



## Climate and Incentives of Investment in SYRIA

### CLIMATE AND INCENTIVES OF INVESTMENT IN SYRIA

Syria has realized the need for creating encouraging frames for investment, including strong incentives for leading initiatives and projects of strategic importance in the national economy. President Bashar Al-Assad has outlined investment as a national goal because both national and direct foreign investments constitute the prime drive for realizing sustainable development.

There are many factors that encourage investment in Syria, namely :

#### FIRST, CLIMATE OF INVESTMENT

1. *Strategic geographical location of SYRIA:*

- Junction of three continents: Asia, Africa, and Europe.
- In the Middle of the Mid-East region.
- An outlet on the Mediterranean Sea through the Lattakia and Tartous seaports, and other neighboring countries like Beirut seaport.

Syria stretches out on an area of 185,200 square kilometers divided into: arable land of 5,997 hectares some 5,502 hectares of which are actually cultivated and some 1m186 hectares of which are irrigated by various means and non-arable land estimated at 3,710 hectares, including building and public utility land, water surfaces, rock and sand areas, and the rest area estimated at 8,811 hectares covering meadows and grazing land of 8,265 hectares and bushes and forests of 546 hectares.

Syria's strategic geographical location makes it ideal for transit to large-scale regional market, including Arab countries, Turkey, Iran, Europe, and the south-western republics of the former Soviet Union.

Syria has recently signed a number of international agreements, like the free-trade agreements with Lebanon and other Arab countries, the grand Arab free-trade agreement, and the Syrian-European Mediterranean Partnership. Syria has submitted an application to join the World Trade Organization. Such agreements are bound to facilitate trade exchange between Syria and its regional partners, and to expand the markets of the Syrian consumer goods and to increase Syria's volume of exports.

Syria market characteristics can be summed up as follows :

- Consumers are over 18 million with a per capita income of Syrian pounds 54,941 per year, viz about US dollars 1,098. Syria, through its opening up to the Lebanese market (after the full liberalization of trade and custom exemption since 1.1.2002 and the Iraqi market, amounts to over 50 million consumers. If consumers of the grand Arab free-trade area, of which Syria is a member state, are added, then this market will constitute over 180 million consumers in 14 Arab countries, including high-income Arab oil countries.
- Syrian products, whether agricultural or industrial, enjoy good marketing chances in Arab and European Union countries due to non-imposition of any quotas on Syrian products exported to the EU countries, in addition to exempting these products either partially or wholly from customs duties.
- Syrian business sector enjoys a vast ability to acclimatize with circumstances and needs, thanks to its well established industries which started in the early 20<sup>th</sup> century, in addition to its ability and expertise to adapt and develop in trade and industry fields.
- The geographical location of Syria as a junction of the three continents is an important transit point between the Arab Gulf and Europe via the Mediterranean.

It witnesses a wide-scale international transit movement.

- The relatively low cost of production in Syria, due to the availability of raw-material, particularly the agricultural ones, and the skilled and ordinary manpower make any new venture viable and bound to succeed.

## 2. *Political stability and security :*

The political stability witnessed in Syria since 1970 and the policy of development and modernization adopted by President Bashar Al-Assad following his assumption of presidency in July 2000, which is characterized by building upon what had been realized before and working to develop it, all make the investment climate in Syria for better, especially after the issuance of the decisions and legislations that affirm the continuation of the march of economic reform centered on supporting the two public and private sectors to improve their performances and increase their contributions to building up the modern Syrian economy.

Following the issuance of the Investment Law no.10 of 1991 and its Amendments by the Legislative Decree no.7 of 2000, a series of legislations were enacted, thereby allowing the setting up of private banks, the secrecy of banking operations, and the Fund and Credit Law, in addition to the availability of the socio-economic stability and national harmony.

## 3. *Commitment to steady attitude towards the market-oriented economy*

- Economic policies based on real partnership between the private and the public sectors and supporting and encouraging the private sector.
- Commitments to administrative, legal, economic and frame modernization and development.

4. *Stability of the Syrian Pound exchange rate since 1990.*
5. *Syria's possession of a large reserve of foreign currencies*
6. *Decrease of the inflation rates*
7. *Large and skilled manpower resources:*
  - Skilled and trained labor force
  - High level of educated people
  - High level of higher education students
8. *Acceptable infrastructure*
  - Reasonable road network linking all Syrian villages and cities.
  - Modern seaports of Lattakia and Tartous on the Mediterranean and international maritime lines.
  - Direct flights by the Syrian Airlines to main cities in Arab, European, African and North American countries.
  - The state-run telecommunication company renders its services of telephone, fax and the Internet. Two Private sector-run mobile phone companies render their services to citizens.
  - Electricity network is extended to all over the Syrian cities and villages. Syria is linked by an electricity grid with Lebanon, Jordan, Turkey, Egypt and Iraq.
  - Industrial parks in major Syrian Governorates (Damascus Countryside, Aleppo, Homs).
9. *Medium indicator of human development :*
  - Public and private education in Arabic, English and French
  - Healthcare services in public and private hospitals of world level and at low costs
  - Cultural, sports and recreational centers, festivals, cultural manifestations and lots of treasures and relics in archaeological sites.
  - High-standard restaurants, hotels and recreation clubs.

Thus, the investor may enjoy a high-living standard at low costs.

10. *Penetration into Arab and international markets:*
  - Penetration into neighboring Arab countries, particularly Lebanon, Jordan, Iraq, Palestine, Saudi Arabia and the Gulf States according to the Arab joint Economic Action and the Grand Arab Free-Trade Area.
  - Penetration into the European Union markets according to the Euro-Syrian-Mediterranean Partnership.
  - Bilateral agreements and protocols of preference with many world countries.

Syria has applied to join the World Trade Organization in the WTO Meeting in Doha, Qatar in 2001.

11. *Strength of the Syrian economy*

The Syrian economy encounters the least difficulties and problems compared with other economies in the region. This is due to the production and export of oil and the large reserves of natural gas and good agricultural seasons.

The most important accomplishments realized in the last two years in the economic field could be summed up as follows :

- As for the Gross Domestic Product (GDP), this product has realized a growth of 3.5% thanks to the opening up process being witnessed by the country. This resulted in many investments in various economic sectors.
- The individual's share of the GDP has increased due to the increase of the GDP at a higher rate than the population growth.
- Deficit in the general budget remains at an acceptable level. The Government is endeavoring to control this deficit in an effective way after preparing plans that enable it make better use of the potentials of public sector companies that reflect the economic development in the country.
- A decrease in the trade balance is observed.

This is due to Syria's increasing imports of machines, equipment and production needs. So the surplus decrease is a good indicator auguring a big growth in the Syrian economy.

- Estimations indicate a surplus in the balance of payment as a result of foreign investments in Syria by Syrian expatriates who returned home to work in the new investment climate, and by Arab investors.

## SECONDLY, INCENTIVES OF INVESTMENT

To crown the investment climate in Syria and encourage Arab and Syrian investors, whether resident or non resident, and Arab and foreign business people to invest in Syria, many laws to encourage investment have been enacted, thereby offering incentives and advantages to investors. Investments may freely flow into Syria and their profits and assets may flow out freely as well.

Some of these laws are :

- Legislative Decree no.10 of 1986

This law came to support the agricultural development and develop the mechanism of work. Agricultural joint ventures were set up and entrusted with tasks to reclaim arable lands and to contribute to breeding live-stock. The decree gave many privileges to Syrian and Arab investors to invest in the agricultural domain. The decree allowed the setting up of agricultural joint ventures with government contribution to the venture capital of not less than 25%.

Usually, the government's contribution is represented in offering the arable lands value at power prices to encourage investors to enter the agricultural activities. Management of such ventures is in the hands of the investors themselves.

The Decree allows relevant ventures to make use of the following advantages:

- Importation of machines, equipment, trucks and all materials required for building and operating the plant free of all fees and taxes.
- Granting such ventures a tax holiday for seven years right from the first year that realizes profits.
- Removing all restrictions imposed on dealing with hard currencies and allowing investors to open bank accounts in hard currencies.
- Allowing these ventures to reclaim lands, deal with their crops internally and export the surplus, in addition to manufacturing agricultural machines and equipment and marketing them inside and outside the country.

– Resolution no.186 of 1985 :

Ventures in the field of tourism are subject to Law no. 10 of 1991 as regards tourist transport and car renting companies, whereas international hotels and recreational facilities (restaurants, celebration halls, tourist villages, amusement parks, etc.) are subject to Resolution no. 186 of 1985 and enjoy the following privileges:

- No fees or taxes are levied on their imports of requirements of construction, furniture, operation, including foodstuffs and beverages.
- Full exemption from all taxes on profits for seven years. Later ventures benefit from 50% exemption from taxes realized on profits according to the rules of general taxation law.
- Right to replace the furnishings with imported ones with exemption from customs duties when assets are worn out, according to legal percentages applied in Syria.
- Such ventures are exempted from abiding by tariffs imposed by the Ministry of Tourism on ventures not subjected to the rules of Resolution no.186.

– Investment Encouraging Law no.10 of 1991:

- Privileges, incentives and guarantees enjoyed by ventures governed by the rules of the Law no.10 of 1991:
  - ❖ Joint venture companies are exempted from real-estate and income tax for seven years.
  - ❖ Non-joint venture companies are exempted from real-estate and income tax for five years.

- ❖ The venture machines, machinery, equipment, trucks, buses and mini-buses set to serve the venture or materials necessary for its construction or expansion or development are exempted from all taxes, financial, municipal and customs fees, and others, provided that they are exclusively used for the venture, and that they cannot be relinquished except by an approval by the Council, and taxes and fees levied on them at current state are paid.
- ❖ All imports are exempted from the provisions and conditions of ban, restriction or abiding by the country of origin and the foreign regulations.
- ❖ The council may pass a resolution thereby granting two more years of tax holiday to ventures that can export more than 50% of their products of goods and services during the original five-year tax holiday.
- ❖ The Investor's right to re-transfer abroad his/her share of selling his/her quota and of the surplus of liquidation or profits realized.
- ❖ Investors in Syria are allowed, after the lapse of five years from the initiation of the venture, to re transfer the value of their net shares of the venture in hard currencies and according to the executive instructions issued by the Higher Investment Council in this regard.
- ❖ Incoming foreign fund is allowed to be transferred abroad in the same way it was brought in after the lapse of six months from the date of its in-coming. But in case the foreign fund could be invested due to certain difficulties or circumstances beyond the control of the investor, which could not be judged by the Higher Council of Investment, the Council is entitled in certain cases to approve the transfer of the foreign fund abroad without adhering by the aforementioned period.
- ❖ Annual profits and interests realized from the foreign funds invested according to the rules of this law are allowed to be transferred abroad.

– Amendment of the Law no.10 of 199 by the Legislative Decree no.7 of 2000:

In the light of the difficulties that encountered the application of the Law no.10 of 1991, and in order to give the investor further privileges and facilitation, the Legislative Decree no.7 of 2000 was issued. It includes the following additional privileges:

- ❖ Allowing the foreign investor to own the land and real-estates necessary for setting up or expanding his/her investment venture within the limits of the required area and the period of lease required to meet the actual needs of the venture away from the ceiling of ownership specified in the laws in force.

- ❖ Investment ventures licensed according to the rules of the Law no.10, and after the lapse of the period of the tax holiday, may make use of additional tax exemptions and other privileges quoted in the laws applied on similar projects non licensed according to the rules of this Law. (This additional benefit involves in particular maritime transport ventures and agricultural establishments, companies and ventures exempted from income tax as per special laws).
- ❖ Adding two more years of income tax exemption for industrial and agricultural ventures set up in developing governorates.
- ❖ Allowing ventures set up according to the Investment Law no. 10 of 1991 to open bank accounts in foreign currencies outside Syria. When necessary, they can transfer abroad parts of their hard currencies deposited at the Syrian banks.
- ❖ Allowing investors to insure their funds invested in ventures at any insurance company they choose.
- ❖ Income tax on profits realized by share-holding companies that cast their shares to the public subscription and whose headquarters is in Syria, has been specified at 25% including all other additions.

After the issuance of the Investment Law no.10 of 1991 and its amendments and after the establishment of the Investment Bureau affiliated to the Prime Minister's office, a number of important steps have been taken to enhance the investment climate and improve it in Syria.

Some of these steps which were taken in response to the requirements of merging in the world economy, were:

- Amending the Investment Law
- Law of Banking Secrecy
- Law of Funds & Loans
- Submission of an application to join the WTO
- Seeking to simplify measures of involving store-houses by the Investment Law and implementing these projects.
- Currently Syria is endeavoring to initiate an independent commission to encourage investment. The draft law of this commission is under study.
- Endeavors are being made to apply the one-stop shop to follow up licenses on behalf of the investor and to facilitate measures and to remove bureaucratic obstacles before the flow of foreign investments.
- A website on the Internet for the Investment Bureau has been set as: [www.investsyria.com](http://www.investsyria.com) thereby, offering information needed by business people and investors.

Should we take into account that the Private Banks Law had specified the rate of the tax on bank profits and profits of private universities of 25% including all other additions, we would find out the legislator is heading towards amending taxes levied on commercial and non-commercial profits to become at the same level.

Therefore, taxes on profits in Syria become quite moderate instead of reaching, with the additions, currently about 60% on profits exceeding on million Syrian Pounds.

It is worthy to note that amending the Tax Law is on the agenda of the Cabinet's works and is being discussed by business and academic circles.

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