THE STUDY



2. Development of the Syrian Economy

2. Development of the Syrian Economy

2.1 Political and Social Development

2.1.1 Socialist Country

Syria, a country belonging to Islamic world, has had a free economy from her independence from France in 1946 up to late 1950s. During the course of events involving Israel, Syria chose closer relations with the Former Soviet Union. The Ruling Ba'ath Party established a socialist country in the early 1960s to promote a public-sector oriented economy through land reform, and nationalization of industries and banks. The private sector, however, remained well established in the agriculture, commerce and small business sectors. The socialist system faced many economic problems in spite of many social gains. A capital shortage blocked her economic development.

2.1.2 Access to a Market Economy

Since November 1970, President Hafez Assad has promoted economic reform more realistically to revitalize the economy by several means: by an increase of public sector investment, by promoting amicable relations with Arab countries, and by partly lifting import bans. In October 1974, the State Planning Commission (SPC) relaxed the contractor qualification requirements related to public sector investment, which diversified the autonomy of each economic body and also encouraged private activities.

During the 1980s, Syria experienced a severe shortage of foreign exchange, due to sharp decline of exports and foreign aid. These declines were induced by the oil price decline. Scarcity of foreign exchange caused a big difference between the official and black market foreign exchange rates, stagnation of production due to shortage of necessary materials for agriculture and industry, and large budget deficits. Syria had to reduce public investment and subsidies, restrict salaries and wages in the public sector, and relax import restrictions. She published Decree 10, 1986 to admit foreign direct investment through joint ventures with the local capital. After the sudden collapse of the Former Soviet Union, and after Gulf war, the invasion of Kuwait by Iraq, Syria changed its political stance to be friendly to western world. Syria has stepped up its efforts to make the transition to a market economy by renewing Law 10 in May 1991, and by starting oil exports. These actions and revived foreign aid have resulted in the favorable economic development in the 1990s (See Chapter 2.4.1).

2.1.3 Population

The Syrian population increased rapidly, from 4.6 million in 1960 to 14.6 million in 1996. The rate of growth of 3.3% a year is about double the world average of 1.6%. Though Syria in a politically vulnerable position geographically, she has realized a peaceful society by means of historical life style associated with the extended family system.

Although the above rate of population growth will slow down in the future, the Syrian population will reach 21.1 million in 2010. The labor force participation rate for the total population is 22%, that is very low due to the large percentage of young people and low participation rate of women (Table 2.1-1). Job creation has been the ultimate purpose of economic development based on the desire for social stability. Considering the rapid increase of the labor force in the future, job creation will remain in the top position in the policy framework in the coming two decades.

Table 2.1-1 EMPLOYMENT IN 1991

(thousand)

	Total	Male	Female
Agriculture	924	630	294
Mining & Quarrying	7	7	-
Manufacturing	466	430	36
Electricity & Gas	9	8	1
Construction	350	344	6
Wholesale & Retail Trades	385	375	10
Transport, Storage & Communication	170	162	9
Financing	25	21	4
Community, Social & Personal Services	963	776	187
Total	3,300	2,753	547

Sources: Central Bureau of Statistics "Statistical Abstract 1996"

2.2 Administration System for the Textile Industry

2.2.1 Central Government

The Syrian government is composed of 33 ministerial authorities, which appears to be an excessively subdivided organization, considering the size of the population. Civil related ministries are shown in Table 2.2-1. The number of employees would shrink sharply if state-owned enterprises are excluded (See Chapter 3.12).

2.2.2 Authorities on Textile Industry

The Syrian textile industry in general and the administration body for public textile companies, the General Organization for Textile Industry (GOTI), are under the functional control of the following ministries.

a) State Planning Commission (SPC)	·Production and investment plans ·Assessment of balance sheets ·Priority in development planning ·Coordination and implementation of ODA
b) Ministry of Economy and Foreign Trade	·Foreign trade ·Conversion rate for foreign exchange ·Monetary policy and banking ·Cotton ginning
c) Ministry of Supply and Home Trade	·Pricing of textile products
d) Ministry of Finance	·Expenditure of fixed capital investment ·Taxation, fees and subsidies
e) Ministry of Industry	·Management of six public undertakings (one of which is in the textile business) ·Research and analysis of private company activities ·Foreign direct investment in industry ·Supporting function for industrial development

f)	Ministry of Agriculture and Agrarian Reform	·Seed cotton, wool and silk cocoon (production)
g)	Ministry of Foreign Affairs	·International economic framework by treaty, agreement or diplomatic commitment
h)	Ministry of Higher Education	·Human resource development

2.2.3 SPC and Policy Decision Procedure

The SPC, under the Prime Minister's Office, is one of the smaller authorities with 377 employees, but it has superior status to other ministries and public companies in resource allocation through development planning, the same as Gosplan had in the Soviet Union, or as seen in China and Vietnam today. The Higher Supreme Council of Planning is the top policy decision maker for public investment and has the authority to approve public companies' drafts budget after the screening of each project at the SPC. Generally speaking, there is poor coordination among ministries in the economic planning process. Therefore, SPC has an independent information network all over the country for the planning and administrative oversight, by three ways, that is its own regional offices, high status directorates in each ministry, and public companies (Figure 2.2-1).

The major function of the SPC is to compile three kinds of development plans, that is long-term frame plans (10-15 years), five-year development plans and annual plans. The annual plan is the implementation tool for the five-year plan, according to the state budget. SPC compiles internal quarterly reports to monitor the implementation of the plans. The latest five-year plan (1996-2000) has not yet been finalized, and is still under discussion at the government (See Chapter 3.14).

Annual plans are compiled by the following procedure. Each public textile company proposes GOTI its annual plan for the following calendar year in June. GOTI coordinates their annual plans if multiple companies produce the same products. These plans are submitted to the Ministry of Industry and SPC in August. SPC holds a hearing session at which the director of each public company explains the production, financial and investment plans. Each director normally wishes to increase production from the viewpoint of gaining better salaries and wages for employees, but SPC examines those plans from the viewpoint of certainty of sales.

Overproduction without sales causes stockpiling. Usually 20% of the companies are requested to modify their original plans to reduce the cost. SPC's annual plan is sent to the Ministry of Finance for state budget drafting for the next year in October. The Higher Supreme Council of Planning chaired by the Prime Minister holds a 15-day session in November to finalize the state budget draft regarding revenue, current expenditure and capital expenditure by the Ministry of Finance with collaboration of SPC. Thereafter the budget draft is submitted to the Assembly in January. The state budget is finalized between April and June.

After Assembly approval, the Higher Supreme Council of Planning meets for one day or two to report the discussion procedure at the Assembly to its 20 members, consisting of 15 ministers, 2 deputy Ministers of Planning and 3 representatives from Farmers Union, Workers Union and Central Supervision of Control. The result of the annual plan is reported to each public textile company through GOTI from the Ministry of Industry by June. The public textile company can get the necessary investment credit directly from the Ministry of Finance.

Table 2.2-1 SYRIAN CENTRAL GOVERNMENT

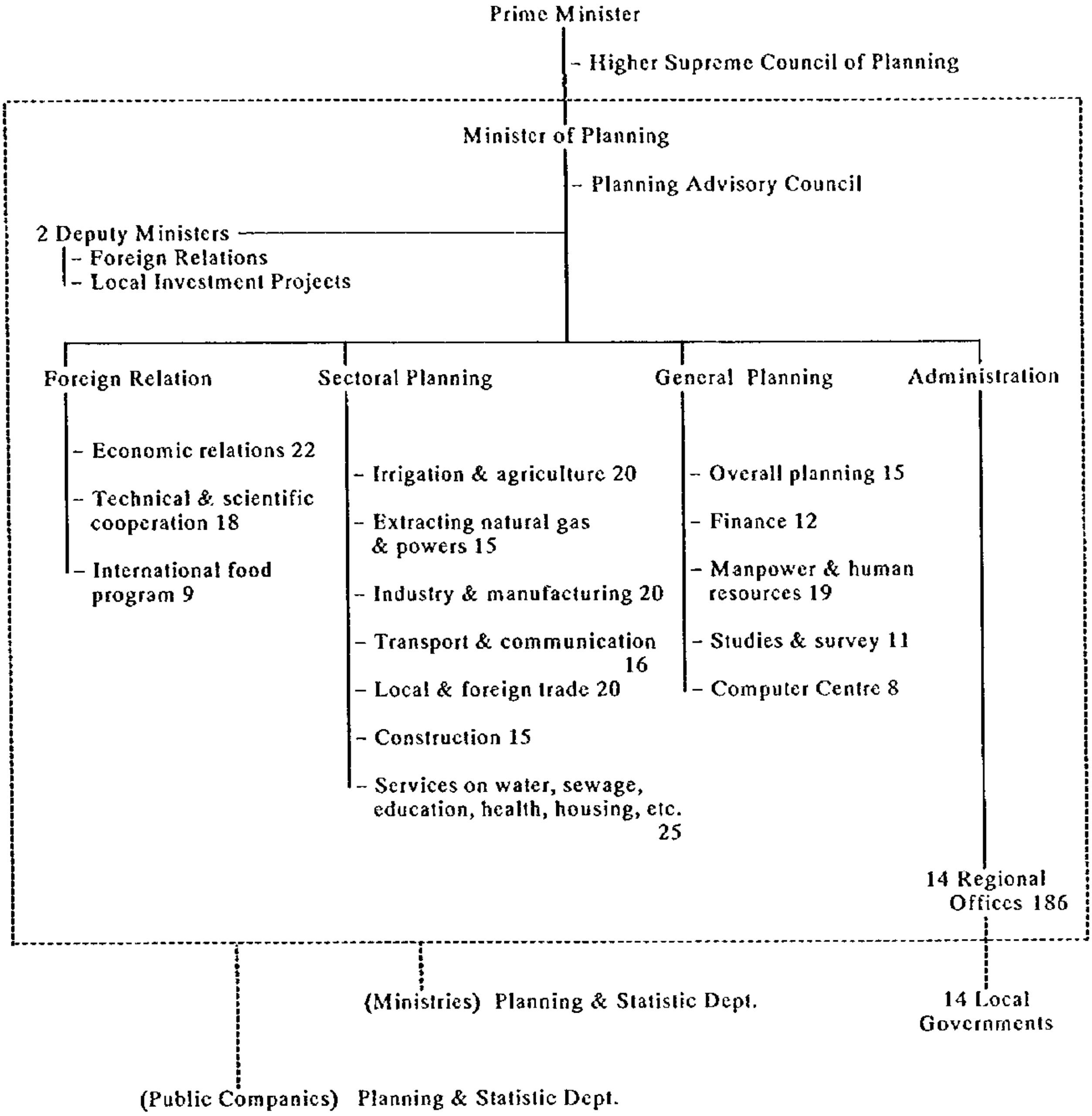
(No. of the employees, end of 1994)

Administration	Total	Directors
1- People's Assembly	156	-
2- Ministry of Economy & Foreign Trade	25,165	25
3- Ministry of Supply and Internal Trade	31,457	27
4- Ministry of Finance	12,041	15
5- Ministry of Industry	67,891	49
6- Ministry of Mineral Resources	31,172	66
7- Ministry of Agriculture & Agrarian Reform	34,924	139
8- Ministry of Communications	19,775	14
9- Ministry of Transport	28,875	29
10- Ministry of Interior	1,149	-
11- Ministry of Foreign Affairs	665	45
12- Ministry of Higher Education	21,285	3,134
13- Ministry of Education	210,526	79
14- Ministry of Culture & National Guidance	2,806	20
15- Ministry of Information	4,544	27
16- Ministry of Health	38,605	709
17- Ministry of Tourism	1,602	-
18- Ministry of Irrigation	13,941	37
19- Ministry of Utilities	12,904	6
20- Ministry of Construction & Const. Companies	794	7
21- Ministry of Local Administration	38,458	14
22- Ministry of Justice	5,513	1
23- Ministry of Social Affairs & Labour	3,359	10
24- Ministry of Al-Awkaf (Islamic Religious)	4,410	11
TOTAL	736,792	4,556

Note: This table excludes Presidency and Prime Minister's office and Military sector.

Source: Central Bureau of Statistics, "Statistical Abstract 1996".

Figure 2.2-1 ORGANIZATION OF SPC



1) Under the Law No. 1 (1968), each Ministry and Public Company shall have the Planning & Statistic Department in its organization to support SPC's technical work and the Head of this Planning and Statistics Department shall be a membership of the Management Council (Board of Directors) in each Ministry and Public Company.

2) Total staffs of the SPC are 377, out of which first category professionals are 233. Figures after the Division's name show the number of staff.

2.3 Macroeconomic Development

2.3.1 GDP

The economic growth rate was low in the 1960s, and averaged only 2.7% a year. Output of industry was doubled in a decade, but agriculture and commercial activities were stagnant due to drastic changes in systems. In the 1970s the Syrian economy thrived owing to deregulation policies. Agriculture, commerce and personal services grew by three fold and construction by four fold in this decade. In the 1980s her economy confronted many problems due to a foreign currency shortage caused by the sudden loss of trade partners.

The main reasons for those problems are the collapse of the Soviet Union and decline of Arab aid that was the sharp decline of oil prices. The beginning of oil exports has barely rescued Syria from economic confusion. It is remarkable that the private sector came to take the economic initiative over the public sector in the short period of only two decades. In 1990, the private sector was the major one in economic activities with regard to the fixed capital investment and added value (Table 2.3-1).

In the 1990s economic growth revived to about 7% a year by means of an increase of oil exports, foreign aid from Arab countries after the Gulf war, and resumption of EU trade and tourism. The ratio of investment to GDP has maintained the level of nearly 30%, which is the symbolic level for rapid growth economies. The balance of payments has been improved. Agriculture is the main sector, occupying 28% of GDP. Traditional trading has the second largest share, 25%. Mining and manufacturing is third with 14%, but stands at the top with 27% of the fixed capital formation, comparatively larger than the second category, housing 20% (Table 2.3-2).

2.3.2 Infrastructure

Syria has implemented positive capital formation policies. Mining and manufacturing account for about 30% of fixed capital formation. The remaining 70% is invested in infrastructure. An electricity shortage has been a problem but will be solved soon. Syria is developing two new power generation projects, 1000MW at Aleppo and 600 MW at Hama, by means of foreign aid.

Transportation depends on motor vehicles and ships. Rail is used for heavy goods such as fuels, phosphate, cement, cereals etc., but it already has declined in importance as a transportation mode. (Table 2.3-3) Commodities are transported by trucks. Textiles for foreign trade are loaded or unloaded at Lattakia seaport or transported by trucks through neighbor countries. Road conditions are quite good and Lattakia seaport has ample container space. There will be comparatively good infrastructure for Syrian development, if the country keeps up the present level of capital expenditure.

2.3.3 Inflation

Inflation, in terms of retail prices, has been 8-10 per cent a year in the past four years (See Chapter 3.4). This is manageable. It is remarkable that fuel prices, electricity user charges and bus fares have increased two to three times more than the average. (Table 2.3-4) Prices of consumption goods and charges for personal services have increased slowly. Textiles have risen at the same pace as average. Fuel price and electricity charge have influenced the production cost of agricultural products including raw cotton, because Syrian agriculture depends on power for water supply so much.

2.3.4 Budget and Tax

(1) Current situation

The state budget is nearly 30% of GDP. The role of the government in the economy having changed, the share it has in GDP has declined. It is noteworthy that the government has kept capital expenditure roughly equal to the current expenditure (Table 2.3-5). Local government's budget, is comparatively small: 13% of the state budget (Table 2.3-6).

The tax burden is low; only 13-14% of GDP. Tax in the budget revenue is only 30.5% (19.2% direct tax; 11.3% indirect tax). Corporation income tax (13.8%) and customs duty (5.3%) are the main revenue sources. State property revenue provides 6.8%. 62.8% depends on other sources, namely reserves, saving and credit repayment and foreign and local loans. The income tax Law No.85 (1949) was amended in June 1991 by Law 20 to decrease the maximum tax rate from 92% to 45%. The rates can be raised by the Minister's decision. Local governments depend on transfers from the state budget for 90% of their revenue. Tax law was adjusted only once in spite of the massive inflation for the past five decades. The present tax system is as follows.

a) Taxation corporation is levied according to the following table.

Net income (SP 1,000)	Tax rate (%)
~ up to 200	10
~ up to 500	14
~ up to 1,000	18
~ up to 2,000	22
~ up to 4,000	26
~ up to 6,000	30
~ up to 8,000	35
~ up to 10,000	40
more than 10,000	60

- Tax on wages and salaries are 5-17.5%, but non-residents pay 17-75%.
- Non-commercial scientific professionals can deduct 15% equivalent net incomes from tax payment, as a measure intended to encourage their efforts.
- Different rates are applied to partnerships in the private and joint sectors:

Industrial partnerships	42%
Non-industrial partnerships	53%
Limited liability industrial companies and income from real estate	56%

- Export profit to non-barter trade states has a privilege in the form of a ceiling rate of 46%.
- Capital gains tax is 10-35%. Profits on residential property sale is free of tax. Government bond sales are banned without approval of the Ministry of Finance.
- Royalty for mineral companies is 15%.

- War effort contribution is an additional 30% of the payable tax.
- Local administration tax is 4% additional to the payable tax. This tax provides resources for state budget transfers to the local governments. The highest tax rate to bigger private companies is 80.4%, considering war effort contribution and local administration addition (60% x 1.34 = 80.4%).

b) Import duty

Classification	Advalorem rate (%)
Necessities for industry (materials, machinery)	6.6
Intermediate processed goods	7-15
Spare parts	29
Finished products	35
Luxury products	
Alcohol, caviar, crystal, electric apparatus	75-100
Cars of less than 1,000 kg	150
Cars of 1,000 kg and more	280

(2) Future tasks

The budget deficit has improved from 18% of GDP in 1980 to 4.1% in 1997, however there are following three subjects to be improved.

a) Revenue Structure

Budget revenue is composed of current revenue and foreign loans. The current revenue includes surpluses from the state-owned companies and deposits in the Central Bank besides tax and duties. Tax revenue has been improved steadily. It reaches 54% of the total budget in 1997. The surplus of the state-owned companies is still considerable, making up 21% of the total budget. Revenue still depends on foreign loans to the extent of 10% (Table 2.3-7). The Ministry of Finance is considering introduction of VAT and improvement of the tax collection system, because import duties will be diminished within ten years and the income tax rate too shall be reduced.

b) Unification of Foreign Exchange Rate

There are three kinds of foreign exchange rates in the public sector; the official rate, the budget account rate and the neighboring rate. The official rate cannot be changed, because of debt payment obligations based on a bilateral agreement with former Soviet Union. Though the budget account rate, applicable to the import of machinery and equipment for the state-owned companies, was devaluated in January 1996, and it will be unified to the neighboring rate from January 1998.

Another exchange rate system is used to evaluate import duty: 11.20 SP/US$ for necessities such as foods, seeds, 23.00 SP/US$ for less important commodities for which import duty is more than 30%, and 45.50 SP/US$ for luxury products which used to be prohibited to import in the past. These rates will be also unified to the neighboring rate from January 1998 (See Chapter 2.4.3).

This unification of foreign exchange rate in the public sector will influence the budget revenue on oil export and budget expenditure on machinery import considerably in 1998 budget.

c) Higher rate of income tax

The maximum of 80% effective income tax rate paid by big companies is perhaps the highest in the world. This will discourage non-residents to invest here, and tend to encourage private companies to under-report income to the tax office. The military contribution of 30% added to income tax is heavy, but this is related to current political and military situation of Syria. The Ministry of Finance has to diversify the tax base and to improve the tax collection system, whereby it can try to reduce the income tax rate to a level comparable to those of other countries.

2.3.5 Banking System

Syria nationalized banks on May 2, 1963. Since then she has managed the financing system through the Central Bank and five specialized banks.

Central Bank assets amounted to SP 361 billion at the end of 1995, out of which SP 204 billion was credit to the government, and SP 104 billion for the above five specialized banks. It owned SP 37 billion of foreign currency (Table 2.3-8).

On the other hand, its liability was composed of SP 153 billion for currency issued and SP 131 billion for government deposits. Foreign liability including IMF credits was SP 17 billion. Deposits of public companies and specialized banks was only SP 43 billion. Interest rates in the range of 5-9% are determined by decree to provide encouragement to the public sector. Current rates are almost the same those 16 years ago. The Central Bank has financed the state budget deficit in exchange for non-transferable state bonds. The Central Bank's autonomy in making monetary policy lies only in the credit volume supplied to the specialized banks.

The Commercial Bank is the most influential bank, handling foreign exchange and commercial credit. The Industrial Bank is the smallest one, providing medium and long-term credit to the private companies and also short-term credit to both private and public companies. The Agricultural Cooperative Bank, having the largest network, provides loans in kind as well as short and medium term credits to the cooperatives and private farmers. The Real Estate Bank is growing rapidly, and is the second in terms of its loan balance, and provides housing loans to both private and public sectors. The Popular Credit Bank provides credit to the people (Table 2.3-9).

There are strong demands for borrowing, however available funds are limited. The people do not save in these banks. The people keep their assets at home or on deposit at unofficial financial institutes to seek higher returns, or invest them in real estate, despite risk of the latter two. A famous investment institute was bankrupted three years ago. Real estate prices have fallen for two years. The fixed interest rate was less than inflation, and continuous devaluation of the Syrian Pound prevented the market from providing its function of rate setting or resource allocation. These banks lack enough resources for lending. The ratio of deposits to loans has increased from 66% in 1980 to 83% in 1990 and 86% in 1995. Strictly speaking, the role of these banks is only financial settlement, not credit financing. The financial system is sound in the sense that there are no non-performing assets, but is so primitive that the banking system is an obstacle to industrial development.

Law No.10 (1991) that provides many privileges related to income tax and import duty, and was expected to promote foreign direct investment, but it has not produced satisfactory results, as benefits received have been very few in terms of actual implementation value for the textile industry as shown in Table 2.3-10. The main reasons are foreign exchange problems, poor financing ability and the high rate of base tax. Not only poor availability of long-term credit, but also import payments are costly. Private companies are forced to make a 105% deposit before opening a L/C, whereas the rate is 20-30% in other Arab countries.

There is no credit tool such as promissory notes, commercial paper or bond trade. All settlements are by cash and checks through these specialized banks. All financial activities are conducted by means of each party's own savings, or surplus, budget expenditure and credit, and limited credit allocation from the specialized banks. The banking system is underdeveloped with regard to modern economic activity, which is a heavy burden for Syrian industries trying to compete with other countries (See Chapter 2.4.4 and Chapter 3.8).

2.3.6 Industrial Competitiveness

The structure of foreign trade reflects the international competitiveness of Syrian industry as follows (See Chapter 3.13).

a) Food, beverage and tobacco industries have been developed by the private sector, but the total import value of the three items is more than that of exports due to high value of import of food products.

b) Industrial material supply depends on imports. About half of the total imports is accounted for by intermediate materials of textile, wood products, paper, chemicals, non-metal and metal and metal products.

c) Fuels and lubricants are the main export item. They occupy 62% of total exports.

d) Machinery and equipment are the second item in the import. These and industrial materials combined, occupy 79% of total imports.

e) Non-food finished goods of textile, apparel, leather products occupy 13% of total exports. 99% of these exports are done by the private sector.

Excluding fuels and lubricants, the private sector conducts about 70% of all foreign trade (Table 2.3-11).

2.3.7 Foreign Trade and Balance of Payments

Syria still controls exports and imports individually by issuing official certifications. Syrian exports have been increasing since 1989, and have reached 22 million tons, valued at SP 44 billion in 1995 out of which 20 million tons are petroleum, and one million tons are natural phosphate. On the other hand, import volumes decreased after the collapse of Soviet Union, and are now stable at 5 million tons, one-fourth of exports. Syria has recorded trade deficit (Table 2.3-12).

Tourism has been very active in recent years. The number of tourists has increased from 1.56 million in 1991 to 3.43 million in 1996. (Table 2.3-13).

The balance of payments is in surplus owing to capital inflows, tourism income and transfers, in spite of the trade deficit. But there is an exchange rate problem that accounts for the above foreign trade and balance of payments results. The authorities have much trouble in compiling this balance, due to use of a weighted average rate in each year. (Table 2.3-14).

Table 2.3-1 GDP

(mil. SP in current price, %)

	1970	1980	1990	1991	1992	1993	1994	1995
Consumption	6,136	45,728	222,891	279,465	327,783	360,237	413,150	439,104
private	4,944	33,858	184,389	231,883	274,195	303,998	342,485	364,614
government	1,192	11,870	38,502	47,582	53,588	56,239	70,665	74,490
Increase of Stocks	-	-	-	-	-	-	-	-
Fixed capital formation (gross)	906	14,365	44,395	55,992	86,120	107,466	151,690	158,823
private	268	5,348	24,423	31,739	58,199	66,722	87,970	91,419
public	638	9,017	19,972	24,253	27,921	40,744	63,720	67,404
Foreign current balance	-242	-8,823	1,042	-23,893	-42,273	-53,948	-62,405	-39,381
exports	1,190	9,345	76,042	76,038	97,577	115,294	167,327	177,229
imports	1,432	18,168	75,000	99,931	139,850	169,242	229,732	216,610
GDP	6,800	51,270	268,328	311,564	371,630	413,755	502,435	558,546
	(1963-70)	(1970-80)	(1980-90)					
GDP Increase rate (constant) %	2.7	9.9	2.2	7.1	10.6	6.7	7.6	3.6
Investment ratio (%)	13.3	28.0	16.5	18.0	23.2	26.0	30.2	29.3
Consumption ratio (%)	90.2	89.2	83.1	89.7	88.2	87.1	82.2	77.8
Government share of consumption (%)	19.4	26.0	17.3	17.0	16.3	15.6	17.1	18.1
Foreign current balance over GDP (%)	-3.6	-17.2	0.4	-7.6	-11.4	-13.0	-12.4	-7.1
Per capita GDP (SP)	1,087	5,890	22,147	24,867	28,680	30,893	36,377	38,894

Sources: Central Bureau of Statistics "Statistical Abstract 1996"

Table 2.3-2 DISTRIBUTION OF CAPITAL FORMATION

(Current price, %)

	1970	1980	1990	1991	1992	1993	1994	1995
Agriculture, Forestry & Fishery	16	4	22	21	18	17	14	14
Mining & Manufacturing	25	24	19	19	19	21	30	27
Transport & Communication	20	8	7	10	16	17	14	14
Housing	25	30	28	25	18	18	19	20
Other Sectors	14	34	24	25	29	27	23	25
Total	100	100	100	100	100	100	100	100
Amount (net, mil SP)	875	13,897	42,969	54,176	83,215	103,775	146,178	156,156

Sources: Central Bureau of Statistics "Statistical Abstract 1996"

Table 2.3-3 LAND TRANSPORT IN 1995

(thousand tons)

	Total	Public	Private	Government
Automobiles	136	28	92	16
Buses	5	4	-	1
Micro-buses	25	22	1	3
Trucks	59	29	17	12
Tank Lorries	4	2	-	2
Pick-ups	161	47	104	11
Motor cycles	89	-	83	6
Temporary entrance	7	-	-	-
Total	487	132	297	51

Note 1: Railway transportation in 1995 (thousand ton)

Cereals	507	Export	23
Phosphate	1,187	Import	86
Fuels	1,554	Others	321
Cement	398	Total	4,318
Sand	242		

Note 2: Commodity transportation in 1986 (mil. ton x km)

Inside	941
Outside	79
Total	1,020

Note 3: Foreign trade of textile (thousand tons)

	1991	1992	1993	1994	1995
Fabrics & textile import at Lattakia	71	70	117	111	140
Cotton export at Lattakia	102	119	156	205	126
Cotton export at Tartus	5	5	11	18	9

Sources: Central Bureau of Statistics "Statistical Abstract 1996"

Table 2.3-4 INFLATION (Retail Price)

(Annual increase rate of retail price, %)

	1992	1993	1994	1995
Foodstuff	6.6	11.5	15.9	6.2
Fuels, electricity & water	28.4	2.0	35.5	33.0
Personal needs	2.5	8.1	6.8	4.9
Detergents	4.6	4.5	6.0	4.0
Medical care & medicine	10.2	6.4	20.0	10.0
Education & culture & tourism	9.9	6.6	6.9	13.7
Transport & communication	52.4	15.9	18.7	22.0
Personal services	13.8	13.6	8.7	8.0
Clothes	28.1	13.7	12.0	9.1
Linens and towels	7.8	18.5	8.8	2.5
Furniture & home utensils	7.7	8.7	30.7	-10.0
Toys & amusement materials	3.4	23.6	7.9	1.2
Durable consumption goods	4.5	2.6	4.2	3.3
Rent	8.8	24.3	21.7	1.8
Total	11.0	13.2	15.3	7.6
cf. Wholesale Price Index	-	8.5	14.2	6.9

Sources: Central Bureau of Statistics "Statistical Abstract 1996"

Table 2.3-5 BUDGET EXPENDITURE, 1970-96

	Total	SP.mil.		Ratio to GDP (%)	Budget deficit over GDP (%)
		Capital	Current		
1970	2,780	1,396	1,383	41	-
1980	28,903	14,312	14,590	56	18.0
1990	61,875	24,300	37,575	23	-
1991	84,690	27,177	57,513	27	-
1992	93,042	36,250	56,792	25	-
1993	123,018	61,749	61,268	30	-
1994	144,162	67,964	76,197	29	-
1995	162,040	74,099	89,940	29	3.1
1996	187,450	91,473	95,977	-	-
1997	211,000	-	-	-	4.1

Sources: Central Bureau of Statistics "Statistical Abstract 1996"

Table 2.3-6 BUDGET EXPENDITURE BY SECTOR IN 1996

	mil. SP.	Component ratio (%)
Presidency, Assembly & Prime Minister	3,366	1.8
Justice, Religion, Housing	2,989	1.6
National Security	41,741	22.2
Foreign Affairs & Information	3,070	1.6
Higher Education	5,750	3.1
Education	8,897	4.7
Culture	841	0.4
Social Welfare	3,610	1.9
Economy & Finance	15,454	8.2
Agriculture, Forestry & Fishing	19,442	10.3
Mining & Quarrying	5,855	3.1
Manufacturing	11,524	6.1
Electricity, Gas & Water	24,056	12.8
Building & Construction	1,281	0.7
Home Trade & Tourism	2,278	1.2
Transport, Communication & Storage	8,427	4.5
Finance, Insurance & Real estate	1,119	0.6
Local Administration	24,992	13.3
Non-distributed Funds	3,350	1.8
Total	188,050	100.0

Source: Central Bureau of Statistics "Statistical Abstract 1996"

Table 2.3-7 BUDGET REVENUE IN 1996

	S.P. mil.	Share (%)
Direct taxes & duties	36,110	19.2
Tax on companies, professions	25,900	13.8
Tax on salaries & wages	4,300	2.3
Tax on real estate revenue	1,000	0.5
Exit duty	1,000	0.5
Fees on cars	1,500	0.8
Duty on luxury consumption	1,000	0.5
Others	1,410	0.7
Indirect taxes & duties	21,261	11.3
Tax on agricultural production	1,500	0.8
Export duty on cotton	1,000	0.5
Customs duty	10,000	5.3
Statistics fee	2,000	1.1
Foreign trade fee	1,050	0.5
Stamp fee	3,000	1.6
Others	2,711	1.4
Services, commutations & state property revenue	12,743	6.8
Service commutation	1,372	0.7
Royalty of joint oil field	10,895	5.7
Others	476	0.3
Other revenue	53,742	28.6
Reserves	20,000	10.6
Different revenue	31,805	16.9
Others	1,937	1.0
Surplus	32,870	17.5
Budget surplus	22,053	11.7
Credit repayment	8,202	4.4
Municipalities	2,613	1.4
Exceptional revenue	31,136	16.6
Foreign loans	22,395	11.9
Local loans	8,441	4.5
Others	300	0.2
Total	188,050	100.0

Sources: Central Bureau of Statistics "Statistical Abstract 1996"

Table 2.3-8 BALANCE SHEET OF THE CENTRAL BANK IN 1995

(mil. SP)

Asset		Liabilities	
Foreign asset	36,844	Foreign liabilities	11,686
Claims on government	204,440	Deposit of government	156,463
Claims on the public economic sector	106	Deposit of the public economic sector	3,173
Claims on the specialized banks	104,602	Current account of the specialized banks	17,206
Unclassified assets	36,728	Deposit of the private sector	36
Net foreign exchanges	-	Unclassified liabilities	17,979
		Currency issued	152,315
		Allocation of SDR	645
		Capital & reserves	23,257
Total	382,720	Total	382,760

Note : 441 mil. SP of IMF credit is included in foreign liabilities.
Sources : Central Bureau of Statistics "Statistical Abstract 1996"

Table 2.3-9 SYRIAN BANKS

	No. of branches	Credit balance at the end of 1995 (bil. SP)
Central Bank	10	308
Commercial Bank	37	138
Industrial Bank	13	3
Agricultural Cooperative Bank	96	16
Real Estate Bank	13	19
Popular Credit Bank	48	11
Total	217	495

Sources: Central Bank of Syria "Quarterly Bulletin 1994 Vol. XXXII, No. 1-2-3-4"

Table 2.3-10 FOREIGN DIRECT INVESTMENT (Applied to Law 10, Approval)

	Total		Textile	
	No. of case	bil. SP	No. of case	bil. SP
1991	99	183	17	3
1992	214	36	44	7
1993	163	24	31	5
1994	171	82	14	11
1995	96	47	7	2
1996	170	127	16	7
Total	913	332	129	35
Actual Implementation	141	142	19	2
Implementation Ratio (%)	15.4	42.8	14.7	5.7

Source: Ministry of Industry

Table 2.3-11 FOREIGN TRADE BY SECTOR AND BY COMMODITY IN 1995

(mil. SP)

	Export			Import		
	Total	Private	Public	Total	Private	Public
Food & beverage	5,376	4,395	981	7,385	6,137	1,248
Industrial materials	5,341	2,303	3,037	24,084	16,251	7,833
Fuel & lubricants	27,841	39	27,803	563	41	521
Machinery & equipment	330	328	2	10,474	4,173	6,300
Transport equipment	23	22	0	7,145	5,828	1,316
Non-food consumers goods	5,647	5,597	50	2,162	1,072	1,089
Goods by passenger	-	-	-	1,040	1,040	-
Total	44,562	12,684	31,875	52,856	34,544	18,311
(Manufacturing except machinery)						
Food products & beverages	1,587	1,440	147	2,918	2,266	651
Tabacco products	-	-	-	297	2	294
Textile	4,572	4,305	267	2,918	2,266	651
Apparel dressing and dyeing	1,029	1,021	7	7	1	5
Leather products	856	835	20	20	12	8
Wooden products	43	43	-	1,401	1,366	35
Paper	28	28	-	1,115	681	434
Publishing	108	108	-	53	29	24
Petroleum products	3,090	37	3,052	338	57	291
Chemicals	543	294	264	6,361	4,069	2,292
Rubber & plastic products	44	44	-	730	607	123
Non-ferrous	93	90	3	1,277	606	671
Basic metal	99	99	-	7,619	5,240	2,378
Metal products	236	234	1	2,618	810	1,807
Furniture	198	198	-	228	190	28

Sources : Central Bureau of Statistics, "Statistical Abstract 1996"

Table 2.3-12 FOREIGN TRADE

	Volume, thousand tons		Value, mil. SP	
	Export	Import	Export	Import
1976	10,949	6,252	4,141	9,203
1980	9,023	9,370	8,273	16,188
1990	15,311	4,465	47,282	26,936
1991	16,643	4,774	38,504	31,066
1992	19,813	4,612	34,720	39,178
1993	21,142	5,770	35,318	46,469
1994	20,784	5,466	39,818	61,374
1995	22,689	4,936	44,562	52,856

Note 1 : Value in SP was calculated on following official rate.

	Export	Import
up to 1986	3.90 SP/US$	4.05 SP/US$
since 1987	11.20 SP/US$	11.25 SP/US$

Note 2 : Main export in 1995

	Volume, thou. tons	Value, mil.SP
Natural phosphate	1,374	251
Petroleum	19,869	27,862

Sources : Central Bureau of Statistics "Statistical Abstract 1996"

Table 2.3-13 FOREIGN ARRIVALS

(thousand)

	Arab	Iran	Turkey	Others	Total
1991	1,132	119	212	104	1,567
1992	1,237	154	191	155	1,737
1993	1,412	117	188	191	1,908
1994	1,448	181	151	230	1,780
1995	1,634	203	162	253	2,251
1996	-	-	-	-	3,433

Sources : Central Bureau of Statistics "Statistical Abstract 1996"

Table 2.3-14 BALANCE OF PAYMENTS IN 1995

(mil. SP)

Balance of Payment		Note	
Export	132,561		
Import	137,474		
Trade balance	-4,913		
Service balance	15,187	Freight	-18,555
		Travel	+28,863
		Others	+4,879
Income balance	-18,520	Workers remittances	+11,132
		Investment earnings	-29,652
Transfers	20,856		
Current balance	+12,610		
Direct investment	3,436		
Long-term capital	1,134		
Short-term capital	14,019		
Capital balance	18,589		
Errors & omissions	3,332		
Overall balance	34,531		
Central bank	13,125		
Commercial bank	21,406		

Note : Export and import are based in weighted prices of foreign exchange rate, 34.06 SP/US$.
Sources : Central Bureau of Statistics "Statistical Abstract 1996"

2.4 Big Challenges to Economic Reform

2.4.1 Correction Movement

Syria has not accepted structural adjustment policies recommended by the IMF or IBRD. Economic reform in the direction of a market economy lags the reforms of Central and Eastern Europe, but Syria is one of the successful socialist countries in realizing considerable economic development and social stability. Her planned economy differs from typical ones in the former Soviet Union or Central and Eastern Europe in the following ways.

a) Syria retained private activities in the agriculture, commerce and real estate sectors during the initial stage of socialism in the 1960s. She nationalized only industries and banks. A market economy has survived, differing from the intention that prevailed in the former USSR or Eastern Europe by there being a wide range of activities of the private sector, as well as a shorter period of socialism coexisting with a traditional merchant spirit. The small scale of factories is additional benefit for Syria in a sense of independent management.

b) The bottom-up formula is wide spread in the state planning process, in a sense that each public company is requested to propose its own plan of production and investment at the first stage. Wider participation in decision making takes a longer time.

c) Deregulation policies have been implemented by the Correction Movement since 1970 at the Syrians' own initiatives, not prompted by the external forces.

2.4.2 Free Trade to Regional Integration

There are two regional integration schemes. The first is the Arab Countries Free Trade Area, composed of 22 Arab countries (Kuwait, Bahrain, Qatar, United Arab Emirates, Dubai, Oman, Yemen, Saudi Arabia, Iraq, Syria, Lebanon, Jordan, Palestine, Egypt, Libya, Tunisia, Algeria, Morocco, Mauritania, Eritrea, Somalia and Comoro). This scheme will start at the beginning of 1998 with a lifting of all import controls and will proceed to abolish all customs duties by 2007, by reducing the duty 10% a year steadily in this region. Arab countries have a long history of internal struggle for leadership, and share nearly the same economic structure depending on oil export and livestock. Many difficulties may be encountered in the course of time, but Syria will comply with the above initial agreement for a number of reasons.

The other is the Barcelona Declaration by the Euro-Mediterranean Ministerial Conference on November 27-28, 1995, to establish a Euro-Mediterranean Free Trade Area by 2010. Twelve South-Eastern Mediterranean countries will be involved in EU partnerships. Business opportunities for export promotion will be provided to Syria. At the same time, the EU wants to export and invest more to this region. This framework will be concluded initially on a bilateral basis. Morocco, Tunisia and Egypt are the only cases to settle the schedule in detail thus far and Syria has to negotiate many conditions with the EC (See Chapter 2.4.4).

Syria has a strong intention to re-join the WTO. She used to be one of the original members of GATT, but canceled membership in 1947 due to the Israel problem. The Syrian government started studying new policies in three committees chaired by the Prime Minister, that is, the Economic Committee, Exporting Committee and Management Council of Export, Import and Local Consumption, in order to begin economic reforms since 1988.

To advance this integration, the EU has deployed technical and financial cooperation systematically to this area through the following projects intended to lower the obstacles, stressing private sector development policy and ISO9000.

- Sound macro-economic framework and administrative procedure
- Effective legislation and related institutions and upgrading statistics
- Standardization of tradable goods and services
- Promotion of foreign direct investment and local savings
- Banking system and stock market

- Business Service Center for business planning, management development, marketing, packaging, export, design, productivity, technology, quality control by information activities
- Enhancement of Chamber of Commerce and Chamber of Industry
- Business celebration between European and Mediterranean companies through many programs
- Promotion of privatization by the effective transfer of ownership, management and control
- Upgrading infrastructure provided by publicly-owned and -operated utility companies
- Promotion of small and medium enterprises, especially by financing tools
- Human resource development

2.4.3 Unification of Exchange Rates

Foreign exchange is the core for price formation and resource allocation. It seems to have the highest priority of macroeconomic and industrial policies in two meanings. First, there is no policy flexibility in the banking system. The state budget is the only function to allocate resources in the public sector. Secondly, imports of intermediate materials and machinery and equipment are already integral to Syria's economic activities. How and how much a company can get or pay in necessary foreign currency for import settlement is a very important for business activities. Syria has developed a complicated plural exchange rate system for subsidies for the public sector and for restraining import by excess burden.

There are two ways for the public companies to import. If they have hard currency gained by export of their own products, they can import within the limit of their own foreign currency by opening a L/C at the Commercial Bank. If they do not have any hard currency due to not exporting, they have to ask the government. When the Supreme Economic Committee has approved a request, the company can get authorization letter to buy the necessary amount of hard currency at the Marketing Oil Office in the Prime Minister's Office. The company submits the letter of authorization to the Commercial Bank and gets foreign currency in exchange for deposits the equivalent in local currency according to the specified rate.

The Commercial Bank of Syria is the only organization authorized to buy and sell foreign currency. No other person cannot trade it according to the law No. 24. If some one trades it or carries Syrian currency out to other countries for the purpose of change, he will be put into prison.

Syria had controlled foreign exchange only for the public sector, but has relaxed the system step by step to allow the private sector to hold it. Foreign exchange management was relaxed by instructions No.3632/4/9 on June 9, 1990, issued by the Ministry of Economy and Foreign Trade. Attached to these instructions are lists of articles eligible for importation into Syria by the private exporters provided that the value of imported goods would be covered by revenues at the Commercial Bank from exports to the extent of 75% of the total export value. The other 25% of the total foreign currency shall be sold to the Commercial Bank at the neighboring rate. A private company that does not export anything can not import eligible commodities, but must buy foreign currency at an expensive rate from private exporting companies.

Now, Syrian foreign exchange system is divided into two sectors, that is public sector and private sector. The private sector is allowed to hold hard currency from private remittances, service receipts and export receipts, and is allowed to use it for payment of import of goods and services for their own business. The encouraging rate for private import was abolished in June 1994. However, two unofficial markets are already functioning. A black market rate is applicable to small-scale trade between the excess holders of foreign currency and importers and others who need foreign currency. The other is the export proceeds market rate; a large-scale trade market between exporters in the "export proceeds" list on the "export proceeds", and importers in the specific private import list on the "export proceeds". The difference between these two rates shows there to be a comparative difficulty in getting large amounts of foreign currency. These black markets are handling 46 per cent of total foreign exchange transaction. (Table 2.4-1)

On the other hand, there are three foreign currency rates in the public sector, that is the official rate, budget account rate and neighboring countries' rate. Official rate is now only used for debt service payment on the old bilateral payment agreement. The budget accounting rate has the largest share in the public, owing to crude oil exports and imports of materials, essential subsidized commodities and machine and equipment for development. However, this budget accounting rate will be diminished in 1998, to be integrated to the neighboring countries' rate (Table 2.4-1).

The neighboring countries' rate was introduced in July 1990 and this rate is managed by the government referring to the market rate in Jeddah in Saudi Arabia, Beirut in Lebanon, etc. This neighboring rate is applicable to external loans and grant, import and export of public companies, 50% of service export earnings by hotels, 25% of export earnings private companies and government employees, earnings of diplomatic missions, expenditure of foreign companies and tourists, student allowances etc. (Table2.4-1)

The official rate has not been changed for a decade. The budget account rate used to be the official rate until 1995, and has been devalued since then to approach to neighboring rate. This neighboring rate reflects the demand and supply of the Syrian Pound in other countries.

The black market rate reflects the actual trading in Syria. The black market rate is lower than neighboring rate, the difference of which shows government desire and private actual practices to get foreign currency in Syria. (Table 2.4-2).

The Syrian government wants to unify the past complicated foreign exchange system. The unification of budget account rate with the neighboring rate is a big step for that purpose, which will push up the costs in the public companies due to increase of financing cost and inflated depreciation cost for new machine and equipment. On the other hand, the private companies will not be influenced by this measure.

2.4.4 Reform of the Banking System

The Syrian banking system has had the function of financial settlements. Economic management is so sound that the country did not experience a bubble economy by speculative investment based on a credit balloon. However, it is clear that this underdeveloped banking system is hazardous for business opportunities. Japan has a long history of developing many institutional financing systems to catch up with modern industry in Europe and USA. On the basis of Japanese experience without reform of this system, there are no grounds to expect Syrian economic prosperity, apart from petroleum exports.

In the process of transforming planned economy to a market one, Syria has to establish legal systems first. The banking system is no exception. Syria has to place the Central Bank at the right position in relations to the functions of other banks and the state treasury. Credit demand is so strong from all the sectors especially private businessmen, that there are large profit opportunities for private financial institutions and also large risks of bankruptcy for them when they are allowed to establish private banks freely. The importance of the process of reform cannot be overemphasized.

Mediterranean countries are suffering from a trade deficit with the EU, but Syria is an exception. In 1995 Syria's trade balance is surplus. (Table 2.4-3). The EU is trying to expand trade and investment through the Euro-Mediterranean Free Trade Area. The EU has already started to provide technical assistance for the development of the banking sector at the policy level and for reinforcement of the Central Banks through helping commercial banks to be competitive in Tunisia, Egypt and Syria. The EU pledged 4,685 million ecu in June 1995 for the year 1995-1999 to support the implementation of the Euro-Mediterranean Partnership by the MEDA program. It puts emphasis on venture capital, investment banking institutions and a stock market in the improvement of the financial system. The EU sent two experts to Syria, for a modernization program in April 1997. One is at the Commercial Bank to improve computer system for SWIFT (Society for Worldwide Interbank Telecommunication), and the other is at the Central Bank to review the present legal system of Syrian banking system. The EU is also planning to send an expert to the Ministry of Finance.

The Syrian Central Bank started investigation for the reform of the present banking system. It will take several years for them to accomplish this reform, that will determine the nation's potential of future industrial development, including that of the textile (See Chapter 3.8).

Table 2.4-1 EXCHANGE RATE SYSTEM IN SYRIA

as of September 6 1997

EXCHANGE RATE[1]	SHARE[2]	RECEIPTS (TYPE OF TRANSACTION)	PAYMENTS (TYPE OF TRANSACTION)
I. Public Sector			
Official rate (US$1=SP 11.20/11.25)	12		Debt service payments relating to bilateral payments agreement up to 1995
Budget accounting rate[3] (SP 34.95/35.00) (Changed from LS 22.95/23.00 in January, 1997)	28	• Public sector exports of crude oil and petroleun products	• Public sector imports of petroleun products • Government imports of materials and supplies, and development imports • Imports of essential subsidized commodities • Debt service payments since 1996
Neighboring countries' rate (US$1=SP 45.00/45.50) (Changed from US$1=SP 43.50/44.00 in July 1997)	14	• External loans and grants • Exports by public sector enterprises[4] • *50 percent, 25 percent of export earnings of private hotles and exporters • *25 percent of earnings of government employees on leave and working abroad • *Earnings in foreign currencies of staff of UN or diplomatic missions in Syria • *Domestic expenditures by foreign companies and tourists	• *Approved student allowances, tourism, and medical expenses • Imports by public sector enterprises[4] • *Domestic expenses of foreign oil companies (changed from the official rate on July 6, 1996)
II. Private Sector			
Market rate (Currently at US$1=SP51)	39	• Private sector remittance and services receipts • Private sector export receipts	• Payment for all private sector imports, except for goods specified on the "export proceeds" list • All private sector service payments
"Export Proceeds Market"[5] (Currently at US$1=SP 55)	7	• Retained export proceeds sold to importers of a specific list of imports	• Payment for a specific list of private sector imports on the "export proceeds" list

Note: Applicable exchange rate is different between the public sector and the private sector, however this principle has some exceptions of private, individual and foreigners in the public sector showed by asterisk mark (*).

Source: JICA team, referring to a material of Central Bank of Syria in January, 1997.

[1]-Buying/selling rates.

[2]-In percent of total transactions.

[3]-Budget account rate will be unified to neighbouring countries' rate since January 1, 1998.

[4]-Public sector enterprises may retain 100 percent of their export proceeds in special foreign currency accounts at the Commercial Bank of Syria and use the proceeds to import goods on the permitted list, subject to prior approval, or they may sell the proceeds at neighboring countries' rate.

[5]-Private sector exporters may retain in foreign currency accounts by 50 percent of proceeds from tourism at hotels, 75 percent of proceeds from the export of manufactures and 100 percent of foreign exchange earning from agricultural exports. The 25 percent surrendered to the Governments is exchanged at LS 45.00=US$1. Retained foreign exchange earnings may be used to import goods for own production, or sold to importers of a specific list of imports at "export proceeds market" rate determined freely.

Table 2.4-2 EXCHANGE RATE IN SYRIA

(SP per US dollar)

	Official rate		Budget account rate		Neighbouring rate		Black market rate
	buying rate	selling rate	buying rate	selling rate	buying rate	selling rate	average
1970	3.80	3.82	3.88	3.82	-	-	-
1980	3.90	3.95	3.90	3.95	-	-	-
1990	11.20	11.25	11.20	11.25	40.00	42.00	42.71
1991	11.20	11.25	11.20	11.25	42.00	43.00	45.80
1992	11.20	11.25	11.20	11.25	42.00	43.00	47.68
1993	11.20	11.25	11.20	11.25	42.00	43.00	49.67
1994	11.20	11.25	11.20	11.25	42.00	43.00	49.96
1995	11.20	11.25	11.20	11.25	42.00	43.00	50.05
1996	11.20	11.25	22.95	23.00	43.50	44.00	50.07
					since July	since July	in July
1997	11.20	11.25	34.95	35.00	45.00	45.50	50.62
1998	11.20	11.25	45.00	45.50	45.00	45.50	

Note 1: Encouraging rate was introduced for specified products imported by the private sector in August 1986 and ended in June 1994. The rate during 1990 – 1994 was 20.00 for buying and 22.00 for selling.

2: Neighbouring rate was introduced in July 1990, referring to the market rate in Jeddah, Beirut etc.

3: Black market rate has been officially surveyed since 1985.

Sources: Central Bank of Syria

Table 2.4-3 EU-MEDITERRANEAN TRADE

	EU Exports				EU Imports				Balance	
	1994 share %	1994 mil. ecu	1995 mil. ecu	95/94 growth rate	1994 share %	1994 mil. ecu	1995 mil. ecu	95/94 growth rate	1994 mil. ecu	1995 mil. ecu
Malta	4.3	1,866.4	1,991.9	6.7	3.3	1,015.2	1,065.7	5.0	851.3	926.2
Turkey	20.2	8,875.9	12,816.8	44.4	24.7	7,539.5	8,904.2	18.1	1,336.4	3,912.6
Morocco	10.0	4,371.8	4,550.2	4.1	12.1	3,702.3	3,981.1	7.5	669.5	569.1
Algeria	10.5	4,612.5	4,522.5	-2.0	19.4	5,919.4	5,917.5	0.0	-1,308.9	-1,395.0
Tunisia	8.6	3,783.1	4,068.1	7.5	10.0	3,037.9	3,341.3	10.0	745.2	726.8
Egypt	10.4	4,566.1	4,620.8	1.2	9.1	2,784.9	2,263.9	-18.7	1,781.2	2,356.9
Cyprus	4.6	1,998.5	1,951.7	-2.3	2.0	618.9	720.9	16.5	1,379.6	1,230.9
Lebanon	5.0	2,197.9	2,346.7	6.9	0.3	69.8	108.2	20.5	2,108.1	2,240.6
Syria	3.7	1,611.3	1,293.3	-19.7	5.2	1,572.2	1,688.2	7.4	39.0	-394.9
Israel	20.4	8,969.6	9,235.4	3.0	13.4	4,089.8	4,505.8	10.2	4,879.8	4,729.6
Gaza & Jericho	0.0	0.0	5.0		0.0	0.0	0.3		0.0	4.7
Jordan	2.4	1,038.5	987.6	-4.9	0.5	150.7	133.6	-11.3	887.9	854.0
MED 12 countries	100.0	43,891.6	48,392.2	10.3	100.0	30,520.4	32,630.7	6.9	13,371.2	15,761.4

Sources : EUROSTAT et COMEXT II

3. Industrial Promotion Policy (Situation and Problems)

3. Industrial Promotion Policy: Situation and Problems

3.1 General Feature of Syrian Textile Industry

(1) Sectoral Relations of the Textile Industry

The textile industry has relations with many other sectors. The Team asked GOTI and Central Bureau of Statistics to submit an input-output table, but was not provided with one. If the Team could analyze the sectoral influence by input-output table, it could identify the scale of the impact of textile exports on the entire Syrian economy through sectoral trade among agriculture, industry, transport, communication, commerce, banking and insurance.

Agriculture is an important branch of the economy, representing 28% of GDP and producing commercial crops of maize, cotton, beat, wheat, vegetable and fruit. The production of seed cotton is about 600,000 tons (before ginning) per year and is the second largest crop following wheat. Land under cultivation is expanding owing to increase in wheat production, but cotton fields and production or yield per hectare has been nearly the same level from 1991 to 1995 (Table 3.1-1). Private farmers and cooperatives are the main producers in agriculture. Sericulture is small in scale. Livestock has developed over the course of many years. Wool production is stable at about 1,500 tons a year, due to the stable number of sheep. Government purchase prices of agricultural products have increased every year. The cotton price increase is remarkable (Table 3.1-2).

(2) Cotton Ginning

Cotton ginning for seed-separation of seed cotton is done only by public companies. Export of raw cotton is larger than its local consumption. About 75 percent of raw cotton is exported. The domestic price increase of raw cotton is due to increase of the seed cotton price creating pressure for spinning companies (Table 3.1-3). Raw materials occupy about 70 per cent of total cost in the public textile companies.

(3) Comparative Status of Textile Industry

Excluding oil excavation and electric power, textiles is a dominant branch in industry from the viewpoint of production value and employment (Table 3.3-1). Food processing, metal products, wood and furniture, chemicals, ceramics and cement follow textiles. But as to value added or new investment value, food processing and metal products are competitive to textiles. At present Syria does not face a shortage of foreign exchange owing to petroleum exports, tourism income, and strict control of imports, but the government recognizes that Syria is a consumption-oriented economy due to large imports of a wider range of goods. Considering the military burden and future decrease in oil production, Syria expects the textile industry to be a credible source of foreign exchange. There is a strong expectation in the government for the textile industry to maintain its position as the current leading branch in the industry in the future, too.

(4) Public Companies versus Private Companies

The Ministry of Industry, primarily concerned with manufacturing, supervises six sectoral public company groups. General Organization for Textile Industry (GOTI) is the largest.

Cotton spinning is mainly operated by public companies of GOTI. On the other hand, the private sector is playing an important role in the production of textiles downstream. Private production of daily-use consumer products such as, underwear, tricot, stockings, blankets, bed sheets, towels, etc. is increasing remarkably (Table 3.1-5).

In Syrian exports, petroleum occupies 60%. Textile and food follow it. Textile exports of SP 5.6 billion is about double that of textile imports of SP 3.0 billion. Public companies record net trade deficits. On the other hand private companies account for 95% of textile exports, and are a major earner of foreign exchange (Table 2.3-11). GOTI had recorded a trade surplus up to 1993, but has fallen into a structural trade deficit since then. GOTI's imports increased steadily, but its exports varied much year by year depending on contracts (Table 3.1-6, Table 3.1-7).

The sales amount of GOTI has increased at the same pace as inflation. The number of GOTI employees has been maintained as the same level. Nominal productivity has improved, however capital productivity has not. GOTI pays a large amount of indirect taxes, namely import tariff, but gets little government subsidies (Table 3.1-8). On the other hand, the private sector pays little tax owing to tax avoidance and records a favorite rate of return on investment. The private textile companies are expanding production, investment and employment rapidly (Table 3.1-9).

The banking system is underdeveloped. GOTI depends on the state budget for investment finance and the private sector is self-financed, by collecting resources from owners' relatives. The government has expanded capital expenditure, but government expenditure for manufacturing including capital and operation is not large, at 6% of the total of which 12.1% is for electricity. This scarce availability of finance is the real restrictive factor for investment activity at both public and private companies, and impedes introduction of new technology or improvement of design and quality.

(5) Direction of Improvement

If Syria promoted free trade without taking effective measures, evolution of the economic structure would surely reverse, towards that of a raw material exporting country instead of a processed goods exporting one, whereby the manufacturing and distribution sector will shrink. Fortunately the private sector shows high adaptability to new trends and has already established the downstream in textile industry. Syria should utilize the local materials and accumulate textile technology as much as possible. In other words, Syria has to export textile products especially downstream products, instead of raw cotton or spun yarn, and thereby contribute more to increase of the GDP and expansion of employment.

Unfortunately the concept of quantity rather than quality is deeply rooted due to long history of the socialist system in Syria. As a result, public companies lag behind in the aspect of quality improvement and market development. Syrian textile activities including those by private companies are now actually restricted by sales and financial ability. Syrian public companies have to concentrate on sharpening competitiveness in price and quality, and the private ones have to concentrate on upgrading design, quality, and marketing. The government, moreover has to shift into top gear for industrial promotion policies.

Table 3.1-1 MAIN AGRICULTURAL CROPS, 1991-95

	1991	1992	1993	1994	1995
(Land area, thou. ha)					
Wheat	1,268	1,380	1,385	1,553	1,643
Maize	60	67	62	65	68
Cotton	170	211	196	189	204
Sugar beet	19	29	31	33	31
(Production, thou. tons)					
Wheat	2,139	3,045	3,626	3,703	4,184
Maize	225	214	200	203	199
Cotton	555	688	639	533	600
Sugar beet	652	1,364	1,236	1,451	1,406
(Yield of crops, tons/ha)					
Wheat	1.7	2.2	2.6	2.4	2.5
Maize	3.7	3.2	3.2	3.1	2.9
Cotton	3.3	3.3	3.3	2.8	2.9
Sugar beet	33.1	45.6	38.8	43.4	44.9
(Government Purchase, Piasters/kg)					
Wheat	900	950	950	1,085	1,130
Cotton	1,800	1,850	1,950	2,400	2,323
Sugar beet	190	190	195	210	225
(Agricultural loans by cash, in kind, SP mil.)					
Public	137	127	90	110	258
Cooperatives	5,386	5,717	5,747	6,560	7,128
Private	6,162	7,474	7,586	7,811	8,134
Total	11,685	13,318	13,423	14,481	15,520

Source: Central Bureau of Statistics "Statistical Abstract 1996"

Table 3.1-2 SEED COTTON (BEFORE GINNING) PRICES, 1993-1998

(SP/Kg)

Cotton Year	Cost Price	Goverment Purchase Price
1991-92	14.23	① 21.00 + 0.05 ② 18.50 + 0.05 ③ 15.00 + 0.05
1992-93	16.20	① 21.00 + 0.05 ② 19.00 + 0.05 ③ 15.00 + 0.05
1993-94	21.50	① 24.50 + 0.05 ② 21.00 + 0.05 ③ 16.00 + 0.05
1994-95	23.29	① 28.00 + 0.05 ② 24.00 + 0.05 ③ 18.00 + 0.05
1995-96	25.54	① 30.75 + 0.05 ② 26.25 + 0.05 ③ 19.75 + 0.05
1996-1997	28.54	

Notes 1: ① Beginning of September to 15 Nov. Purchased volume is 75-80%
② 16 Nov. to 30 Nov. Purchased volume is 15-20%
③ 1 Dec. and later on. Purchased volume is 10%
2: 0.05 SP/kg is a farmer's contribution to farmers union.
Source : Ministry of Agriculture

Table 3.1-3 SELLING PRICES OF RAW COTTON AND COTTON SEEDS TO LOCAL MARKET

(Syrian Piasters/kg)

Year	Raw Cotton	Cotton Seeds
1991-1992	5,400	485
1992-1993	5,641	507
1993-1994	5,641	507
1994-1995	6,495	585
1995-1996	7,730	684
1996-1997	8,500	769

Note : Cotton Seeds sold were 318 thousand tons in 1995, out of which 218 thou. tons were used for food oil. Planting seeds for farmers and feed for animals were 26 thou. tons and 23 thou. tons respectively. The above cotton seeds prices are for oil.
Source : Ministry of Economy and Foreign Trade

Table 3.1-4 COTTON GINNING IN 1995

SP 1,000

	1995		1985
	Volume (tons)	Value	Value
(Activities)			
Ginned cotton for export	156,062	11,275,698	917,452
Ginned cotton for local usage	53,070	3,542,199	521,890
Cotton seeds, total	281,669	1,666,583	176,606
Cotton seeds for export	68,321	317,986	42,837
Change of inventory	-	2,075,493	20,856
Wastes	10,445	60,951	6,549
Dyeing services	-	1,297	130
(Financial report)			
Production	-	14,789,221	1,904,120
Necessary input	-	12,320,589	2,382,464
Net production	-	2,468,632	478,344
Depreciation	-	75,681	-
Net production of market price	-	2,392,951	-
Subsidies	-	62,778	-
Taxes	-	2,134,662	-
Net value-added after tax	-	321,067	-
Salaries & wages	-	296,886	-
Surplus of operation	-	24,181	-

Source : Ministry of Industry, September 29, 1996

Table 3.1-5 PRODUCTION OF MAIN TEXTILES, 1991-1995

Type of Industry	Unit	1991	1992	1993	1994	1995
Ginned cotton	thous. ton	120	162	200	236	209
		(120)	(162)	(200)	(236)	(209)
Cotton seeds	thous. ton	288	332	407	335	350
		(288)	(332)	(407)	(335)	(350)
Cotton yarn	ton	39,062	38,121	32,637	37,280	40,417
		(39,062)	(38,121)	(32,637)	(37,280)	(40,417)
Mixed woolen yarn	ton	1,305	1,460	1,321	1,571	1,442
		(1,305)	(1,460)	(1,321)	(1,571)	(1,442)
Textile yarn	ton	37	533	319	274	129
		(37)	(533)	(319)	(274)	(129)
Silk yarn	ton	3	3	3	3	3
		(3)	(3)	(3)	(3)	(3)
Cotton textiles	ton	27,977	25,866	28,059	26,924	-
		(19,712)	(18,529)	(16,804)	(15,156)	(16,597)
Woolen textiles	ton	1,305	1,460	1,321	1,571	-
		(61)	(498)	(660)	(424)	(186)
Synthetic textiles	ton	376	303	662	1,141	-
		(-)	(65)	(167)	(387)	(231)
Under-wear clothes	thous. dzn	1,652	1,800	2,045	2,018	-
		(1,029)	(859)	(1,032)	(867)	(1,053)
Ready-made clothes	thous. pcs	1,128	1,189	1,142	1,042	-
		(1,128)	(1,189)	(1,142)	(1,042)	(847)
Tricot	thous. pcs	6,767	13,481	15,313	18,408	-
		(-)	(-)	(-)	(-)	(-)
Carpets	thous. m^2	618	810	656	776	-
		(535)	(509)	(434)	(514)	(538)
Stocking	thous. dzn	2,693	3,248	3,391	3,709	-
		(237)	(192)	(151)	(169)	(155)
Blankets	thous. pcs	199	408	328	461	-
		(44)	(-)	(35)	(33)	(41)
Bed sheets	thous. pcs	131	1,675	2,229	2,966	-
		(-)	(-)	(-)	(-)	(-)
Towels & kilts	thous. pcs	4,773	7,893	8,248	8,809	-
		(-)	(-)	(-)	(-)	(-)

Note: ( ) shows the production amount by the public sector.

Source : Central Bureau of Statistics "Statistical Abstract 1996"

Table 3.1-6 GOTI's EXPORTS 1990-1996

US$ 1.000

Year	Spun cotton yarn	Cotton fabrics	Under-wear	Wool carpet	Medical cotton	Medical cotton bandages	Different types of cotton wastes	Other exports	Manufacturing fees	Commission of the wool company	Spun wool	Washed wool	Wool waste (small pieces)	Ready made garment	Total export
1. Actual results															
90	27,746	23,180	2,655	97	-	-	2,579		-	-	-	320	139	-	59,040
91	1,474	2,934	316 68	6	51	10	129	35	-	-	-	326	760	-	4,942
92	15,629	1,683	1,027	254		0	1,718	71	-	-	-	62	32	11	20,643
93	13,844	1,526	2,264	14	156	12	1,018	7	491	-	0	20	-	-	19,389
94	20,990	392	1,956	8	166	1	2,207	82	343	51	-	-	-	-	26,200
95	21,894	104	3,108	-	233	4	3,259	68	105	39	-	-	-	-	28,818
96	3,834	1	110	-	63	-	405	4	4	7	-	-	-	-	4,460
2. Planned targets															
90	36,400	28,000	83,700	2,600	-	-	749	-	-	-	-	1,722	11,892	-	89,733
91	38,580	30,000	8,370	2,200	-	-	750	-	-	-	-	2,550	720	-	83,170
92	49,900	30,500	4,000	200	-	-	700	-	-	-	-	650	13	blended fabrics 2,700	90,000
93	26,700	20,925	3,798	2,857	34	-	1,007	-	-	-	wool fabrics 2,700	-	-	-	58,021
94	31,170	8,427	1,640	-	7	5	730	-	-	-	wool fabrics 1,093	-	-	-	43,136
95	27,540	2,316	1,813	-	152	2	1,350	-	-	-	-	-	-	-	32,175
96	28,341	4,122	2,400	-	152	2	1,680	-	-	-	-	-	-	-	36,698

Source : GOTI

TABLE 3.1-7 FOREIGN PAYMENT OF GOTI AND ITS COMPANIES

US$ 1,000

year	chemicals and dye stuff	different and blended fabrics-wool-nylon-jute	rubber covered by textile	subsidiary materials for ready-made garments	silkworm eggs	carton box for packing	spare parts	machine	insurance and transport charges	total imports
1990	3,960	3,473	49	379	130	205	8,799	34	508	17,541
1991	9,316	4,890	118	-	2	1,039	9,879	921	607	26,776
1992	5,176	6,928	30	-	80	360	5,149	759	662	19,147
1993	8,909	7,353	-	-	73	301	11,900	1,694	810	31,044
1994	5,789	7,127	169	-	71	140	4,628	4,745	509	23,181
1995	5,493	6,407	-	-	63	2,725	7,184	18,212	592	38,227
1996	3,427	8,280	86	expert fees 271,500	34	-	5,351	9,601	624	27,687

Source : GOTI

Table 3.1-8 PUBLIC SECTOR ACTIVITIES OF TEXTILE, 1991-95

SP million

	1990	1991	1992	1993	1994	1995	Annual growth rate (%)
Production value (current)	11,921	18,763	20,555	20,713	23,571	25,240	13.5
Necessary input material	9,800	13,848	16,299	19,122	18,928	19,584	13.9
Indirect taxes & fees	420	1,113	1,846	1,595	1,976	1,971	30.4
Subsidies	12	35	37	1	1	1	-65.8
Capital depreciation	205	186	186	198	214	224	2.5
Value added	2,120	4,915	4,255	1,590	4,643	5,656	11.3
Net value added	1,506	3,650	2,259	-202	2,454	3,460	
Wages & salaries	1,420	1,540	1,929	1,979	2,339	2,623	
Surplus	-1,029	-521	-681	-1,743	-1,266	-282	
No. of employees (thou.)	31	32	31	31	31	33	0.4
Yearly production per worker (SP)	374,287	579,415	643,248	655,175	740,268	761,300	13.1
Yearly average salary of workers (SP)	44,603	47,567	60,396	62,603	73,483	79,130	12.8
Yearly production per capital of SP1,000 (thou., SP)	4,474	6,861	7,213	6,709	7,142	6,831	6.4

Source: SPC

Table 3.1-9 PRIVATE SECTOR ACTIVITIES OF MANUFACTURING IN 1993

SP million

	Food & tobacco	Textile & leather	Wood & furniture	Paper & furniture	Chemical	Non-metal	Metal	Metal processing	Other	Total
Sales value	10,768	14,748	6,784	1,631	5,406	5,922	317	12,798	592	58,966
Production value	13,181	20,119	7,448	1,637	5,702	5,957	317	12,975	782	68,118
Necessary input materials	10,447	15,881	4,797	1,236	4,399	3,551	252	7,956	648	49,167
Value added	2,734	4,238	2,650	401	1,303	2,405	65	5,018	134	18,948
Capital investment	5,370	5,281	3,543	675	2,281	2,637	85	5,255	238	25,365
Capital depreciation	200	271	134	40	99	82	2	201	3	1,032
Wages & salaries	569	714	370	58	291	627	17	60	13	2,719
Tax & fees	6	10	5	1	6	5	1	9	1	44
No. of employees (thou.)	23	37	24	2	6	20	1	34	1	148
Investment returns (%)	2.45	3.81	2.10	2.43	2.56	2.26	3.72	2.47	3.28	2.68
Investment ratio (%)	0.41	0.26	0.48	0.41	0.40	0.44	0.27	0.41	0.30	0.37

Note: Tax & fees in the textile & leather (mil. SP)

1989	6
90	14
91	11
92	11
93	10

Source: Ministry of Industry

3.2 Imbalanced Activity Structure

149,000 persons are employed in public companies in industry among which 98,000 are employed in manufacturing. (Table 3.3-1) Big projects relating to electricity, petroleum refinery or cement are public-oriented, while furniture and metal products depend mainly on the private sector. Textiles were public oriented for the past two decades up to 1985, however the private sector already surpassed the public sector in production and in employees in 1995 (Table 3.14-4).

Though there is no official document that says so, it is commonly understood as a reality that Syria will not approve privatization in the sense of a change in ownership from public to private. The government wants to prevent social problems like the confusion and poverty experienced in Egypt and Eastern Europe when drastic measures were taken to convert to a market economy. Four factors lie in the background of Syria's policy preference.

- A large number of employees in the public companies
- Little interest of foreign investors in public companies due to low profitability and unforeseen risks
- Underdevelopment of the financial market and legal system
- Risk for job security and price stability in the absence of direct intervention

Instead of privatization, the government has allowed private companies to enter the fields of businesses of many traditional public monopoly sectors. The Syrian government has made efforts to create a competitive market in almost any sector where private and the public companies can coexist, and wants to set up joint ventures by private and public companies. This will be a realistic solution.

In the 1960's the government nationalized industries and banks. Industrial production has been done by the public companies for more than two decades. After the collapse of the former Soviet Union, the government changed the policy to allow the private businesses to participate in many industrial sectors and to allow private companies to engage in foreign trade. However the government has kept the public companies under the old regulations. At present, the economic balance between public companies and private ones is upside-down in public sector in textiles, wood and furniture, and metal products, while mining and quarrying, and electricity and water supply, are fully provided by the public sector. There may be many cases of private business failures, however a number of private businessmen have become rich.

On the other hand many public companies are suffering from declining income. It is true that there is no aggressiveness, poor management, old equipment, out-of-date technology, poor working practices, insufficient marketing efforts, poor resources etc. in those public companies, and most of these problems come from the current institutional conditions imposed on public companies. The most important institutional conditions are "employment and wages" (Chap.3.3), "accounting" (Chap 3.5) and "procurement" (Chap 3.6). The government, moreover, has not established an appropriate management system of private businesses. Some private businesses are enjoying windfall profits from tax savings and foreign currency trading. If the Syrian government does not change the present system in the coming liberalization process, the following problems will be more serious.

- The number of loss making public companies and the amount of loss will increase, which will raise a problem of additional budget burden.
- The private sector will develop an underground economy, which endangers the government effort to manage the state economy.

3.3 Employment and Wages in Public Companies

(1) New Recruits

Employment and budgets of the public companies are regulated by the law, and this control constitutes the most serious obstacles to their autonomy of management. The public companies used to have their own employment regulations, but the same ones as used for the civil service has been applied to the public companies since 1985, under the Unified Workers Law. This completely eliminates differences of employment and wages within the public sector, but this strict rule oppresses the flexibility of profitable business activity.

According to Decree No. 431 (1987), the number of employees in each public company is regulated, depending on job descriptions which were determined at the time of establishment. Job descriptions of the establishments are approved by responsible minister and finance minister, but the number of employees is determined by presidential decree. If there are job vacancies, the company sends a request for the required number of employees to the prime minister through the General Organization. The prime minister decides on the number to be supplied after a review with responsible persons. The company advertises the recruitment by ads in two out of the three public newspapers and conducts the screening according to five categories of school career. The director-general of the public company makes the final decision from the list of selected applicants.

(2) Employment Conditions

The new employees join the labor union after gaining employment. They will work at the same position up to retirement age of 60. If they want to move to other jobs or other public company, they have to take an other examination.

A 48-hour work a week for the public companies, and a 39-hour a week for civil servants. Vacation with salary varies from 15 to 30 days according to the number of years worked. Dual employment is prohibited in the public sector, but the public employees can work in the private sector during off-duty hours with prior approval from the minister. The employees are protected from dismissal except in the case of a crime act or no improvement of poor performance for six years.

The qualification for a pension is more than 20 years of employment and pensions are payable starting at the age of 55. If a person is still working at that age, the pension is paid after reaching 60.

It is extremely difficult to close a company even if it is a loss making company for many years. When a public company is to be closed, it needs a formal government decision by the Economic Committee. In this case the responsible minister has to provide other comparable jobs for the workers. The workers can select these alternative jobs or to seek other suitable jobs by themselves. In the latter case, the government pays the same level of compensation to them until they find jobs.

The above rigid employment system implies many problems for business activities. The procedures are extremely complicated and some decision makers do not care about profits. Managers cannot assign employees to other posts, because it is very difficult to change the job descriptions. They cannot close a factory, because of the importance of job security. On the other hand private companies are regulated only regarding minimum wage, working hours, retirement age, protection of women workers, and pension under the Labor Law, under the Ministry of Social Affairs. The director-general in a private company has great autonomy regarding employees.

(3) Appointment

Appointment of managers is different from that of new recruits. A manager of director class can move to that vacant job when the minister approves, referring to the opinions of the Personnel Affairs Committee. If a manager is not so suitable to his duty, they can move him to an other comparable job when three parties (general director, representative of political party and representative of labor union) agree to it. The director-general of public companies and the General Organization are nominated by the prime minister after the consultation with representatives of political party and labor union regarding the proposal of the responsible minister. In the former case, the director-general of the responsible General Organization usually recommends an appropriate successor to the minister. The minister is nominated by the president.

This appointment system may prevent corruption or autocracy, but it requires the government to devote too much time and energy to personnel matters of public companies, detracting from development policy.

(4) Wages

The wage scale is classified into five steps by school career by the Principal Law for the Civil Servants (1985). The initial salary and maximum salary have been amended three times. The current scale is based on Decree

No.1221 (1994, Ministry of Finance). This salary scale has been changed only three times in twelve years, in spite of higher inflation. There is not much difference between the initial wage and maximum wages, and the unskilled workers wage is approximately half that of university graduates (Table 3.3-2).

Wage increases are given once every two years. A wage committee evaluates all the employees and classifies them into three levels of increase, that is, 9%, 7% and 5%. There is no automatic inflation adjustment; this is done only by occasional decree of the president. The last time this was done, there was a 30% increase, in 1994. Wages rise slower than inflation. The real wages of the public sector has decreased in recent years.

There are three levels of wage committee. Workers and clerks are evaluated by the responsible director, the wage professional in the administration department and the representative of the labor union. Directors are evaluated by the general director, director of administration and representative of the labor union. The general director is evaluated by the deputy prime minister, responsible minister and another minister who is appointed by the prime minister.

There are four other modes of payment. The first is a bonus, but is a comparatively small, 6-24% of monthly compensation. The second is overtime pay, which is 25% more than the hourly wage. The third is night work allowance (only in factories). Morning shift (7:00am-3:00pm) is the base wage. Workers on an afternoon shift (3:00pm-11:00pm) are paid 50% more than the base. Workers on a night time shift (11:00pm-7:00am) are paid 100% more than the base. The workers are regularly rotated to different shifts to equalize compensation.

The last one is the incentives. A maximum load is set up for each job measured by the number of pieces processed a day. 70% performance of this maximum load is the standard. Employees with more than 70% performance can get an additional allowance up to 30%. GOTI has created a new scheme to pay 20-30% more to the excellent employees, who show more than 90% performance. Employees with less than 70% performance will not be given an increase in wages. If an employee receives this unhonourable evaluation three times, it will be a good reason for dismissal. Office workers are paid incentives to multiply the total incentives based on the number of staff and per capita incentives of the factory workers by a comparative position point with 80-250.

The incentives are regulated by the law, but minor changes are allowed to be made by each General Organization, when it gets a government approval from a committee of five members namely the responsible minister, finance minister, deputy prime minister, labor union representative and a representative of the Incentive Development Center. Each public company must follow the decision of its General Organization. As these incentives are not applicable to a loss making company, the competitive principle is functioning. These wage systems has been beneficial to factory workers, but not to office workers, because of the rare overtime work, no night work and less allocation of incentives for the latter.

Generally speaking private companies give compensation according to a sharper gradient than public ones. They pay lower wages to the factory workers, but on the other hand pay two-to-three times wages for a small number of key workers with expertise, foremen, or managers. In addition to this wage differential, the private companies are succeeding in increasing sales by use of marketing and modern technology. Ambitious youth, skilled workers, technicians, foremen, and capable managers are hired away from the public companies by these private companies. These employees sometimes even give up the public pension scheme when they make the change to the private sector.

As a result, the public textile companies look like vocational schools for private companies, and unskilled workers and aged workers especially women tend to remain there. The public companies are steadily losing ability to face the challenges of the new business environment. Market allocation of human resources will inevitably decide the destiny of the textile industry.

Table 3.3-1 EMPLOYEES IN INDUSTRY, 1995

thousand

	Employees	Public	Private
Food, beverages & tobacco	55	32	23
Textile, clothing & leather	69	32	37
Wood & furniture	25	1	24
Paper, printing & publishing	3	1	2
Chemical & petroleum refining	20	14	6
Non-metal	15	10	5
Basic metal	3	2	1
Metal product	40	6	34
Manufacturing Total	246	98	148
Mining & quarrying		16	
Electricity & water		35	
Industrial Total		149	

Sources: Central Bureau of Statistics

Table 3.3-2 SALARY SCALE IN THE SYRIAN PUBLIC SECTOR

SP/month

Classification	Qualification	Initial wage	Maximum wage
First	Univ. degree	3,655-4,215 in seven categories	7,725
Second	School of institute certificate	2,660-3,395 in six categories	6,385
Third	Middle-high school certificate	2,435-2,990 in five categories	-
Fourth	Professional or experienced	2,200-3,655 in seven categories	-
Fifth	Unskilled workers	2,200	-

Source : Decree No.1221 (1994), Ministry of Finance

3.4 Pricing

(1) Price control system

The Syrian government has developed a price surveillance system. Pricing of commodities and service charges of public companies is regulated by Decree No. 287 (1978, Ministry of Finance) on the cost-plus-marginal-profit principle. Pricing by private companies is also to be in accordance with decision No. 142 (1978, Ministry of Supply and Internal Trade) similar to the Decree No. 287 (1978). These decrees determine the items of expenditure which shall be included to calculate the real cost, and their classification. Depreciation of fixed assets is regulated by Decree No. 569 (1978, Ministry of Finance). For example, depreciation periods are 25 years for buildings or factories, 12.5 years for generators, 10 years for furniture, 6 years for production equipment, and 5 years for laboratory equipment. After the fixed assets have been fully depreciated, 5% of purchased price can be included in depreciation factor as the cost up to their final disposal by sale. Depreciation of fixed assets consists of two factors, that is the cost component and available cash resources for operation.

The Ministry of Supply and Internal Trade regulates the ceiling of marginal profit as follows.

Manufacturers	10-20%
Infant milk	10%
Food processing	10-15%
Textiles, machines	15-20%
Wholesalers	3-7%
Retailers	8-25%

All producers can change their selling prices when the cost prices change, but each change must be reported to the Ministry of Supply and Internal Trade.

The Economic Committee chaired by the Prime Minister makes decisions regarding the basic necessities of petroleum, bread, rice (public production), sugar, power, water, telephone, transport fees, medical care and medicine. The Ministry of Supply and Internal Trade manages the monopoly prices such as for cement, glass, sugar, cereal, beer, yeast. The Ministry of Industry manages the prices of commodities produced by more than two companies. The Ministry of Tourism manages the prices of hotels and restaurants. Local government controls vegetables, fruits and taxis. Wages and salaries of the public sector are determined by the Economic Committee, that also sets the ceiling for the private sector.

(2) Government decision and monopoly price

The Government sets important service charges. For example electricity and water rates are set by the Ministry of Economy, transportation fares by the Ministry of Supply, and private hospital charges by the Ministry of Health. Education and public hospitals are free of charge. Strategic commodities, that is, sugar, wheat, barley, chip beans and cotton, are to be purchased solely by the respective General Organization at the price decided by the government. In monopoly sectors, the pricing is subject to approval by the Ministry of Supply for public companies, and the local government approves it for private companies. The latter also does taxi fare and the sales price of the vegetables and fruit. In the case of competitive pricing by more than two public-sector suppliers, the responsible Minister approves the price. On the other hand, private companies can change pricing freely according to the cost factors, but they have to inform the local government and Ministry of Supply of the price change.

(3) Cotton price

Seed cotton prices are decided by the Supreme Agriculture Council during June to August every year. However there was no announcement even in mid-September in 1997 when the harvest began, because pricing of seed cotton became a difficult matter owing to need to balance farmers' benefits and the influence of international competition. This pricing is based on cost factors. The cost is calculated by the Ministry of Agriculture based upon a survey. Regarding this cost price and marginal profit for farmers the government sets three kinds of prices depending on the harvest timing. Cotton Bureau decides the planting season to each cotton field for farmers. The price before mid-November reaches a peak and then declines. After 1 December the price tends to decline below the cost prices. This seasonsensitive price system encourages early harvests. Early harvest, before the rains, results in better quality owing to little dust. These prices are the purchase price at 500 Collection Centers of the Cotton Marketing Organization. These prices are applicable to good quality raw cotton. If the quality doesn't reach the necessary standard, the purchased price is discounted. 85% of seed cotton met the quality requirements.

Continuous increase of the seed cotton cost price is a headache for Syrian textile industry. The components of the cost is 46% for farming, 34% for inputs and 22% for capital cost and land rent. All these cost factors have increased, but the increase has been especially great for fertilizer, seeds, water and chemical controls. Electricity charges have increased drastically in recent years, which raised the cost of water. Cotton farmers have become dependent on control of chemical fertilizer, packaging, seeds and chemicals to maximize their returns (Table 3.4-1). The farmers can not stop costs from increasing. Recently the Syrian textile industry has complained of a higher price for raw cotton than paid in other countries. Therefore the government is considering to exempt raw cotton from the agriculture product tax (8 sp/kg).

(4) Problems of current price control system

This price surveillance system might have restrained the increase in prices in the past owing to a closed economy using central planning. Many problems caused by current price system should be taken into consideration. 10-20 thousand legal actions are taken to the court by local governments on dishonest reports of private businesses. This is time-consuming trouble and costly burden.

In a market economy, pricing shall be based on demand-supply relations in a market. The market price is determined by demand and import price as well as producers' asking price. If they can not sell their products at their asking price, inventories accumulate. The government requests public companies not to permit stocks to build up. Some public companies are selling old stock which have lower cost, replacing it by new products which have a higher cost. This is tactful accounting operation, but not actual improvement. The problem is whether the high cost commodity can be sold or not.

In a market economy the government can not manage inflation only by individual price controls. Price management requires an integrated policy set, in which individual pricing decision of important or strategic items and macro-economic management are combined.

Table 3.4-1 PRODUCTION COST FOR IRRIGATED COTTON CROP 1990-1997

SP/ha

		1990	1991	1992	1993	1994	1995	1996	1997
1) Agricultural Operation	A-Tillages	1,800	1,500	2,250	2,650	3,025	3,390	3,810	
	B-Flating	608	608	749	920	720	932	1,060	
	C-Planting (sowing)	475	475	578	610	660	851	966	
	D-Fertilization	430	430	515	610	1,104	1,256	1,435	
	Irrigation costs	2,340	2,700	3,135	3,300	4,719	5,280	6,160	
	Hoeing and Weeding	3,720	4,560	5,740	6,360	8,404	8,232	9,610	
	Controlling	720	720	80	90	161	164	187	
	Harvesting	5,350	5,650	7,275	8,012	12,008	9,905	10,664	
	Threshing & Winnowing	238	238	345	350	803	803	1,030	
	Crops Transportation	619	619	860	870	1,554	1,529	1,694	
	Total	16,300	17,500	21,527	23,772	33,158	32,342	36,616	
2) Production Requirement	A-Organic fertilizer	-	-	-	-	1,500	1,500	1,500	
	B-Chemical fertilizer	3,350	3,350	3,350	4,173	5,421	5,421	5,421	
	C-Package	735	1,239	1,300	1,300	1,379	1,439	1,480	
	D-Seeds	330	666	780	840	857	857	948	
	E-Water	4,200	4,200	4,785	6,620	9,295	14,300	16,500	
	F-Chemical control	2,273	3,645	2,260	1,426	1,455	1,456	1,456	
	Total	10,888	13,100	12,475	14,359	19,907	24,973	27,305	
3) 15% of production land rent		5,251	5,715	6,403	7,387	9,997	10,793	12,068	
4) 5% of capital interest		1,223	1,335	1,492	1,716	896	1,224	1,259	
5) 5% incidental expenses		1,359	1,480	1,655	1,911	2,653	2,865	3,196	
6) Total costs per ha		35,020	38,130	43,552	49,145	66,611	72,197	80,444	
7) Yield, kg/ha		3,000	3,000	3,000	3,040	3,100	3,100	3,150	
8) Cost Price, Syrian Piasters/kg		1,167	1,270	1,423	1,620	2,150	2,329	2,554	2,854
9) Official price, Syrian Piasters/kg		1,700	1,800	1,850	1,950	2,450	2,800	3,075	

Source: Central Bureau of Statistics, "Statistical Yearbook of Agriculture 1996" and Ministry of Agriculture.

3.5 Accounting

Account reports are regulated by a series of decrees by the Financial Minister, that is Decree No. 26 (1974) for financial reporting, Decree No. 27 (1974) for contract procedure, Decree No. 287 (1978) for cost calculation and Resolution No.569 for depreciation periods of fixed assets. As the Syrian accounting system is based on the Egyptian system, financial reports on profit/loss are similar to those of the developed countries. There is no reevaluation of assets including inventory. Depreciation of fixed assets shall be counted by 5% of purchased price even after a lapse of legislative depreciation periods, up to final disposal by sale to others.

Net profit after tax is different between private companies and public companies. The former can use the net profit for their own purpose. But the latter has to keep it at the General Organization's account in the Ministry of Finance, and its use is regulated by budget rules, to use those surplus for four purposes, that is, savings for replacement and modernization investment, offsetting a shortage of working capital, savings for new project and government revenue. Net profit of public companies (the original term is "surplus") is divided as follows:

- Net profit after tax
  - Liquidity surplus
    - Surplus by depreciation
    - Reserves for price increase of materials
  - Budget surplus
    - Reserves for new investment
    - Surplus government portion

Public companies can accumulate an annual liquidity surplus without limitation of accumulation periods, and can use it for the replacement and modernization investment or for cash shortage. That is why net profit is not equal to total surplus. Loss making companies which cannot finance their current expenditure from this surplus are given assistance by the Ministry of Finance. They can use budget surplus for new project. However, these reserves are usually not enough for a new project in any company. Even in developed countries companies can not finance investment for new projects from profits in a single year. Syrian public companies can not promote new projects by their own efforts. This system implies that the government supply almost all the finance for new projects from the state budget. These reserves are only symbolic items to encourage the autonomous efforts of public companies to make further development. The Ministry of Finance provides necessary capital expenditure from the state budget for the projects which are approved by the government. When some companies do not use the reserves for new investment in a given fiscal year, these reserves are confiscated by the Ministry of Finance.

Loss making public companies are subsidized by the government. Public companies finance their working capital as well as fixed capital from the state budget, though occasionally they ask banks for credit for working capital. Money is provided after the government decision on the project. Private companies, however, mainly depend on their own resources including families and relatives. It is very hard to obtain bank credit due to scarce resources in the banks. As the interest is kept at a low level by the law, credit from the bank is like a present to the borrower.

Accounting has not been respected here due to poor monetary discipline arising from dependence on finance from the state budget, and due to the underdeveloped banking system. Also, private businesses are eager to avoid taxation. For these reasons, the situation regarding financial reports is very poor in both public and private sectors. The value of records is not appreciated. Accounting information is not used for daily business activities. The General Organization only compiles reports from each company as a matter of executing its statutory obligations.

3.6 Procurement and Marketing

(1) Bidding and contracting

Procurement of materials and equipment by the public companies is discretionary only among the companies of the General Organization. But when a public company buys something more expensive than S.P. 50,000 per year, bidding procedures are necessary. Three directors (of marketing, finance and administration) decide on the bidding conditions and announce them with technical specifications in more than two among three public newspapers and request embassies abroad to place advertisements in foreign countries. This bidding expenditure shall be paid by the successful bidder.

Imports by the public sector are regulated by Decree No. 195 (1974). The acquisition of foreign currency is the major problem they face in importing raw materials. If a public company that is not engaged in export business asks the General Organization to arrange for the necessary amount of foreign currency, the latter thereupon requests exporting companies within the Organization to sell their excessive foreign currencies at the neighboring rate to it. Import of machine and equipment is extremely difficult. Government decision of the planning and approval in the state budget are prerequisite to modernization projects or new ones. The import contracts must be approved by the Prime Minister. The following conditions must be included in those contracts.

- The equipment shall be accompanied by two years' requirements of spare parts. Vendors shall be able to supply spare parts for at least eight years.
- Vendors shall guarantee the maintenance for a year without fee.
- Vendors shall send a technical team to Syria when the production line is changed.

As an exceptional case, public companies are allowed to buy spare parts directly from vendors, without bidding. Foreign currency for spare parts is the same as raw material. When spare parts are no longer available from vendors, engineers make them at their workshops. Foreign currency acquired by oil export is allocated by the decision of the Economic Committees. Public companies can convert local currency at a privileged exchange rate, but this privilege will be ended in 1998.

(2) Export procedures

Export procedures of public companies are simpler than import procedures. They can decide on the export volumes and export prices by themselves, and are only required to notify the General Organization of their trades. Foreign currency that they earn from exports can be held in the company, however General Organization monitors how much each company has valuable foreign currency. Marketing abroad is more of a problem than currency management. The following ways of promoting exports are used.

- Sending commodity samples to the embassies abroad
- Listing the company names and fax numbers in international directories
- TV advertisement through satellite broadcasting
- Exhibition at international fairs
- Access to International Chamber of Commerce

(3) Travel abroad

Public companies can not send their marketing staff abroad with catalogues and samples for export promotion. Traveling abroad for public officials must be done only after obtaining permission from the Minister, and the necessary travel budget allowance. Authorized travel is limited. For example, GOTI and related companies send 20-25 staff abroad a year (excluding 2-20 staff for training abroad on the basis of contracts with machinery providers), which means anyone company can send only one person a year. Under such conditions, public companies only wait for potential foreign buyers to come to Syria or get long-term export contracts with the providers of machinery and equipment when they introduce machinery. Such tight regulations will choke public companies to cope with the process of transformation to a market economy. Private companies have no restriction on sending staff abroad for export promotion except with regard to obtaining foreign currency.

3.7 Foreign Trade and Investment

3.7.1 Trade Restriction, Tariff and Foreign Exchange

(1) Trade restriction

The trade balance has chronic deficits, but the amount of annual deficits has been kept within 5-15% of imports owing to oil exports. The manufactured goods accounts for 90% of total imports and 20% of total exports. Syrian manufacturing imports are four times its exports, except for the textile industry. Textiles account for 50% of manufactured goods exports and 6% of manufactured goods imports. The textile sector is exceptional in that it produces a trade surplus. Textile is a hopeful exporting industry for Syria (Table 3.7-1).

Foreign trade is regulated by many laws, decrees, resolutions, license requirements, payment regulations, and foreign currency controls. In the past all foreign trade was conducted by the specified public organization for each commodity. These organizations exported products through bilateral government arrangements and did not import consumer products or commodities which could be produced locally. Now the private sector can export specified items, and also import, using their own hard currency. There is no export tax, but the government places levies of 1.5-3.0% on export profit earned by the private sector. Some items are still licensed to the specific General Organization for export. Importable commodities are classified into three categories of CF (credit facilities provided by exporters), ER (export revenue can be used for payment) and RC (restricted commodities only for specified government establishment or private importers with export revenue) as the basis for management of foreign currency.

Textile imports are generally CF and ER with some exceptions of synthetic yarn. Generally speaking imports are not allowed if the relevant product can be supplied domestically. The textile trade system is as follows:

- Raw cotton, cotton seeds can be exported only by the Cotton Marketing Organization.
- Seed cotton, raw cotton, cotton yarn, cotton fabrics and ready-made garments (garments, socks etc) are prohibited to import.

(2) Import duties

An escalation tariff system is used for customs duties, whereby the rate rises together with the degree of processing. Tariffs on food, raw materials and machines are the lowest rate, 6.6%, because they are necessities for daily life and for industrial production. 7-15% is levied on intermediate-processed goods, 29% on spare parts, 35% on finished products and 75-280% on luxury products. (for details refer to Chap. 2.3.4(1)b))

(3) Foreign Exchange

Foreign currency in the public sector is held by the companies themselves for import payment use and traded only between public companies within the Organization. The private sector is now allowed to hold foreign currency in amounts up to 75% of the company's own export revenue. If private exporters have excessive foreign currency, they can sell it to eligible importers at a negotiated rate which is more profitable than the black market where there would also be difficulty owing to large amount to be purchased. The public companies have benefit from a preferential exchange rate to pay import duty, as follows:

- 11.20 S.P./US$ for foods, seeds, raw materials including wool and machines
- 23.00 S.P./US$ for the items more than 30% of import duty including silk cocoons
- 45.50 S.P./US$ for others including synthetic yarn and fabrics.

These rates have already been phased out for many raw materials, reducing the items applicable to the rate of 11.20 S.P./US$ in 1996. The government announced in July 1997 intention to unify the budget account rate at 45.50 S.P./US$ in 1998. This measure will surely raise the costs of public companies because import duty of machine will automatically increase by four times (See Chapter 2.4.3).

According to Law 24, if the people change money or take Syrian currency to other countries illegally, they shall be sent to prison. The government will amend this criminal punishment to payment of penalty.

(4) Foreign direct investment

Foreign direct investment is also regulated. Law No. 10 (1990) specifies the sector and conditions to obtain incentives. In textiles, foreign investment in cotton farming and cotton ginning are prohibited. Cotton spinning is allowed with the condition that the private company use its own yarn for weaving, knitting, dyeing and sell or export dyed fabrics or clothing. Several private spinning companies are operating now (See Chapter 3.10).

3.7.2 Regional Free Trade

Syria has to remove import restriction, to reduce import tariffs, to promote investment, and make other changes in keeping with its membership in two regional integration schemes, the Arab-countries Free Trade Area and the Euro-Mediterranean Free Trade Area. A Free Trade Area is different from a common market. The former aims to promote trade and investment by lifting import restrictions and reduction of import duty. The latter includes provision for free movement of workers as well as commodities. The Arab-countries Free Trade Area starts in 1998 and the member countries have to remove import restrictions and reduce import duty by 10% a year to diminish it until 2007. As to Euro-Mediterranean Free Trade Area, Morocco, Tunisia and Egypt have signed the protocol. Lebanon will start negotiations in 1998. Syria has to clarify following policy issues for her protocol (See Chapter 2.4.2).

First of all, there are many import restrictions. The government has to identify the negative list and decide the timing of removal. Import bans shall be replaced by import duties. The current customs duties are designed on escalation tariff system. The reduction of present customs duties by 10% a year can be accommodated, but import ban items are serious. Policy decision must be made regarding preparation of a schedule for import liberalization by commodity, and setting newly the level of the import duties. This may stimulate competitive production and trade based on price and quality for Syrian textile industry, whereby some public companies may face difficulties.

Second, foreign direct investment will be discussed in these frames. At present, Syria does not allow foreign investment in cotton farming and cotton ginning, and restricts it in cotton spinning as mentioned in 3.7.1. Additional policy issues are the sectoral schedule and conditions.

3.7.3 WTO Agreement on Textiles and Clothing

Textile trade had been regulated by international agreement through the Multi Fiber Arrangement (MFA) for two decades since 1974. USA and European countries had managed textile imports by bilateral agreements to restrain rapid increase in textile imports. When the World Trade Organization (WTO) formally started in January 1995, the Agreement on Textiles and Clothing

(ATC) became effective. Textile trade is subject to this agreement for the period of ten years. The textile trade framework will be integrated into the general framework of WTO after 2005 (See Chapter 2.4.2).

Fortunately, the Syrian textile industry has an advantage over other exporting countries, owing to being free of regulation by these international agreements. That is, Syrian textile exports were not subject to the MFA and ATC. However, textile trade regulations will be completely liberalized in 2005 in keeping with the WTO's general rules. The existing comparative advantages will disappear in 2005. Syrian textiles will have to compete in design, quality, price, and delivery in the US or European market, against other exporting countries such as neighbors or Asian developing countries, on an equal footing base.

Syria therefore has to modernize the facilities, management, marketing, and financing for the industry by 2005. Otherwise it may lose its export market. The domestic market will be made more competitive by trade liberalization. The coming eight years are crucial for the Syrian textile industry. The industry must strengthen its international competitiveness by institutional reforms, modernization of facilities, retraining workers, aggressive marketing activities and other measures.

Table 3.7-1 FOREIGN TRADE OF TEXTILE IN SYRIA

SP million

	Exports				Imports				Balance		
	Textile	Clothing	Manufacturing total	State total	Textile	Clothing	Manufacturing total	State total	Textile and clothing	Manufacturing total	State total
1993	2,213	983	7,695	35,318	2,450	5	42,700	46,468	741	- 35,005	- 12,150
1994	4,327	1,902	12,278	39,818	3,137	7	55,368	61,374	3,085	- 43,089	- 3,271
1995	4,572	1,029	12,937	44,561	2,918	7	48,569	52,818	2,676	- 35,362	- 8,295

Source: Ministry of Industry

3.8 Finance

Syrian banking system looks like an organization for check payments. Current account holder checks are used but not promissory notes. Check settlement is guaranteed by compulsory deposits in payers' current accounts before checks are issued or L/C are opened. The deposit required to open a L/C is 105% for private companies and 100% for public companies, which are very high compared with the going rates of 20-30% in other countries. This deposit system contributes to guarantees of settlements and also to discouragement of imports due to the financial burden. The Commercial Bank is the most powerful (Table 3.8-1). Syrian banks provide a credit facility but mainly supply working capital for manufacturers. Real Estate Bank provides investment finance but only for construction of buildings and houses (See Chapter 2.3.5, and Chapter 2.4.4).

Interest rates are kept at levels lower than what would be determined by the demand-supply relationship (Table 3.8-2). Public companies obtain lower rate than private ones. The people do not want to save their money in banks. As a result one-third of the liability of five state banks is borrowed from the Central Bank of Syria, due to lack of funding through deposits. There is no stock market or bond market. The state budget has provided investment finance for public companies. Private companies start up on the basis of family savings. The idea of an investment bank has survived in the government for many years, but has not been yet realized. Syria depend mostly on import finance for machine and equipment, on the basis of the credit of exporters. Kuwait Development Bank provides preferential loans of S.P. 500 million at 2.0% for 20 years to the Industrial Bank. This money is utilized for two-step loans, which can be a source of long-term credit.

The following are the main financial problems for industrial development.

- High cost of compulsory deposit system, caused by need to guarantee payment
- Structural shortage of resources for investment and export

The Central Bank of Syria started modernization of the banking system in April 1997, supported by the EU, but it will take many years to accomplish. Poor monetary discipline of public companies will become a problem, if the state budget requests them to get credit from the banking system, rejecting budget allocation requests by the public companies. Syria has to pay attention to proper management of credit risk from now on, otherwise Syria will have many defaults in the course of modernization of the banking system.

Table 3.8-1 CREDIT BALANCE IN THE SPECIALIZED BANKS

at the end of the year, SP mil.

	1980	1990	1994	1995
1. Commercial Bank	13,926	57,030	119,693	138,397
2. Agricultural Bank	446	8,595	14,481	15,520
Long-term	24	279	137	243
Medium-term	114	1,763	2,788	2,671
Short-term	102	2,234	3,173	4,271
Loans in kind	205	4,319	8,383	8,335
3. Industrial Bank	141	1,437	3,699	2,932
Long-term	-	17	25	36
Medium-term	25	720	2,299	1,911
Short-term	116	700	1,374	984
4. Real Estate Bank	1,631	5,131	15,430	18,573
5. Popular Credit Bank	216	4,671	10,166	10,661
Total	16,360	76,864	163,469	186,083
Reference: Sources of Funds				
Deposits	10,872	65,984	140,613	160,582
Equity	2,563	6,771	10,649	9,986
Commercial prepayment	2,807	12,754	12,787	12,820
Foreign liabilities	1,478	10,315	3,846	2,533
Borrowing from the Central Bank	1,493	18,770	91,012	106,461
Other borrowings	822	162	165	125
Total	20,037	114,757	259,074	292,510

Source : Central Bureau of Statistics, "Statistical Abstract 1996"

Table 3.8-2 INTEREST RATES OF THE SPECIALIZED BANKS

annual rate in %

	Public	Cooperatives	Private
1. Commercial Bank			
Discount	7.00	-	9.00
Export contracts	5.25	-	7.50
Export storage of agricultural products	5.50	-	7.50
Other mortgage	7.00	-	8.50
Overdraft	7.50	-	9.00
2. Agricultural Bank			
Tree plantation in the first five years	2.00	2.00	3.00
Other long-term loans	4.00	4.00	5.50
Short-term loans with more than 50 tho. LS	-	6.00	-
Short-term loans less than 50 tho. LS	-	-	7.50
3. Industrial Bank			
Discount (Commercial bill)	6.00	-	8.00
Medium & long-term loans	6.00	-	7.50
Short-term	5.50	-	8.00
Overdraft	7.00	-	9.00
4. Real Estate Bank			
Up to 1 year	5.50	6.00	7.00
Up to 10 year	6.00	6.50	7.50
Up to 15 year	6.50	7.00	8.00
5. Popular Credit Bank			
Discount	-	8.00	8.50
Short-term loans	-	8.00	9.00
Medium & long term loans	-	8.00	9.00

Note : These rates have not changed since 1 February 1981.
Source : Central Bureau of Statistics, "Statistical Abstract 1996"