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DIRECTORY OF FOREIGN DIRECT INVESTMENT IN SELECTED ESCWA MEMBER COUNTRIES INITIAL PHASE OF PREPARATION

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Preface

This database was prepared by the ESCWA Economic Development Issues and Policies Division in implementation of the activity on "Directory of foreign direct investment (FDI) in selected ESCWA member countries: initial phase of preparation" under the commission's programme of work for the biennium 1998-1999.

The ESCWA secretariat would like to express its appreciation to Nabil Sukkar, Jamal Al Masri and Nuha El Mehdi for their assistance in preparing the country case studies.

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ABBREVIATIONS AND EXPLANATORY NOTES

ACM	Arab Common Market
BOOT	Build own, operate, transfer
BOT	Build, operate, transfer
CAP	Common Agricultural Policy
CIS	Commonwealth of Independent States
COMESA	Common Market for Eastern and Southern Africa
ECE	Economic Commission for Europe
EEC	European Economic Commission
E and D	Exploration and Development
EFF	Extended Fund Facilities
ERF	Economic Research Forum
ERSAP	Economic Reform, Stabilization and Adjustment Programme
ESCWA	Economic and Social Commission for Western Asia
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	gross domestic product
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariff and Trade
IMF	International Monetary fund
JD	Jordanian Dinar
LE	Egyptian pound
MENA	Middle East and North Africa
MFA	Multi-Fiber Agreement
MFN	Most Favored Nation
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OPIC	Overseas Private Investment Cooperation
PSC	Product Sharing Contract
QIZ	qualifying industrial zone
SADC	Southern African Development Community
SCOT	Syrian Company for Oil Transport
SDR	Special drawing rights (SDR 1 = US$ 1.35784)
SL	Syrian Pound
SPC	Syrian Product Sharing Contract
TNC	Transnational Cooperation
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

Reference to dollars (US$) are to the United States dollars, unless otherwise stated.

Two dots (..) indicate data are not available.

INTRODUCTION

This database on foreign direct investment (FDI) in the ESCWA region is the first step in ESCWA's attempt to establish a comprehensive database covering vital statistical data and analysis on FDI for each of the member countries. The aim is to secure adequate and regular reporting on the state-of-affair regarding FDI in the region in the *World Investment Report*, to facilitate access to FDI information, and to enhance inflow of FDI to the region. However, given the limited resources available, only a selected number of countries (Egypt, Jordan and Syrian Arab Republic) will be covered in this phase of the database. Even among these three countries a wide disparity exists in the availability and quality of data.

In conducting this database, a strategy was followed (a) to identify problems related to the quality, scarcity, or unavailability of data and (b) to highlight data anomalies in the countries under the study in order to address them in the next phase of the database. The countries for which relatively adequate data were available, more analysis has been presented in this study.

The general structure of the database in this volume is based on the elements of unified terms of reference used by a network of country teams to compile the necessary data. However, data limitation in some cases made their full application impossible; this is evident when comparing the three country cases covered in this study.

The topics covered in this volume include, mainly, trends in FDI flows over the past decade; distribution of FDI across economic activities; distribution of FDI by country of origin; the economic impact of FDI; trade patterns; regional cooperation agreements; the legal framework for FDI; and bilateral treaties.

This initial phase of the database helps to identify the existing FDI data, the type of data needed, and the methodology required to obtain data. This is particularly important in view of the increasing significance of FDI for the growth prospects of the region.

I. FOREIGN DIRECT INVESTMENT IN EGYPT

In 1991, Egypt embarked on a reform programme, "Economic Reform, Stabilization and Adjustment Programme (ERSAP)", sponsored by the International Monetary Fund (IMF) and the World Bank, which has achieved impressive progress. This programme has succeeded in stabilizing and restoring internal and external balances, but has not yet gone far enough in increasing the rate of economic growth. Egypt would need higher rates of economic growth if it is to reduce its high unemployment rate (official rate of around 9 per cent) and its widespread underemployment.

To date, most economic development programmes have been financed by Egypt's relatively large sources of foreign exchange income from petroleum exports, Suez Canal fees, tourism, worker remittances, foreign aid grants, and short-term capital inflows. However, these sources of foreign exchange have declined or stagnated in recent years, and they cannot always be relied upon to finance the growing level of imports needed to support the country's required level of economic growth.

Having achieved macroeconomic stabilization, the Government's attention has again turned towards attracting foreign direct investment (FDI), recognizing the role it can play in generating real economic growth, increasing non-traditional exports, reducing unemployment and providing additional economic benefits such as the transfer of advanced technology.

A. FOREIGN DIRECT INVESTMENT FLOWS INTO EGYPT

1. *FDI trends and prospects*

(a) *FDI trends*

In the 1990s, FDI flows into Egypt have been fairly stable at a level close to US$ 1 billion per year (see table 1). During 1998 and the first half of 1999, FDI flows dipped as a result of external shocks and declining investment flows to emerging economies following the Asian crisis. However, this decline is seen as temporary, and FDI is expected to regain recent trend levels. Although the level of FDI inflows in the1990s is an improvement on the level of the late 1980s, it still represents less than 1.5 per cent of gross domestic product (GDP) and 10 per cent of gross domestic investment. It is also much lower than FDI flows in other emerging economies in Asia and Latin America.

TABLE 1. FDI FLOWS
(*Millions of dollars*)

	1990-1991	1991-1992	1992-1993	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999
FDI Flows	1 125	1 125	1 140	1 321	783	627	770	1 108	522

Source: International Monetary Fund, *Financial Statistics* (United Nations publication, 1999)

The distribution of FDI stocks is highly concentrated in the petroleum sector which is aggregated under industry (see table 2). The largest inflows of capital are from the Arab Gulf countries followed by European countries (see table 3). As a rough indicator, employment data show that Egypt has succeeded in increasing employment owing to FDI by more than 12-fold (see table 4). No regular data on exports by foreign companies established in Egypt are available, but the *Investment Policy Review of Egypt* carried out by the United Nations Conference on Trade and Development (UNCTAD) in 1999 shows a weak link between FDI and exports in Egypt; most FDI has not been in the industries that are significant exporters such as textiles and food.[1]

[1] United Nations Conference on Trade and Development. *Investment Policy Review* (New York and Geneva. United Nations publication, sales No. E. II.D.20, 1999).

TABLE 2. STOCK OF FDI ACROSS ECONOMIC ACTIVITIES[a/], AS OF 30 JUNE 1999
(*Millions of Egyptian pounds*)

	Arab countries	United States	European Economic Community	Others	Total
Activity					
Industry	2 808	875	2 064	1 530	7 277
Agriculture	417	24	126	41	608
Construction	332	57	1 476	121	1 986
Tourism	3 102	47	482	667	4 298
Finance	2 559	238	1 046	744	4 587
Service	338	45	150	248	781
Total	9 556	1 286	5 344	3 351	19 537
Free Zones	3 324	1 583	1 134	608	6 649
Grand Total	12 880	2 869	6 478	3 959	26 186

Source: Egypt, General Authority for Investment (Cairo).

a/ The data for FDI stocks is cumulative since 1975 and is based on the cost of investment provided by investors when they register in Egypt.

TABLE 3. STOCK OF FDI BY COUNTRY[a/], 30 JUNE 1999
(*Millions of Egyptian pounds*)

Arab investors	
Saudi Arabia	4 065
Kuwait	3 457
United Arab Emirates	1 243
Palestine	789
Libyan Arab Jamahiriya	719
Qatar	645
Jordan	435
Bahrain	417
Lebanon	405
Syrian Arab Republic	266
Sudan	111
Iraq	85
Yemen	65
Oman	55
Morocco	31
Algeria	17
Tunisia	3
Other Arab investors	72
Total	12 880

Non-Arab investors	
United States	2 869
United Kingdom	2 370
Netherlands	1 236
Panama	1 136
Switzerland	1 001
France	703
Germany	581

TABLE 3 (*continued*)

Non-Arab investors	
Ireland	395
Italy	360
Luxembourg	267
Belgium	219
Japan	199
Republic of Korea	149
Indonesia	137
Sweden	105
Iran	105
Denmark	103
Romania	102
India	83
Canada	59
Cyprus	57
China	50
Greece	47
Norway	45
Spain	44
Austria	36
Malaysia	30
Australia	24
Poland	18
Hong Kong, China	17
Russian Federation	11
Finland	11
Turkey	8
Taiwan, Province of China	5
Singapore	3
Portugal	1
Other foreign investors	720
Total	13 306

Source: Egypt, General Authority for Investment (Cairo).

a/ The data for FDI stocks is cumulative since 1975 and are based on the cost of investment provided by investors when they register in Egypt.

TABLE 4. EMPLOYMENT BY SECTOR IN FDI PROJECTS
(*Thousands of employees*)

Sector	1988	1997
Agriculture	3 668	22 328
Building Materials	1 989	27 429
Chemicals	1 712	46
Construction	7 585	881
Consultancy	750	370
Engineering	1 650	42 532
Food	1 337	47 325
Health	3 702	5 534
Metals	35	18 494
Mining	..	143
Petroleum	..	1 598
Pharmaceuticals	2 672	8 064
Services	5 911	11 939

TABLE 4 (*continued*)

Sector	1988	1997
Textiles	8 849	29 847
Tourism	9 016	93 850
Transport	..	939
Wood	..	8 880
Others	1 459	3 498
Total Non Financial	50 335	32 3697

Source: Egypt. General Authority for Investment (Cairo).

The figures for FDI are collected by General Authority for Investment (GAFI) on the total investment costs of projects when investors register their companies in Egypt. Actual FDI may be higher if investment costs for the projects are higher than what investors believe they will initially be, or lower if some of these investments are not fully realized. Furthermore, it is difficult to estimate flows under this system because there is no indication of exactly when each part of these projects will be realized. If data were collected annually from all foreign investors and relevant questions were incorporated in the annual surveys about exports by these projects, linkages with other sectors in the economy, technology transfers and employment generation, more complete and accurate data could be obtained to differentiate between foreign and domestic industry in the statistics.

For example, table 4 shows the total employment by sector for all FDI projects in Egypt; these figures do not reflect an annual survey of the employment in these projects, but only a total of what investors originally projected as their employment levels when they first chose to invest in Egypt. Therefore, these figures do not account for companies that may have exited or scaled back their original projections, or companies that may have expanded. The data should, therefore, be looked at as a broad and not an exact indicator.

(b) *FDI prospects*

A survey of international business executives within the Global Competitiveness Report of the World Economic Forum lists the five most important factors (in rank order) in determining FDI as the following:

(i) Size of national market of the target country;
(ii) Expected growth in market size of the target country;
(iii) Ability to repatriate capital and remit profits;
(iv) Productivity and work habits of workers;
(v) Quality of infrastructure.

Given these determining factors and the success of the stabilization and reform programme so far, Egypt's market potential looks substantial. With a population of 61 million and a net population growth of 2 per cent per year, the potential consumer market is expanding by about 1.3 million people per year. Furthermore, the economy has expanded at a moderate pace over the last few years and per capita incomes have increased since the early 1990s. The real market for most products is, however, substantially smaller given Egypt's real per capita income of only US$ 1,123. The size of the Egyptian market remains one of the main attractions for FDI. This is part of the reason that most FDI is directed towards the domestic market rather than being export oriented.

Egypt's infrastructure is moderately well developed, as the Government has heavily invested in recent years, but its operation is still somewhat inefficient, high-cost and dominated by the State monopolies. A large amount of future investment is still required for modernizing, upgrading, and expanding telecommunications, electricity, ports, airports and roads. The Government seems intent in inviting the private sector's participation in a number of different ways but has not actively promoted a large degree of private investment in infrastructure development through wholesale privatization of public utilities. However, it has encouraged the private sector's participation through built-own-and-transfer (BOT) and built-own-operate-and-transfer (BOOT) schemes. These schemes are being used especially for investment in new areas and new industrial sectors.

The 1997 Global Competitiveness report assesses the competitiveness of 53 countries with Egypt ranking 28th, a rise of one place from the previous year, placing Egypt among some of the more prominent emerging markets. Looking at the different components of the index, Egypt ranks highly in terms of the investment protection schemes available to investors, its geographical location, its exchange rate stability, and its low-labor costs. Another survey carried out by the Economic Research Forum (ERF) and UNCTAD in 1998,[2] which covers 100 TNCs from seven countries, shows similar results and adds some other factors that attract FDI, such as size of the domestic market, potential return on investment, access to a pool of skilled labor, and good infrastructure. Progress achieved in Egypt recently includes national treatment of foreign investors, guarantees for repatriation of profits, and guarantees against expropriation. Moreover, Law No. 8 for1997 has made tax incentives automatic and much clearer than they were earlier. Trade barriers have been lowered in line with Egypt's commitment via its multilateral and regional agreements to pursue a more open and export oriented system.

On the negative side, the Global Competitiveness report and the ERF/UNCTAD survey show that FDI tends to be constrained by weaknesses concerning the size and efficiency of Government, a perception of instability, the country's openness to trade, a lack of management skills, an inflexible labor market, tax administration, and poor quality institutions supporting commercial activity. According to the business environment survey carried out by the Economic Commission for Europe (ECE), which included both domestic and foreign companies operating in Egypt, the Government has created an overall favorable macroeconomic environment, and has increased expenditure on education and infrastructure.[3] The study finds no substantial differences between foreign and domestic companies. The ECE study finds some of the same constraints on business as the other two studies. However, the ECE study finds that tax administration and dispute settlement mechanisms are the major barriers to investment growth.

2. *Trade patterns*

In Egypt, exports remain concentrated in traditional commodities such as petroleum and textiles. However, while exports of traditional commodities continue to form a large share of export receipts, non-traditional exports such as engineering products and other manufactured goods have been growing at a much faster rate. Between 1990 and 1998, non-traditional exports have grown by 257 per cent. Egypt needs to diversify its export markets. The United States is Egypt's major export market, followed by the European Union (EU). Together these two markets absorb more than 70 per cent of Egyptian exports.

Over the past 15 years, Egypt has actually become less open and less integrated in the global economy. The ratio of total trade (imports plus exports) to GDP dropped by about 10 percentage points from the average of the period 1980-1985 to the average for the period 1992-1996. Other important measures of openness also reveal this unfavorable trend. Import penetration ratios (the ratio of total imports to GDP) declined over the period as did the ratio of imports of consumption goods to total consumption.[4] Imports of investment goods declined between 1986 and 1991 but gained momentum in the following period (figure I).[5]

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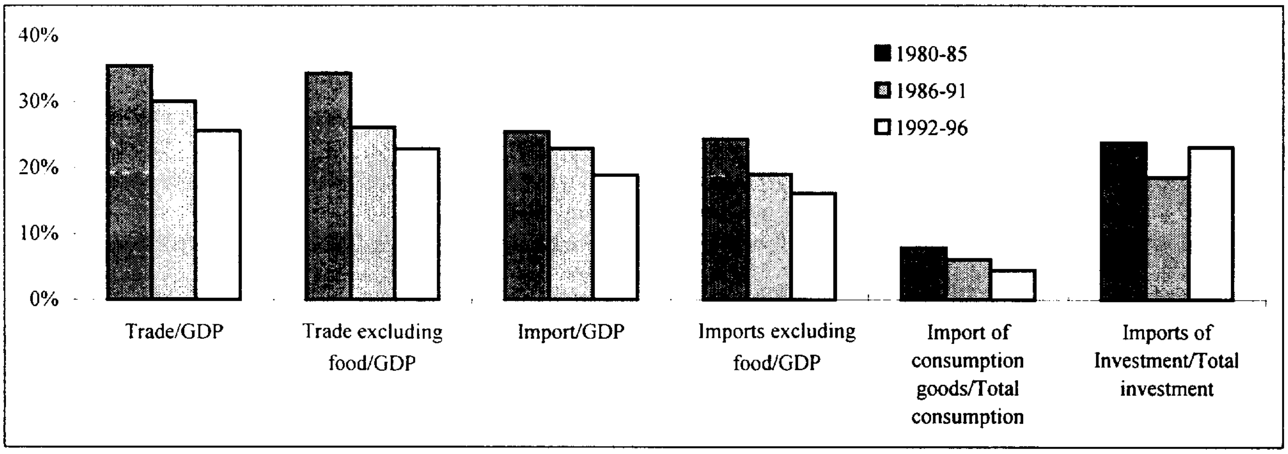
[2] United Nations Conference on Trade and Development, *Investment Policy Review* (New York and Geneva, United Nations publication, sales No. E. II.D.20, 1999).

[3] Samiha Fawzy, "The business environment in Egypt" (working paper), Series No. 34 (Egyptian Center for Economic Studies, November 1998).

[4] This version of the import penetration ratio is a useful indicator since it is the imports of consumption goods that are usually mostly restricted.

[5] Amal Refaat, "New trends in Egypt's trade policy and future challenges" (working paper), Series No. 36. (Egyptian Center for Economic Studies, March 1999).

Figure I. Outcome-based measures of trade liberalization



The decline in the trade to GDP ratio is in part due to the important role oil exports have played in Egypt's trade. The volatility in the price of oil has implied that in the years when prices are high, such as the 1970s and early 1980s, the ratio is higher, while in the years when the prices are low, such as the 1990s, the value of exports declines implying a lower ratio. Even if oil is excluded, the ratio of trade to GDP still shows a decline, but it is much smaller. The ratio of trade to GDP (excluding oil exports) declined from 29.3 per cent for the period 1980-1985 to 22.5 per cent for the period of 1992-1996.[6]

As for the import, food and machinery continue to make up a large share of imports (see table 5). The size of the Egyptian import bill has been of concern over the past two years. The deficit in merchandise trade reached US$ 11.7 billion in 1998. This has been traditionally met with proceeds from tourism, Suez Canal revenues, worker remittances and other capital flows. After the decline in tourism revenues in 1998 and the stagnation in Suez Canal revenues due to reduced volumes in world trade, the balance of payment pressure forced Egypt to look more urgently at increasing non-traditional exports to close the gap.

The balance-of-payments problems have also put pressure on Egypt's exchange rate in 1999. The Egyptian pound (LE) has been operating under a more or less fixed peg with the United States dollar since 1991. Although the pressure has eased with return of tourism and higher oil prices, there is still pressure to change the exchange rate mechanism to a broader or more flexible band, to be better equipped to handle any future crisis.

TABLE 5. EXPORTS AND IMPORTS
(Millions of dollars)

Exports by commodity 1997-1998		Imports by commodity 1997-1998	
Agriculture	243	Agriculture	2 506
Chemicals	173	Metal	1 414
Engineering	286	Wood/textiles	1 566
Foodstuff	147	Machinery	4 530
Materials	46		
Metal	159		
Mining	32	Others	904
Petroleum and its products	1 728	Unclassified	805
Spinning and weaving	759	Oil Products	2 188
Others	1 146	Chemicals	1 840

Source: Egypt, Ministry of Economy, *Investing in Egypt* (Cairo, 1999).

[6] Amal Refaat, "New trends in Egypt's trade policy and future challenges" (working paper), Series No. 36, (Egyptian Center for Economic Studies, March 1999).

TABLE 6. PROPORTION OF IMPORTS AND EXPORTS BY REGION, 1998-1999
(Percentage of total)

	Africa and Asia	Arab World	European Union	United States	Other European countries	Russian Federation and Commonwealth of Independent States	Other
Imports	17.3	4	42.7	18.9	10.8	1.8	4.5
Exports	9.2	10.9	32.2	40.4	5.8	0.3	1.2

Source: Egypt, Ministry of Economy, *Investing in Egypt* (Cairo, 1999).

3. *Regional agreements*

Egypt is a member of the World Trade Organization (WTO) and has signed the General Agreement on Trade in Services (GATS). Under the WTO, Egypt has bound all tariffs for agriculture and 97 per cent of industrial tariffs. However, 90 per cent of the bound tariffs lines are higher than actually applied tariffs, and therefore, the effect of WTO membership on trade liberalization will be limited. Egypt is committed to abolishing all quantitative restrictions on imports by 2005. Since the Uruguay Round did not undertake any major liberalization in agricultural markets and has taken only limited liberalization in the textiles sector, Egyptian exports are not expected to increase greatly as a result of WTO membership. The largest benefits to Egyptian exports are expected to come after the elimination of the textile quotas through the phasing out of the Multi-Fibre Arrangement (MFA) by 2005.

To diversify and open up markets for its exports, Egypt has also sought to join regional trade agreements and is seeking to sign bilateral agreements with countries such as Turkey. However, empirical evidence shows that membership in an Egypt-United States Free Trade Agreement (FTA) is neither a necessity nor a sufficient condition for more liberal trade.[7] It is a country's general acceptance of a liberal trade policy that can make the difference. The two major regional trade agreements Egypt has are the Common Market for Eastern and Southern Africa (COMESA) and the Arab Common Market (ACM), see boxes 1 and 2.

Box 1. Common Market for Eastern and Southern Africa (COMESA)

Population: 385 million

Date of establishment: December 1994[a/]

Members

Twenty one countries are COMESA members: Angola, Burundi, Comoros, the Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Tanzania[b/], Uganda, Zambia and Zimbabwe.

Type of arrangement and main customs preferences

Members were expected to cut tariffs on regional trade by 90 per cent[c/] by October 1999 and to create a free trade area by October 2000. The establishment of a customs union was expected with the introduction of a common external scheme four years later, theoretically by 2004. Nevertheless, due to the involvement of a large number of its members in Southern African Development Community (SADC) and in domestic conflicts or wars with each other, little progress has been made towards these objectives.

a/ This market has replaced the Preferential Trading Area (PTA) which existed from the earlier days of 1981.

b/ Tanzania announced its intention to withdraw from COMESA on 21 July 1999.

c/ Egypt and Madagascar have already met this commitment while eight other countries have already reduced the duties by 80 per cent.

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7 Chile, Korea, Mexico, Turkey, Argentina, Brazil, Peru, Uruguay, and Venezuela are examples of countries that have undertaken important liberalization steps before effectively joining any trade agreement; whereas, the trade regime of the countries engaged in the Central American Common Market (CACM) and the Andean Pact remained highly protective for years after their establishment.

The effects of the agreement on Egyptian trade are minimal because not only has Egypt recently joined COMESA, but also Egyptians are not yet familiar with the African market owing to the low level of trade that has historically existed between Africa and Egypt. The Egyptian Government is seeking to strengthen transportation and communication lines between Egypt and the COMESA countries to make trade and investment feasible.

Box 2. Arab Common Market (ACM)

Population: 300 million

Date of establishment: 1981

Members

ACM members are the twenty two Arab League countries: Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libyan Arab Jamahiriya, Mauritania, Morocco, Oman, Palestinian Authority, Qatar, Saudi Arabia, Somalia, Sudan, Syrian Arab Republic, Tunisia, the United Arab Emirates and Yemen.

Type of arrangement and main customs preferences

Exemption of duties for a list of products of Arab origin, progressive reduction of duties for other Arab products and establishment of a minimum external tariff are the objectives of this market. As from 1 January 1998, a free trade agreement has been concluded between the members of the Arab League; a reduction of duties by 10 per cent per year is scheduled until 2008.

4. *Bilateral Euro-Mediterranean Association Agreements*[8]

Currently, Egypt is operating under the 1997 bilateral Euro-Mediterranean Association agreements with the EU. This agreement grants Egyptian industrial goods, including the industrial component of processed food, duty free entry into the EU market with the major exception of textiles which are still subject to quotas under the MFA, (recently, Egyptian textile exports to the EU have also been subjected to antidumping duties). The agreement also grants Egyptian agricultural exports some preferential access through a system of quotas with lower tariffs. However, the 1977 agreement is not a reciprocal agreement; Egypt does not grant EU industrial products the same duty free access.

The 1997 agreement has expired and is now being implemented as an extension, while Egypt and the EU negotiate a new Mediterranean Association Agreement as part of the new EU Mediterranean strategy outlined in the 1995 Barcelona Declaration. The new Mediterranean strategy aims to create a free-trade area by 2010 between the EU and the southern Mediterranean countries by signing bilateral treaties between the EU and each one of these countries. The agreements is based on reciprocal duty-free access of industrial goods with a long (10-12 years) adjustment period of gradual relaxation of tariffs on European goods to give the industries in the southern Mediterranean the time to modernize and adjust to the new competitive environment.

The Egypt-EU negotiations which have been underway for more than three years are still held up mostly by the differing positions on agricultural and processed agricultural products, especially oranges, rice and potatoes. Egypt insists on acquiring the best market access for these three products, which it has a

[8] Member countries are Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syrian Arab Republic and Tunisia. Libyan Arab Jamahiriya has been invited as an observer member. The agreement has already been signed by five Mediterranean countries: Israel [1995], Jordan [1997], Morocco [1996], Palestinian Authority [1997] and Tunisia [1995]. It is under negotiation with four other Mediterranean countries: Algeria, Egypt, Lebanon and Syrian Arab Republic.

comparative advantage producing and which represent 61 per cent of Egypt's aggregate vegetable product exports and more than 5 per cent of Egypt's total exports.[9]

The problem of agricultural products with the EU is part of the larger problem the EU has with opening up its agricultural markets because of the constraints its Common Agricultural Policy (CAP) places on its budget and domestic politics. It is, therefore, not expected that Egypt will achieve major concessions for its agricultural exports given that the EU did not make major changes to its CAP. Future concessions may be possible as the EU reforms the CAP to allow for new entrants from eastern Europe.

Nevertheless, the EU agreement is considered a major step towards liberalizing trade in Egypt because the EU remains Egypt's major trading partner. The agreement is expected to draw more FDI to Egypt from Europe and other countries that do not have preferential trade agreements with the EU.

Bilateral Euro-Mediterranean Association Agreements are similar to EU Association Agreements without the prospect to become new EU members. Imports of industrial goods into EU will be exempted from duties. Agricultural goods are excluded, but services will be more or less covered by the agreement, and the movement of capital will be unrestricted. A Euro-Mediterranean free-trade area between EU members and the 12 Mediterranean countries[10] is planned to be launched by 2010 (Euro-Mediterranean Conference of Barcelona, November 1995).

B. THE INVESTMENT CLIMATE

1. *The legislative environment*

Foreign companies in Egypt may be set up as branch offices, representative offices, or as a local corporate entity. Local corporate entities can be established as joint stock companies or limited liability companies.

(a) *Branch offices*

A foreign company may set up a branch office to carry out contract work for the Egyptian public or private sector. The branch office must be registered in the commercial registry and must obtain the authorization from the Ministry of Trade, the ministry concerned with the activity of the company, and the General Authority for Investment. A branch office must comply with Egyptian laws including labor, tax, exchange rate and residency requirements for foreign nationals.

(b) *Representative offices*

Foreign companies are permitted to set up representative offices to carry out pre commercial activities such as market studies. Representative offices must be registered in the Companies Department and are not permitted to carry out any taxable commercial activities.

(c) *Local corporate companies*

Foreign investors in Egypt can incorporate under Investment Law No. 8 for 1997, or the companies Law No. 3 for1998 (which amended Law No. 159 for 1981). Most foreign companies prefer to register under Law No. 8 for1997 because it offers more benefits and incentives.

(i) *Investment Law No. 8 for 1997*: In order to register under this law a company must be operating in a field specified in the law. The list of activities is very broad and includes most activities from

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[9] Amal Refaat, "New trends in Egypt's trade policy and future challenges" (working paper), Series No. 36, (Egyptian Center for Economic Studies, March 1999).

[10] The 12 Mediterranean countries are Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestinian Authority, Syrian Arab Republic, Tunisia and Turkey.

agriculture to infrastructure and services; more fields can be added with the approval of the prime minister. The Investment Authority is the only government agency that reviews the applications of companies under this law; this has shortened and simplified the registration process (which can be done in one day). This investment law offers guarantees against expropriations or suspension of license, poses no limitations on profit and capital expatriation. The law offers a five-year tax holiday, starting from the first fiscal year after production. The tax holiday is extended to ten years for investment in projects in new industrial zones and urban communities and in projects financed by the social fund. The tax holiday is further extended to 20 years if the projects are located outside of the Old Valley.

Companies may also choose to be located in one of the public or private free zones under Law No. 8 for 1997. Free zone entities are exempted from paying Egyptian taxes indefinitely; they are subject to 1 per cent tax on goods entering or leaving the zone. In case the company is not producing a good, then 1 per cent tax on value added is applied.

(ii) *Companies Law for 1998*: This law has replaced Law No. 159 for 1981 governing the establishment of both joint stock and limited liability companies. The establishment procedures for both types of companies have been simplified; companies do not need approval but must notify the Companies Authority; and if they do not receive a written objection within 15 days, then the company is considered established. Limited liability companies need a minimum share capital of LE 50,000, while joint stock companies are required to have a minimum share capital of LE 250,000 if their shares are not offered to the public and LE 500,000 if their shares are offered to the public.

Unlike companies established under the Investment Law No. 8 for 1997, there are no restrictions on the types of activities that can be carried out by companies established under companies Law No. 3 for 1998. However, these companies do not enjoy the same incentives and privileges, such as any special tax holidays or exemptions from Egyptian labor, social security, and tax laws. Joint stock companies have to distribute at least 10 per cent of net profit to employees (up to a maximum of the annual payroll), and to allow employees participate in management.

In limited liability companies, employee participation is not required; however, at least one of the managers must be Egyptian. These companies must distribute 10 per cent of their net profits to employees only if their capital exceeds LE 250,000. The limited liability companies may not operate in insurance, banking or management and investment of funds for third parties. Given the incentives that companies enjoy under the Investment Law No. 8 for 1997, most foreign companies and joint venture companies chose to set up under the Investment Law.

2. *The operating environment*

Egypt has made great strides in improving its investment environment and has succeeded in attracting a sizable level of FDI flows. However, much more work needs to be done to improve the investment climate and attract more export oriented FDI. This section will focus on the three areas in the operating environment considered crucial barriers to investment in Egypt. These areas include tax administration, dispute settlement and customs procedures.

(a) *Tax administration*

Egyptian corporate tax rates are in line with the tax rates in other countries in the Middle East and North Africa (MENA) region. However, the major complaint by the private sector whether domestic or foreign centers on how the system is implemented rather than on the level of taxation. The tax administration in Egypt operates under a ruling that requires them to audit all businesses every year. This creates a heavy burden on companies in terms of time and money, and also implies that resolving annual tax payments can take years. Moreover, the process is heavily dependent on the assessment of tax auditors and can be quite discretionary.

The lack of a unified investment law, tax and incentive structure can make the tax laws quite complex for corporations that have units that are operating under different tax incentive schemes, for example, having one factory operating in a free zone and another in Cairo. Therefore, the private sector has a difficult time predicting its tax liability in a given year, depending on individual assessment by tax auditors. Furthermore, tax disputes can take up to ten years to resolve through the court system, resulting in high legal cost and an inability to estimate tax payments due.

In Egypt, Tax administration system needs to be reformed to lower the burden on companies operating in the country. One of the major reforms is to move away from the present system of comprehensive annual audits to a new system of random auditing with swifter and stiffer penalties for evaders. With the major expansion of the private sector, the tax administration system in its present form is unable to cope with the volume of audits in a timely manner.

Furthermore, a shorter and simpler process for appealing tax assessments needs to be put into place to resolve tax disputes. The present system takes years of endless appeals to resolve disputes. The assessments are somewhat arbitrary resulting in a very large volume of cases going to court. This is very expensive for private businesses, as well as for the Government because of the delays incurred in collecting tax dues. Ultimately a more coherent and unified tax law with less loop holes needs to be drafted to simplify the process and reduce both cost and uncertainty for all parties.

(b) *Enforcement of commercial law through the judicial branch*

The judicial system in Egypt is seen by the private sector as very expensive and slow moving. Civil commercial cases, whether private-private or private-public, can take years to resolve. This has led to a situation where the private sector avoids using the legal system as much as possible, in effect reducing the enforceability of commercial contracts. Moreover, the inefficacy of the legal system in dealing with the increasing volume of commercial law suits resulting from increased private sector participation, increases the economic risk and imposes a high cost on doing business in Egypt.

The judicial system needs to introduce some reforms aimed at reducing the time it takes to resolve civil law suits. At present, cases can take years to be settled and are automatically appealed. This has led to a situation where the private sector avoids using the legal system in settling disputes, and has therefore, rendered contracts unenforceable. Lack of speed in settling contractual disputes increases uncertainty and legal costs for companies wanting to do business in Egypt. The judicial civil system needs to be reinforced and upgraded to handle the volume of civil cases in a timely manner.

(c) *Customs procedures*

Overall, Egypt has made progress in the reduction of its customs tariffs in compliance with international agreements; however, its tariffs and, especially, the non-tariff barriers still operate as a significant impedance to possible FDI. Specifically, problems and delays arise in some areas, such as importing and port services, because several ministries and government entities have overlapping regulatory jurisdiction. Improvement in this area is critical to attracting export oriented FDI, which is highly dependent on large volumes of imports as well as exports, in addition to being very cost sensitive. The bureaucracy and inefficiency in this sector reduces the attractiveness of Egypt as an export base.

Most Transnational corporations (TNCs) are engaged in a large volume of intra-company trade, but many of the TNCs present in Egypt find the processes involved in importing and exporting to be time-consuming and lacking transparency. This is compounded by the fact that customs officials need not explain or justify their decisions with little opportunity for formal review of their decisions. Moreover, the customs authorities calculate the duty to be applied based on the price of the imported product that appears on the accompanying invoice when the product was first imported, regardless of fluctuations in world prices. This practice started as a way to combat under-invoicing because of the high tariff regime. However, it has complicated the process of estimating customs duties for importers, making the estimates seem arbitrary with little recourse in attempting to overturn valuations.

Another time consuming issue within the whole customs process is the quality control procedures applied to imports. Inspection prior to admittance is required for 126 items, which consists of a number of food products, construction materials, electrical and electronic goods, spare parts and a significant number of consumer goods. Importers complain of lengthy inspection delays and testing procedures that are often done with faulty equipment. Also, judgments by customs official over import quality are often arbitrary, unevenly applied and disregard historical good practice. Unloading of vessels is routinely delayed for many hours by lengthy inspections and by testing for radiation of all vessels, even when those vessels have come from countries with no known exposure to radiation. The lack of quality testing facilities in Alexandria delays the process even further, which is especially critical for food products that have a limited shelf life. As an example of the delays experienced in importing products, the average time taken by customs concerning goods to be imported through Alexandria is 21 days which does not compare favorably with an average time of 12 hours between docking, unloading and the release of goods in Dubai. These problems are further compounded by the lack of a set of clearly defined published standards.

Customs and inspection procedures need to be simplified and shortened. The costs of going through Egyptian ports is one of the highest in the world. This adds considerably to the cost of products produced in Egypt. If Egypt wants to attract export oriented TNCs, it needs to lower this cost substantially.

In October 1997, the Government of Egypt announced that it will allow private companies to operate in the areas of unloading, stevedoring, and supply. While this has cut some of the inefficiency and cost due to time lost in port, it still does not go far enough in solving the problems in ports. A set of clearly defined published standards covering all regulatory and qualitative aspects of importation and exportation would go a long way towards increasing the transparency within the customs system and reducing the number of arbitrary decisions that are being made. Other changes aimed at speeding up the process that need to be made include the following:

(a) Inspections should be reduced to those necessary for health and safety reasons;

(b) Testing equipment should be upgraded and the process speeded up especially for perishable food items;

(c) An expeditious system of resolving disputes over customs valuations and quality standards should be put in place;

(d) A system of random sampling instead of the current practice of sampling every container should be used for all importers, in conjunction with stiffer and swifter penalties for breaching the law.

3. *Bilateral treaties for the promotion and protection of FDI*

Egypt has signed treaties to encourage and protect investment with the following countries: Albania, Argentina, Armenia, Belarus, Belgium, Canada, China, Comoros, Denmark, Ecuador, Equatorial Guinea, Gabon, Greece, Holland, Hungary, Indonesia, Italy, Jordan, Kazakhstan, Latvia, Lebanon, Libyan Arab Jamahiriya, Luxembourg, Mali, Chile, Ghana, Morocco, Niger, Poland, Romania, Republic of Korea, Senegal, Singapore, Spain, Sri Lanka, Syrian Arab Republic, Tunisia, Turkey, Uganda, Ukraine, United Arab Emirates and Uzbekistan.

4. *Bilateral treaties for the avoidance of double taxation*

Egypt has signed treaties to provide protection against double taxation with the following major trading partners: Austria, Belgium, Cànada, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Hungary, Iraq, Italy, Lebanon, Libyan Arab Jamahiriya, Morocco, Tunisia, Norway, Republic of Korea, Romania, Sweden, Switzerland, Turkey, United Arab Emirates, United Kingdom of Great Britain and Northern Island, United States of America, and Yugoslavia.

II. FOREIGN DIRECT INVESTMENT IN JORDAN

Since the early 1990s, the Jordanian economy has been undergoing economic reform, in cooperation with international organizations to restore economic structural imbalances, resolve the balance-of-payments problems and reduce a sizable debt. The last of these reform waves was the Economic Structural Adjustment Programme in collaboration with the International Monetary Fund (IMF) started in 1992 and supported by the Extended Fund Facility (EFF).

As a result of the adjustment programme, official foreign reserves increased, and inflation was kept at low rates. However, economic performance during 1996-1998 fell short of the goals envisaged under the EFF. Real GDP decelerated to an annual period average of 1 per cent, mostly due to unfavorable regional conditions and the decline in world oil prices impacting adversely on Jordan's trading partners. These factors have hindered the role of exports in fueling economic growth and worsened Jordan's debt burden. The growing debt also represents one of the bottlenecks to promoting a favorable climate for foreign investment in Jordan.

In April 1999, the IMF approved a new EFF amounting to special drawing right (SDR) 128 million in support of Jordan's three-year medium-term economic adjustment programme (1999-2001). The credit line was complemented by SDR 34 million under the IMF Compensatory and Contingency Financing Facility to help crowd out the impact of a temporary shortfall in exports of goods and services. A great concern of the latest programme is to boost GDP growth to the range of 3 to 4 per cent in real terms, keep low inflation rates, and maintain an adequate level of foreign reserves.

Fiscal consolidation and prudent monetary policy will be essential catalysts to achieve macroeconomic goals. While the former will reduce the overall fiscal deficit to 4 per cent of GDP by the year 2001, indirect monetary policy will sustain the stability of the exchange rate. A reduction of the public sector role in economic activity is envisioned, supported by a rationalization of public expenditures. Equally important, privatization has picked up lately with a view to promote a private-led growth.

A. FDI INFLOWS IN JORDAN

1. *FDI trends*

The varying patterns of FDI inflows to Jordan mirror, to a great extent, the macroeconomic changes that Jordan had witnessed since the early 1980s and until the late 1990s. The early 1980s depicted a recession and a state of uncertainty due to the Iran-Iraq war, which had negative spill-overs on the Gulf countries and in turn on the Jordanian economy. As a result, FDI inflows fluctuated sharply (see table 7). Between 1980 and 1985, the average growth of FDI was just over 50 per cent. In 1985, FDI recorded a negative growth of 81 per cent as its level dropped from 29 million Jordanian dinars (JD) in 1984 to JD 6 million in 1985. During this period, the level of FDI inflows was very low compared to other MENA countries.

TABLE 7. FDI INFLOWS IN JORDAN[a/]

	Value			Value	
Year[b/]	Millions of Jordanian dinars	Millions of dollars	Year	Millions of Jordanian dinars	Millions of dollars
1980	8.21	27.5	1990	5.7	8.6
1981	22.38	67.8	1991	8.6	12.6
1982	31.74	90.1	1992	6.3	9.0
1983	9.64	26.6	1993	12.6	19.0
1984	29.13	75.8	1994	16.6	3.0
1985	5.55	14.1	1995	21.5	30.7
1986	9.86	28.2	1996	36.4	51.4

TABLE 7 (*continued*)

Year[b/]	Value		Year	Value	
	Millions of Jordanian dinars	Millions of dollars		Millions of Jordanian dinars	Millions of dollars
1987	11.08	32.7	1997	183.3	258.6
1988	0.04	0.1	1998	170.1	239.9
1989	0	0.0	1999	41.9	59.0

Source: Central Bank of Jordan. Department of Research and Studies. "Balance-of-Payments", *Monthly Statistical Bulletin*, several issues.

a/ Estimates based on data published in the *International Financial Statistics Yearbook 1998*, (New York, United Nations publication).

b/ January until September.

The economic stance further worsened in the mid-1980s as inflation rose as a result of increasing external debt since 1986. The economy faced further economic imbalances in 1988 and early 1989 with the depreciation of the Jordanian dinar and the dearth of funds from Gulf States in the wake of the Gulf War. In 1986, FDI was JD 10 million (US$ 28 million); by 1990, it plummeted to JD 6 million, equivalent to US$ 9 million. The difference in the dollar value clearly reflects the depreciated currency. In 1988 and 1989, the latter being the peak of the Gulf War and the turbulence of the Middle East, as a whole, FDI recorded 0 inflows to Jordan. The five-year average FDI inflows in the mid-1980s reveals an alarming low JD 5 million (US$ 14 million). In comparison, Egypt and Morocco recorded average FDI inflows of US$ 932 million and US$ 132 million, respectively, for the period 1986 through 1991.[11]

The beginning of the 1990s witnessed the first two waves of economic adjustment in coordination with the IMF. Reform measures were vital steps initiated by Jordanian authorities to remedy the battered economy. During the early 1990s, significant measures were taken to liberalize the financial sector, including the decontrolling of commercial interest rates, debit and credit. Unfortunately, the FDI pattern did not recover since the whole region went into a recession in light of the numerous sanctions imposed on Iraq. Jordan, accordingly, lost a major trading partner. Inflows of foreign investment rose modestly from JD 9 million in 1991 to JD 22 million in 1995.

It was not until 1997 that FDI inflows exceeded the JD 100 million figure. To a great extent, this surge resulted from the reform benefits the Jordanian economy has started to reap. In 1997, FDI inflows increased to JD 183 million following the abolishment of all restrictions on foreign currency capital transactions. Simultaneously, licensed banks took measures in response to the Central Bank's new guidelines to raise capital requirements in line with the Basle Capital Adequacy criteria. Licensed banks alone witnessed foreign acquisition of about JD 135 million in 1997 in the form of new capital injections. Additional capital amounting to JD 40 million was contributed in the banking sector in 1998. Furthermore, Lafarge, a French company brought in JD 74 million in the same year, thus taking over the Government's shares in the Jordanian Cement Factories. The total incoming foreign investment in 1998 was JD 170 million.

FDI inflows grew modestly during the first nine months of 1999. The early months of the year faced grave circumstances owing to the chronic health conditions of the late King Hussein since mid-1998, followed by his death in February 1999. In the aftermath of his death, the Jordanian economy was best described as uncertain. In addition, the stalled Peace Process overshadowed the Jordanian economy, among other countries in the region. Foreign inflows amounted to JD 42 million by the end of September 1999.

11 United Nations Conference on Trade and Development. *The World Investment Report 1998* (New York, United Nations publication, 1998).

There was a strong expectation, however, for FDI inflows to increase further during the last quarter of 1999 and early 2000 in view of the Government's recent efforts to enhance the investment climate. King Abdullah's recent trips to the Far East and European countries were looked upon by many world leaders as significant steps to promoting Jordan as an investor friendly environment. The King has also concluded a number of agreements to help ease the debt overhang and support economic stability and growth.

2. *Sectoral distribution of FDI*

Since 1992,[12] industries attracted most of FDI inflows, followed by commerce (see tables 8 and 9). On average, 50 per cent of FDI was located in industries and 32 per cent in commerce for the period 1992-1995. In 1996, however, the distribution of FDI inflows changed, reflecting partly new opportunities from the reform programmes. Commerce accounted for the lion's share of FDI inflows at 64 per cent, while the share of industries dropped to 18 per cent. The services sector came in third place, with a share of 10 per cent. The agricultural and construction sectors accounted for the remaining.

TABLE 8. SECTORAL DISTRIBUTION OF FDI IN JORDAN
(Millions of Jordanian dinars)

Year	Industry	Commerce	Agriculture	Construction	Banking and finance	Insurance	Services	Total
1992	3.6	1.6	0.3	0.2	..	..	0.6	6.3
1993	5.5	5.5	0.6	0.1	..	..	1.0	12.6
1994	9.3	5.3	0.2	0.7	..	..	1.1	16.6
1995	9.2	5.8	..	0.8	..	..	5.7	21.5
1996	6.6	23.2	0.0	0.7	2.2	0.1	3.7	36.5
1997	7.9	14.5	0.6	0.1	149.4	0.2	10.6	183.3
1998	86.3	16.5	2.0	2.1	57.1	0.1	5.9	170.1

TABLE 9. SECTORAL DISTRIBUTION OF FDI IN JORDAN
(Percentage distribution)

Year	Industry	Commerce	Agriculture	Construction	Banking and finance	Insurance	Services	Total
1992	56.8	25.2	4.7	3.5	..	..	9.8	100.0
1993	43.5	43.5	4.4	0.8	..		7.8	100.0
1994	56.0	31.9	1.1	4.4	..	..	6.6	100.0
1995	42.8	27.0	0.0	3.7	..	..	26.5	100.0
1996	18.1	63.6	0.0	1.9	6.0	0.3	10.1	100.0
1997	4.3	7.9	0.3	0.1	81.5	0.1	5.8	100.0
1998	50.7	9.7	1.2	1.2	33.6	0.1	3.5	100.0

In 1997, the distribution of FDI inflows changed again. The banking and finance sector landed at the first place with 82 per cent of the share of FDI inflows owing to the substantial foreign acquisition of commercial bank capital. From 1998 onwards, the industrial sector resumed its dominance of total incoming foreign investment, accounting for 51 per cent of FDI inflows. Out of the top 10 largest companies in terms of foreign capital share in 1998, there were 6 banks led by the Arab Bank and the Housing Bank with foreign capital of JD 1.1 billion and JD 0.2 billion,[13] respectively (see table 13).

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[12] The first year when sectoral FDI data is available.

[13] End-period balances measures in market value.

3. *The Amman Bourse*

In light of restructuring the legislative environment, foreign investments improved considerably in the Amman Bourse, notably in 1997 and 1998. In 1997, net foreign investment accounted for JD 57 million, and compared with JD 124 million in 1998, up by 118 per cent. This is attributed mainly to the sale of 33 per cent of Government share in the Jordan Cement Factories, an unprecedented trade in the history of Amman Financial Market.

Around 44 per cent of the total market shares value relate to non-Jordanians in comparison to 31 per cent in 1994 and 1995, 33 per cent in 1996, and 39 per cent in 1997 in all sectors (see table 10). The distribution by sector shows that the banking and finance sector attracted a high portion of foreign investment; its importance to total capital of shareholding was 46.7 per cent in 1994 and 53.8 per cent in 1997, as compared to an increase of 56.6 per cent in 1998. A similar trend was registered in the industry sector from 23.6 per cent in 1994 and 26 per cent in 1997, it reached 27.6 per cent in 1998. The relative importance of the services sector rose from 2.9 per cent in 1994 to 10.8 per cent in 1998.

TABLE 10. THE IMPORTANCE OF NON-JORDANIAN OWNERSHIP IN THE CAPITAL OF SHAREHOLDING COMPANIES BY SECTOR
(*Percentage*)

Year	Industry	Services	Banking and finance	Insurance	All
1994	23.6	2.9	46.7	16.0	31.1
1995	19.9	3.3	46.3	15.7	31.0
1996	21.8	7.3	47.7	16.5	32.8
1997	26.0	9.3	53.8	16.0	39.1
1998	27.6	10.8	56.6	15.1	44.3

Source: *Amman Financial Market Annual Report 1998*, Amman.

4. *Foreign affiliates of transnational corporations operating in Jordan*

In Jordan, the available data on foreign affiliates of transnational corporations (TNCs) include the names of parent corporations, the value of their capital and their nationalities, as shown in the unpublished records of the Ministry of Industry and Trade. No information is available on sales, assets and the number of personnel. A list of these affiliates for the period 1996-1998 is presented in table 11. Although the Arab Bank and the Royal Jordanian Airline have various affiliates around the world, no records were found to obtain the required data on Jordanian TNC affiliates operating outside Jordan.

TABLE 11. THE LARGEST 25 COMPANIES WITH HIGH FOREIGN CAPITAL SHARE, 1996
(*Jordanian dinar*)

	Foreign capital market value	Its share to total company capital (percentage)
Arab Bank	639 727 704	57.5
Arab Potash	189 101 570	41.8
The Housing Bank	59 336 680	49.1
Jordan Phosphate Mines	31 778 117	20.6
Arab Banking Corporation (Jordan)	31 630 435	61.4
Jordan Islamic Bank for finance and Investment	26 547 048	50.0
Jordan Cement Factories	16 388 469	7.9
Jordan National Bank	13 770 260	21.0
Zara Investments	11 743 130	18.9
Arabian Steel Pipes Manufacturing	11 726 820	53.0
Jordan Kuwait Bank	11 484 706	18.8
Jordan Petroleum Refinery	8 654 096	30.4
Arab Jordan Investment Bank	8 006 063	20.7

TABLE 11 (*continued*)

	Foreign capital market value	Its share to total company capital (percentage)
Cairo Amman Bank	6 497 240	12.6
Arab Engineering Industries	6 057 840	35.2
Jordan Hotel and Tourism	4 417 060	10.5
Union Bank For Saving and Investment	3 591 845	23.7
Industrial Development Bank	3 372 344	13.3
Middle East Complex For Electronics	2 978 508	20.2
Jordan Investment and Finance Bank	2 855 925	7.6
National Cable and Wire Manufacturing	2 567 634	18.7
Jordan Paper and Cardboard Factories	2 522 333	26.9
Arab Aluminum Industry/Aral	2 475 538	10.7
Arab International Hotels	2 415 627	5.5
Jordanian Expatriates Holding	2 283 750	43.5

Source: Amman Stock Exchange,"Records for Shareholding Companies", *Monthly Statistical Bulletin*, No. 82 (October 1999).

Ministry of Industry Records for other kinds of companies were used, but the size capital of these companies capital was less than that for shareholding companies, so all of the above mentioned companies are shareholding.

TABLE 12. THE LARGEST 25 COMPANIES WITH HIGH FOREIGN CAPITAL SHARES, 1997
(*Jordanian dinars*)

	Foreign capital market value	Its share to total company capital (percentage)
Arab Bank	825 879 600	57.8
Arab Potash	231 540 943	44.8
The Housing Bank	193 330 550	74.4
Jordan Phosphate Mines	40 256 564	24.7
Arab Banking Corporation, Jordan	27 088 125	61.4
Jordan Cement Factors	21 903 082	12.0
Jordan Islamic Bank for Finance and Investment	21 056 851	49.1
Arab Jordan Investment Bank	20 861 997	35.2
Zara Investments	18 332 730	28.2
Jordan National Bank	16 818 855	22.5
Jordan Kuwait Bank	15 820 162	49.3
Jordan Petroleum Refinery	12 717 016	19.0
Arabian Steel Pipes Manufacturing	9 025 520	53.0
Cairo Amman Bank	7 715 012	14.1
Union Bank for Saving and Investment	7 338 901	34.0
Arab Engineering Industries	6 057 840	35.2
Middle East Complex for Engineering Electronics	4 646 482	35.2
Jordanian Expatriates Investment Holding	3 755 850	53.4
Dar Al-Dawa Development and Investment	3 540 912	10.4
Arab International for Education and Investment	3 145 548	8.1
Philadelphia Investment Bank	3 015 233	21.8
Jordan Investment and Finance Bank	3 000 512	8.8
Jordan Bank	2 540 196	9.2
Industrial Development Bank	2 458 688	8.2
Jordan Express Tourist Transport	2 403 612	22.3

Source: Amman Stock Exchange, "Records for Shareholding Companies". *Monthly Statistical Bulletin*, No. 82 (October 1999).

Ministry of Industry Records for other kinds of companies were used. but the size capital of these companies capital was less than that for shareholding companies, so all of the above mentioned companies are shareholding.

TABLE 13. THE LARGEST 25 COMPANIES WITH HIGH FOREIGN CAPITAL SHARES, 1998
(Jordanian dinars)

	Foreign capital market value	Its share to total company capital (percentage)
Arab Bank	1 135 178 408	60.3
The Housing Bank	205 636 371	74.2
Arab Potash Company	102 728 825	44.0
Jordan Cement Factories	87 601 446	46.8
Arab Banking Corporation, Jordan	43 841 610	87.7
Zara Investments	21 672 312	28.5
Jordan Islamic Bank for Finance and Investment	20 557 247	53.7
Jordan Kuwait Bank	17 681 635	55.3
Jordan National Bank	15 844 478	21.8
Jordan Phosphate Mines	13 942 671	21.0
Arabian Steel Pipes Manufacturing	12 743 780	53.0
Jordan Petroleum Refinery	12 369 108	18.2
Arab Jordan Investment Bank	9 427 646	20.9
Arab International Hotels	8 649 107	14.4
Union Bank for Savings and Investment	8 224 144	35.4
Cairo Amman Bank	8 031 639	14.1
National Poultry	7 759 513	68.1
Arab Engineering Industries	6 057 840	35.2
Industrial Development Bank	5 406 467	15.3
Middle East Complex For Engineering Electronics and Heavy Industries	4 941 772	40.1
Arab Pharmaceutical Manufacturing	3 589 247	7.8
Dar Al-Dawa Development and Investment	3 365 704	11.1
Arab International for Education and Investment	3 239 224	8.0
Jordanian Expatriates Investment Holding	3 040 450	53.4
General Investment	3 022 003	13.7

Source: Amman Stock Exchange, "Records for Shareholding Companies", *Monthly Statistical Bulletin*, No. 82 (October 1999).

Ministry of Industry Records for other kinds of companies were used, but the size capital of these companies capital was less than that for shareholding companies, so all of the above mentioned companies are shareholding.

TABLE 14. FOREIGN AFFILIATES OF TNCS OPERATING IN JORDAN ESTABLISHED IN 1996
(Jordanian dinars)

Company	Parent corporation capital value	Nationality
Ibrahim Abunayyan Sons	20 000 000	Saudi Arabia
Ata For Engineering and Commerce Ltd.	500 000 000	Turkey
LG Moshel and Partners Ltd.	200 000	United Kingdom
Kuwait Al-Hamra	800 000	Kuwait
Al-Manal Holding	1 500 000	Lebanon
Berosag Noel Faseer Metchenig GMBTC	8 000 000	Germany
Scott Wilson Kirk Patrick Ltd.	780 000	United Kingdom
Shneider Electric A	2 501 000 000	France
Mariani Batista	300 000 000	Italy
Howard Humphrey and Partners Ltd.	1 100	United Kingdom
Works Consultancy Services Ltd.	1 000 000	New Zealand

Source: Jordan, Ministry of Industry and Trade, unpublished records (Amman).

TABLE 15. FOREIGN AFFILIATES OF TNCS OPERATING IN JORDAN ESTABLISHED, 1997
(*Jordanian dinars*)

Company	Parent corporation capital value	Nationality
SES for Hotels	210 000 000	Denmark
Alestom for Electric Capacity Corporations	19 200 000	Germany
Electro Montaj S I	52 500 000 000	Romania
ANAD ARCO/Jordan	10 000	United States
EBARA Corporation	1 000 000 000	Japan
ABB Net Work Partner Ltd.	20 000 000	Switzerland
Berosag Noel Faseer Metchenig GMBTC	8 000 000	Germany
TRANS Global Petroleum	1 000 000	United Kingdom
Di Nepou Construction	8 573 806 340	Japan
Scott Welson Kerchepatric Ltd.	780 000	United Kingdom
Soste Novel Periant	500 000	France
Farmatic Enlagenbo	1 000 000	Germany
Mariani Batesta	300 000 000	Italy
Mobil Projects SBA	400 000 000	Italy
Motorola Anco raported	1 764 000 000	United States
Movenpick for Hotels and Restaurants Management	6 600 000	Switzerland
Metceo Chemetsionic	2 000 000	Germany
Medalion Heber Penton Jordan Ltd.	50 000	United States
Howard Humphrey and Partners Ltd.	1 100	United Kingdom

Source: Jordan, Ministry of Industry and Trade, unpublished records (Amman).

TABLE 16. FOREIGN AFFILIATES OF TNCS OPERATING IN JORDAN ESTABLISHED IN 1998
(*Jordanian dinars*)

Company	Parent corporation capital value	Nationality
Belfenger and Bergro basa fant Ferkeh Coalescence	180 482 895	Germany
Yemen Air Lines	130 000 000	Yemen
Meridian	230 496 700	France
Daykerhuf Wedman IG Deodag	120 000 000	Germany
Morgenty Group Inc.	46 251 000	United States
Hanz Brushrgy MB	45 000 000	Germany
Hyundai Heavy Industries Ltd.	215 849 980 000	Republic of Korea
Hayat International Ltd.	100 000	Switzerland
Solidic International Ltd.	250 000	India
Adel Lary and Partners	10 000	Austria
Amoco Jordan Ltd.	2 000	United Kingdom
Inico Ltd.	1 000	United.Kingdom

Source: Jordan, Ministry of Industry and Trade, unpublished records. (Amman).

TABLE 17. FOREIGN AFFILIATES OF TNCs OPERATING IN JORDAN ESTABLISHED IN 1999
(*Jordanian dinars*)

Company	Parent corporation capital value	Nationality
Ageic-Hedrogrania Coalescence	12 000 000 000	Greece
ATELA DOGAN for Construction and Foundations	220 000 000 000	Turkey
Agramenenko INK	18 762 014	Canada
Arsheredon Construcyion Over Seas	400 000 000	Panama
ARCO Aggregative Services	200 000	United States
MGSA	6 500 000	France
Auto Eco-TK GMBTCKG	1 000 000	Germany
BIC Frezer SA	27 291 000	France
JETO	20 000 000	Italy
Hamzeh and Partners Planners Architects Engineers	3 000 000	Egypt
Somitomo Construction Company Ltd.	14 530 338 647	Japan
CDM Engiens and Constructors	200 000	United States
Serveces Mecoenaria Doro Felgera SA	140 000 000	Spain
Shneider Electric SA	2 501 000 000	France
Crandi Lavori Venco seet SBA	100 000 000 000	Italy
Contra Nasimic SA	2 500 000	Romania
Mancsman Demaj	200 000 000	Germany
Medalion Heber Jordan Inc.	1 000 000	United States
Middle East Capital Group Ltd.	1 000 000	United Kingdom

Source: Jordan, Ministry of Industry and Trade, unpublished records (Amman).

B. THE INVESTMENT CLIMATE

During the 1990s, a major restructuring of the investment climate in Jordan took place by strengthening the legislative framework. A number of economic laws were issued with the consent and support of the private sector. These include: the GST law which has provided the Treasury with funds to act freely and effectively; the income tax law which has reduced the tax weights by almost 50 per cent; the investment promotion law which has provided incentives and facilitated procedures; the labor law which added flexibility and stability to the labor market; the law which unified tariffs and duties; the customs law which introduced cut downs on routine work; the companies law which organized the companies sector and managed obstacles; the securities law which organized the issues and trading, in addition to the competition law and the property rights law, which are at different legislative stages awaiting for enactment.

(a) *The investment promotion law*

The Investment Promotion Law No. 16 for 1995 has earmarked on the investment framework reform, but more importantly, it promotes distinctly the foreign investment in Jordan. The implementation of the law is vested in the Investment Promotion Corporation, a financially and administratively autonomous entity. The law irrevocably ensures that non-Jordanian investors will have equal treatment as Jordanian investors; no minimum amount for local investment is imposed on foreign investors. In addition, non-Jordanians' acquisition of most economic activities in the country is free of any restrictions, exceptions to this include construction contracts, commercial and commercial services, and activities in the mining sectors; holdings in these sectors are restricted to 50 per cent.

The investment promotion law also provides incentives for a number of sectors, including industry, agriculture, hotels, hospitals, maritime transport and railways, yet leaving room to the Cabinet to add other sectors it deems worthy of such incentives. Projects that merit approvals by the established Investment Committee enjoy a ten-year exemption from income and social services taxes. To this end, Jordan was divided into three zones, A, B, and C depending on the level of economic development, with different incentives granted to projects in each of these zones (see table 18). The investment law provides further incentives such as stretching the income and social service tax exemptions for a maximum of four years when a project is expanded, improved or modernized, lifting production by a minimum of 25 per cent.

TABLE 18. EXEMPTION OF INCOME AND SOCIAL SERVICES TAX

Projects in zone A	25 per cent
Projects in zone B	50 per cent
Projects in zone C	75 per cent

(b) *Customs exemptions*

Other types of incentives relate to customs include imported fixed assets, needed as production inputs, which are exempt from customs and fees for three years. Imported fixed assets needed for expanding, modernizing or developing a project are also exempt from customs and fees should the use of these assets result in higher production capacity by no less than 25 per cent. Spare parts enjoy customs and fee exemptions provided that their value does not exceed 15 per cent of the total value of fixed assets using these parts. Hotels and hospitals enjoy, once every seven years, extra customs exemptions on their furniture and supplies imported for renovation purposes.

3. *Currency convertibility and financial sector reforms*

Non-Jordanian investors are entitled to transfer out of the country the original capital, along with returns and profits accrued on the sale or liquidation proceeds of the investment. The transfer can be carried out in any convertible currency.

The Central Bank has taken constructive measures to ensure an environment characterized by free movement of cross border transactions. To this end, the Central Bank declared the Jordan dinar convertible for current transaction purposes on February 1995 by removing all previous restrictions on such transactions, in accordance with Article VIII of the IMF Articles of Agreement. In July 1997, the Central Bank reiterated its willingness to free movement of all capital transfers by declaring the Jordanian dinar a fully convertible currency for all purposes (current and investment accounts), and abolishing all restrictions on foreign capital.

In the mid-1990s, an across-the-board financial reform was initiated, aiming at broadening competition-based bank activity, while ensuring the financial soundness of licensed banks, which dominate the financial system. This would strengthen banks' role in channeling funds efficiently and introducing new financial products in line with best world practices.

4. *Stock exchange regulations*

The Securities Law 1997 was issued in line with the international accounting standards, transparency and financial disclosure guidelines. Foreign investors can buy securities listed in the Amman Bourse (formerly the Amman Stock Exchange) in Jordanian dinar, provided that the trading has been converted from a convertible foreign currency. There is no floor on the amount invested by a non-Jordanian. Foreign ownership in a public shareholding company may not exceed 50 per cent, unless the ownership ratio was higher than the prescribed ratio at the closing date of the subscription to the company. In such cases, the ceiling would have to rise to that percentage.

5. *Transnational affiliates regulations*

On the legislative side, the Companies Law No. 22 for 1997 provides for the presence of foreign companies in Jordan in the form of branch offices or regional offices. A foreign company can establish a branch office if awarded a contract requiring execution of work in Jordan. Accordingly, it should be registered as a foreign operating company for the purposes of the contract and for the duration thereof. The registration can be extended to cover new contracts obtained by the said company. A foreign company may have a branch office to work on a permanent basis by acquiring authorization from the relevant authorities.

A foreign company can establish a regional office, and operate from Jordan anywhere in the world, but cannot operate in Jordan. Regional offices can benefit from exempting the foreign company and the regional office and its non-Jordanian employees from all local taxes. Regional offices can import their equipment, furniture and business samples free of customs duties and all other fees and charges, and no fees are payable upon registration of, or in connection with their operation.

C. BILATERAL AND MULTILATERAL TREATIES

1. *Investment protection and double taxation avoidance*

Since 1974, Jordan has concluded a number of treaties with various countries of the world, including the United States of America, the United Kingdom Northern Islands, the EU countries, Canada, and others (see table 19). In 1997, Jordan witnessed the signing of six treaties signaling Government's true commitment to promoting Jordan as an attractive investment site in the region. All of these treaties encompass the free flow of investment (capital and financial transfers) and grant foreign investments in Jordan national or most-favored-nation (MFN) status, whichever is more beneficial. Furthermore, foreign investors are awarded the ability to re-transfer capital, funds and interest payments at all times during established agreements. These conditions are reciprocal in nature.

On April 6, 1998, the United States designated the Al Hassan Industrial Estate in Irbid, north of Jordan, as the first and only qualifying industrial zone (QIZ) in the world. Products produced in this zone can benefit from the privilege of being exported to the American market free of duties or quotas. Furthermore, revenues earned on exports are exempt from income and social service taxes, and raw materials imported by export companies are not subject to customs duties. The exporters, however, should fulfill certain requirements as attainment of substantial transformation of a QIZ product by achieving QIZ content which equals to 35 per cent of appraised value, of which 11.7 per cent is Jordanian content, 11.7 per cent Israeli content, while the remaining 11.7 per cent content can be from the West Bank and Gaza, Israel or the United States. Jordanian and Israeli manufacturers must each maintain at least 20 per cent of the total production cost of the goods produced in QIZ.

Table 19. BILATERAL INVESTMENT TREATIES CONCLUDED BY JORDAN
(*Up to 1 December 1999*)

Country	Year of signature	Notes
Germany	1974	
Switzerland	1977	
France	1978	
United Kingdom	1979	
Canada	1987	Securing of Employed Capital Treaty
Romania	1992	
Turkey	1993	
Malaysia	1994	
Yemen	1995	
Tunisia	1995	
Italy	1996	
Poland	1997	
Czech Republic	1997	
European Union[a/]	1997	
Netherlands	1997	
Israel	1997	Qualified Industrial Zones Treaty
United States	1997	

a/ Mediterranean Partnership, includes provisions concerning capital movement between EU countries and Jordan.

In addition, Jordan has entered into a number of bilateral treaties to avoid double taxation which is detrimental to the investment climate. The last of these treaties were signed with the Arab Economic Unity Council, Egypt, and Poland, entered into force in 1997 (see table 20). These treaties concern the taxes on income and capital and specify the applicable rates on capital gain on different business, royalties, trademarks and copyright.

TABLE 20. BILATERAL TREATIES FOR AVOIDANCE OF DOUBLE TAXATION CONCLUDED BY JORDAN
(*Up to 1 December 1999*)

Country	Date of enforcement
Romania	4 August 1984
France	1 April 1985
Turkey	1 January 1987
Tunisia	1 January 1990
Malaysia	13 May 1996
Indonesia	9 November 1996
Poland	4 September 1997
Egypt	23 October 1997
Arab Economic Unity Council	1997

2. *Euro-Mediterranean partnership and accession to the WTO*

Jordan has signed an agreement with the Euro-Mediterranean Partnership on 1 November 1997. Accordingly, Jordan enjoys a free-trade status with the EU countries. The partnership grants Jordan numerous economic, cultural, and social benefits; it promotes more direct European investments into Jordan. Products manufactured in Jordan and exported to EU markets are eligible to exemptions from customs, taxes and fees. A number of industrial and agricultural goods have privileged access to the EU markets without customs and quota.

Jordan has recently moved forward to joining WTO. This membership will open up new markets, regionally and internationally, which will substantially support Jordan's efforts in attracting foreign investments and technology.

III. FOREIGN DIRECT INVESTMENT IN THE SYRIAN ARAB REPUBLIC

A. BACKGROUND AND PURPOSE

The purpose of this chapter is to survey the flow and examine the impact of FDI in the Syrian Arab Republic in the past twenty-five years. The flow of FDI to developing countries in today's rapidly globalizing world, has become an important source of finance, supplementing domestic savings, and gradually replacing official bilateral and multilateral development assistance. FDI is considered an important vehicle for the developing countries not only to obtain foreign technology and managerial skills but also to integrate into the global economy's marketing and production networks.

Except for FDI in the oil sector, the Syrian Arab Republic has not been a major recipient of FDI mainly because the country followed a central planning model of development between the mid-1960s and the late-1980s, which did not encourage FDI. Likewise, the economic liberalization measures introduced in the late-1980s did not allow a significant flow of FDI into the country. FDI in the oil sector, on the other hand, has been relatively large, an investment in an enclave, export oriented sector, responding to very special incentives.

In attempting to compile data on FDI in the Syrian Arab Republic the difficulties encountered were mainly the following: (a) data, neither on a macro nor on a micro level were available; (b) no Government department specialized in compiling statistics on FDI flow and/or on FDI activities in the country; and (c) no data series showed the flow of FDI over the duration of the period under the study. Thus to compile data for the flow of FDI, reports such as *World Development Reports* (by the World Bank), *International Financial Statistics* (IMF) and *World Investment Reports* (UNCTAD) were used.[14]

Examining the available data some limitations concerning the accuracy of the data were observed: (a) the official data did not include FDI in the oil sector and (b) data series was difficult to construct accurately because of the methodology used in measuring FDI; hence, the FDI data on the oil sector, obtained from independent sources, are presented in this chapter.

This chapter is aimed at examining the policy framework for encouraging FDI, the record of FDI in response to this policy framework; and the impact of FDI on the Syrian economy; as well as identifying the impediments of FDI flow to the Syrian Arab Republic and proposing policies to encourage FDI in the country. An annex at the end of this study includes a directory of FDI in the Syrian Arab Republic.

B. REVIEW OF PAST ECONOMIC DEVELOPMENTS

1. *Existing economic configuration*

The Syrian Arab republic achieved a growth rate of about 10 per cent per annum in the 1970s in the context of a central planning development model and an ambitious public investment program, supported by substantial official development assistance (ODA). Economic growth sputtered throughout the 1980s, following a drop in ODA, only to pick up again in the first half of the 1990s, reaching a rate of growth of about 7 per cent per annum. The latter growth was a result of two factors: (a) a new inflow of foreign exchange derived from export of new oil finds, and (b) selective economic reform measures introduced as of the mid-1980s. The high growth, however, did not last long. Today, the Syrian economy is experiencing a period of stagnation, caused by immense rigidities in production structures and institutions and an inefficient regulatory framework. These are issues, which have not been addressed in the country's economic reform.

Economic reform measures adopted up to the present have focused on increasing the role of the private sector, encouraging exports, and introducing modest changes in foreign exchange and trade regimes,

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[14] Data in these reports are usually provided directly by the Government although the Government itself does not publish the data.

"reducing the number of exchange rates, tariffication and reduction of Government trade monopolies".[15] Reforms put little emphasis on structural adjustments and institutional change, as will be shown below.

2. *Official development assistance to the Syrian Arab Republic*

In the Syrian Arab Republic, ODA played a significant role in the economic development in the 1970s and the first half of the 1980s. The flow of ODA averaged US$ 1660 million in the two years 1980-1981, but dropped considerably in the second half of the 1980s, to reach a meager average of US$ 159 million a year in the two years 1988-1989 (see table 21 below).

TABLE 21. OFFICIAL DEVELOPMENT ASSISTANCE TO THE SYRIAN ARAB REPUBLIC, 1978-1998[a/]
(*Millions of dollars*)

1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
728	1773	1697	1500	962	813	641	610	728	684

1988	1989	1990	1992	1993	1994	1995	1996	1997	1998
191	127	684	381	197	259	745	349	225	195

Source: World Bank, *World Development Report*, different issues.

a/ Net disbursements of official development assistance from all sources.

Most of the ODA flow was in the form of project finance extended on concessionary terms by Arab and Gulf development finance institutions, and budgetary support extended on a grant basis from Governments of major Arab oil-producing countries. Bilateral assistance from the former Soviet Union and Eastern European countries played a supporting role, while bilateral assistance from Organization for Economic Cooperation and Development (OECD) countries and from international development institutions was minimal.

In the 1990s, ODA, mostly from Arab oil-producing countries and finance institutions, picked up substantially in 1990 and 1991 reaching an annual average of US$ 533 million, as a result of the Syrian Arab Republic's participation in the second Gulf war with the "allied" forces. But ODA dwindled again to an average of US$ 210 million a year in 1996 and 1997. Gulf countries assistance in the 1990s was in the form of project finance extended through their development finance institutions.

3. *Changing attitude towards FDI*

The Syrian Arab Republic's attitude towards FDI has swung from restrictions and control in the 1960-1990 period, to facilitation and liberalization since the early 1990s. The restrictive attitude of this period stemmed from national, political and ideological reasons. FDI has always been linked with capitalism and the West, as the Syrian Arab Republic followed a central planning model during this period and allied itself with the East in its international relations. The recent change in the Syrian attitude towards FDI followed a major change in the international political and economic scene and the beginning of a Syrian opening towards the private sector and market economy.

This change in attitude towards FDI in the oil sector came earlier, as of the mid-1970s and as a result of frustrations over the high cost and little success of national efforts in oil exploration and development.

[15] Nabil Sukkar, "The Crisis of 1986 and Syria's Plan for Reform", *Contemporary Syria*, Eberhard Kienle, ed. (London, British Academic Press, 1994) and Nabil Sukkar: "Syria: Strategic Economic Issues", *Economic Challenges Facing Middle Eastern and Northern African Countries; Alternative Features*, Nemat Shafik, ed. (London, Macmillan Press Ltd., 1998).

C. Foreign investment policy: the legal framework

In the Syrian Arab Republic, the policy framework for attracting FDI consists of a set of investment incentive laws, complemented by a number of bilateral and multilateral agreements for the promotion and protection of FDI including the following:

(a) Investment incentive laws applied equally to domestic and foreign investments;

(b) An incentives framework specific for attracting FDI to the oil sector;

(c) Bilateral agreements with a number of countries for the reciprocal guarantees of private investments;

(d) The Syrian Government's upholding insurance cover extended by the Overseas Private Investment Corporation (OPIC) of the United States of America to potential United States investors and contractors in the Syrian Arab Republic;

(e) Bilateral agreements with a number of countries for the avoidance of double taxation;

(f) Regional multilateral agreements with member countries of the Arab League and of the Islamic Conference.

1. *Investment incentives laws*

Laws embodying incentives to private investments were issued in the Syrian Arab Republic as early as 1952, prior to the advent of central planning to the country in the mid-1960s. During the strict central planning era, from the mid-1960s to mid-1980s, one investment incentives law directed to expatriate Syrians and other Arab investors was passed, which was limited to specific economic sectors. As of 1985, investment incentive laws started to surface again, reflecting an emerging positive, but still restrained, attitude to the private sector. These laws were specific to certain economic sectors but applied to both domestic and foreign investors.

Investment Law No. 10 for 1991, represented a signal of a larger economic opening to the domestic private sector and to foreign investors. It was wider in its sectoral coverage than earlier investment laws. The new law did not replace existing laws. As a result, no other investment incentive law, at present, covers all economic sectors although investment law No. 10 for 1991 is the most comprehensive of all. Existing laws offer different incentives, reflecting their appearance at different times but do not necessarily reflect Government sectoral or development priorities. Below is a brief review of these investment laws:

(a) *Investment law No. 10 for 1991 (general)*

Investment law No. 10 for1991 came on top of a number, though modest, of economic liberalization measures introduced in the Syrian Arab Republic as of the mid-1980s. The law offered domestic private and mixed sector[16] investors and foreign investors a package of incentives, consisting of exemptions from the existing import, foreign exchange, labor regulations and from various taxes and duties.

(i) *Sectoral coverage*: The law applies to investment projects in agriculture, industry, transport, and to any other project approved by the Higher Council for Investment, which was set up under the same law;

(ii) *Eligible Projects*: Projects licensed under this law should be in line with the country's development plan, should contribute to job creation and to exports and should attempt to maximize the use of advanced technology and local resources;

[16] Mixed sector projects involve at least 25 per cent Government equity.

(iii) *Minimum Investment*: Projects eligible for consideration under the law should have fixed assets (excluding land) of not less than LS 10 million (US$ 200 thousand);

(iv) *Incentives and Benefits*: The law offers the following incentives:

a. Exemption of equipment, machinery and vehicles needed by projects licensed under the law from existed import prohibitions;

b. Exemption of imported capital goods from custom duties, but no exemption is offered to imported raw materials;

c. A five-year exemption of income tax and other taxes in case of the private sector projects and a seven-year exemption of such taxes in case of mixed sector projects;

d. Two additional years of income tax exemption for private and mixed sector projects exporting more than 50 per cent of their production;

e. Retention of 75 per cent of the foreign exchange earned by the project from export. The remaining 25 per cent to be surrendered to the Commercial Bank of the Syrian Arab Republic, as per existing foreign exchange control regulations, at the officially recognized neighboring market exchange rate;

f. Exemption from certain labor relations laws in industry and in agriculture (law No. 49 for1962 in industry and law No. 137 for 1958 in agriculture; both laws are considered overprotective to labor);

g. Projects licensed under the law are permitted to open a foreign exchange account with the Commercial Bank of the Syrian Arab Republic (contravening existing exchange control regulations) to which must be deposited all project foreign capital and export proceeds.

(v) *Investment guarantees*: The law does not offer explicit protection against nationalization or expropriation;

(vi) *Guaranteeing transfer of profits and repatriation of capital*: The law guarantees free transfer of annual profits derived from invested capital that had originated outside the Syrian Arab Republic, and the repatriation of capital brought from abroad after five years, but adds that funds repatriated may not exceed the original value of funds brought in;

(vii) *Salaries and wages for foreign employees*: Foreign employees in projects licensed under the law may transfer 50 per cent of their salaries abroad and 100 per cent of their end of service entitlement money;

(viii) *Higher Council of Investment and Investment Bureau*: The Higher Council for Investment, chaired by the Prime Minister was set up for the approval of projects, and the Investment Bureau was set up to act as a secretariat for the Council;

(ix) *Conditions*: Projects licensed under the law are expected to have their own foreign exchange (originating from their share capital or from exports) to finance their import needs and to transfer profits; for example, projects cannot resort to the Central Bank of the Syrian Arab Republic to purchase the needed foreign exchange.

(b) *Directive No. 186 for 1985 (tourism)*

Directive No. 186 for 1985 was issued by the Higher Council of Tourism (the Council was established by law in 1972 and was given a legislative authority).

(i) *Sectoral coverage*: The directive applies to hotels, motels, rest houses and stations, furnished apartments, restaurants and recreation facilities (tourist transport excluded). It states specifically that it applies equally to domestic, private, mixed and public sector investors and to foreign investors;

(ii) *Incentives*: Projects licensed under the directive are offered the following incentives:

a. Exemption from all applicable taxes and fees on the licensing and construction of the establishments;

b. Exemptions of building materials, equipment, service vehicles and furniture goods necessary for the qualified projects, from existing import restrictions in the country, up to 50 per cent of the estimated project investment cost, in the case of four and five star establishments, and up to 30 per cent in the case of three or two star establishments;

c. Exemption of above imports from custom duties;

d. A seven-year exemption from income tax, and exemption of 50 per cent of the taxable income from income tax for the remaining life of the project;

e. Retention of 50 per cent of foreign exchange proceeds earned by the project (to be used exclusively for meeting project needs);

f. Projects licensed under this directive are permitted to open a foreign exchange account with the Commercial Bank of the Syrian Arab Republic, and to retain 50 per cent of its foreign exchange earnings in this account to meet its import needs. The other 50 per cent should be surrendered to the Syrian Central Bank ;

g. Projects licensed under this directive will meet its foreign exchange requirements from the part of its capital in foreign currency and from its foreign exchange earnings (These projects cannot resort to the Syrian Central Bank for foreign exchange).

(c) *Law No. 348 for 1969*

This law passed in 1969 to attract capital from the expatriate Syrians and other Arabs, and specifically applies to expatriate Syrian and other Arab investors. The law is still valid although it has effectively been superseded by investment law No. 10 for 1991.

(i) *Sectoral coverage*: The law has a very restrictive coverage. It applies to capital originating from expatriate Syrians and other Arab investors, invested in transportation, tourism, real estate, health, and any other investments approved by the Higher Economic Committee. It specifically excludes investments in natural resources and in industries that compete with local industries;

(ii) *Incentives and guarantees*: The law does not offer tax, duty and other incentives, but it offers Expatriate Syrians and other Arab investors guarantees against expropriation, except expropriation carried out in the public interest, which in this case should be made in return for a fair and immediate payment, as the law states;

(iii) *Transfer of profits*: The law guarantees investors transfer of 50 per cent of net profits in convertible currency. The other 50 per cent has to be replanted in the business or invested in new business in the Syrian Arab Republic. It allowed the repatriation of capital after five years over a four years period. The value of capital to be repatriated will be based on the market or book value whichever is lower;

(iv) *Restrictions on employment and transfer of wages*: Projects set up under this law should have 75 per cent of their employees Syrian; the law allows foreign employees to transfer a percentage of their wages abroad as per existing Central Bank regulations.

(d) *Legislative Decree No. 10 for 1986 (agricultural mixed sector companies)*

(i) *Sectoral coverage and restrictions*: This decree is restrictive in two ways. It applies to investments in the agriculture sector only and to those made exclusively by mixed sector companies. Government participation in projects set up under this law is kept at 25 per cent equity and has been in the form of land provided to the project. Companies set up under this law may offer shares to the public, and both domestic and foreign individuals and entities may subscribe to these shares. The only restriction is that no one individual or entity, domestic or foreign, may own more than 5 per cent of the total company shares;

(ii) *Incentives*: The law offers the following incentives:

a. Exemption from existing import prohibitions on needed capital equipment;
b. Exemption from custom duties on import of machinery, tools, and vehicles;
c. Exemption from income tax for seven years;
d. Exemption of the relevant labor related law in agriculture (law No. 137 for 1958);
e. Retention of 70 per cent of export proceeds for meeting project needs.

(e) *Legislative Decree No. 103 for 1952 (industry)*

This decree has been on the books since 1952, prior to the Syrian Arab Republic's central planning era, and was never abrogated. In the past ten years (after Investment Law No. 10 for 1986 was passed) some industrial projects were licensed under this law, some of which involved foreign investments.

(i) *Sectoral coverage*: The decree covers private sector investments exclusively in the manufacturing sector, but there is no specific mention of foreign investments;

(ii) *Incentives*: The decree offers the following incentives to investments in new and expansion projects:

a. A three-year income tax exemption;

b. A three-year exemption from real estate and other taxes;

c. Exemptions from custom duties for imported capital and raw materials required for the project.

This decree does not deal with foreign capital movements since there was no foreign exchange control in the Syria Arab Republic when this decree was passed. At present, the Exchange Bureau at the Syrian Central Bank supervises foreign capital movement relating to projects set up under this law.

2. *The foreign investment regime in the oil sector*

The Syrian government's attitude towards foreign investment in the oil sector passed through three stages. The first stage extended from independence to 1964, which witnessed a positive attitude towards foreign oil companies and marked some moderately successful exploration activities by private domestic and foreign oil comparisons. The second stage extended from 1964 to 1974, during which the State exercised monopoly in oil exploration and development and obtained assistance from the former Soviet Union in this effort. And the third stage extends from 1974 to the present, which represents a re-opening of oil exploration and development to international foreign oil companies.

The new exploration and development regime requires that a foreign company wishing to conduct Exploration and Production (E and P) in the oil sector needs to have an identified exploration area and oil E and P service contracts. The latter are to be signed with the Syrian Petroleum Company (SPC), a public sector company, and the Ministry of Petroleum and Mineral Resources.

(a) *Main terms of the oil exploration and production sharing contracts*

Terms of the oil exploration and the production sharing contracts are as follows:

(i) The foreign company is given an area to explore. During the exploration period, the company is required to spend an agreed amount of funds on exploration. The initial exploration period is usually four years, subject to two successive extensions of two years each. The E and P service contract will be terminated if no commercial well is established by the end of the eighth year of exploration;

(ii) If and when a commercial discovery is established, a Production Sharing Contract (PSC) is signed, and a 50-50 joint stock oil development company is formed to act as a non-profit Syrian agent for both PSC and the foreign company. The foreign partner will act as the operator of the company. The Board of Directors will consist of eight members, four appointed by SPC, and the other four by the foreign oil company. The GM/CEO is nominated by the foreign oil company and is a member of the Board;

(iii) The Syrian Company for Oil Transport (SCOT), the state oil marketing company, is the sole party in charge of selling oil outside the Syrian Arab Republic. SCOT sells the partners share of crude production and pays them the relevant proceeds in The United states dollars;

a. Royalties to the Syrian Government are set at 12.5 per cent of the value of output;

b. Cost recovery rate (oil cost); The rate at which the foreign company can annually recover its exploration cost ranges from 20 per cent to 30 per cent of the value of production;

c. Production split, SPC's share, ranges from 75 per cent to 87 per cent of total output (SPC's share rises as production reaches agreed levels);

d. The foreign company obtains its share of profit and cost recovery in cash or in kind.

(b) *Requirement for local hire of personnel*

Local rules and regulations in the Syrian Arab Republic do not oblige employers to hire local personnel, nor do they limit the number of expatriate employees a foreign company can employ.

(c) *Exemptions*

The Syrian partners and their non-Syrian subcontractors are exempted from income and other taxes during the exploration stage, but are subject to income and other taxes in force during the production stage. The foreign partners may pay their income tax from their share of crude oil.

The oil exploration company and its contractors and sub-contractors, as well as the joint venture development company, are exempted from existing prohibitions on import of machinery, equipment, vehicles, materials, and supplies (when certified by a responsible representative of SPC) and are exempted from custom duties and import licenses with respect to these imports.

3. *Bilateral investment agreements*

Bilateral investment agreements have been another component of the FDI regime in the Syrian Arab Republic. Three agreements were signed (1977-1990), with Germany, France and Switzerland, and nine between with China, Pakistan, Indonesia and Belarus and a number of Arab countries. The agreements aim at encouraging mutual investments through facilitation and guarantees and not through tax and similar incentives.

TABLE 22. BILATERAL INVESTMENT AGREEMENTS (TREATIES)

Prior to 1990		
Arab Countries	None	
Non-Arab Countries	Date of signing	Date of ratification
The Federal Republic of Germany	1977	Law No. 34 for 1978
Switzerland	1977	Law No. 24 for 1978
France	1977	Law No. 30 for 1978
After 1990		
All countries	Date of signing	
Libyan Arab Jamahiriya	1993	
Republic of China	1996	
Republic of Yemen	1996	
Pakistan	1996	
Indonesia	1997	
United Arab Emirates	1997	
Lebanon	1997	
Egypt	1997	
Belarus	1998	

The bilateral investment agreements have the following common elements (some of the provisions in agreements signed before 1991 were superseded by Investment Law No. 10 for 1991):

(a) Fair and equitable treatment of nationals according to the international law;

(b) Guarantee of investments against expropriation (except for expropriation made for the public good, carried out in a non-discriminating manner, and in return for fair compensation). Some agreements specify that compensation should be paid promptly and in foreign convertible currency;

(c) MFN treatment in case of compensation necessitated by war or emergency;

(d) Free transfer of profits, interest, and dividends (some agreements refer to the free transfer of installment payments on loans);

(e) Guarantee of repatriation of capital; the agreements with Switzerland and France (1977) state clearly that capital to be repatriated may include any capital gain made on the investment (Law No. 10 for

1991 does not allow capital to be taken out before 5 years and states that capital to be taken should not exceed capital brought in);

(f) Settlement of disputes through an arbitration committee or through the two Governments signing the agreement;

(g) Rights of citizens of one country working in the other to transfer wages abroad; the agreement with France (1977) gives French employees in the Syrian Arab Republic the right to transfer up to 50 per cent of their wages abroad (which is what Law No. 10, for 1991 permitted later on).

4. *Government's upholding of OPIC insurance cover for potential United States contracts and investments in the Syrian Arab Republic*

A special law was passed in 1977 enabling the Syrian Government to uphold the extension of insurance cover by the United States Overseas Private Investment Corporations (OPIC) to the United States contracts and investments in the Syrian Arab Republic (provided projects are approved by the Syrian Government). The Syrian Government guarantee was given in the form of an exchange of the letters between representatives of the two Governments which was signed into law. This was not a bilateral investment agreement and did not refer to non-expropriation guarantees or to guarantees of transfer of profits and capital.

However, the United States contracts and investments in the Syrian Arab Republic may not be given OPIC cover at present because of the United States sanctions against the Syrian Arab Republic for being listed among countries harboring terrorism.

5. *Avoidance of double taxation agreements*

Another, though less important, instrument for the FDI policy regime in the Syrian Arab Republic has been the bilateral agreements for the avoidance of double taxation. Agreements have been signed and ratified with three Arab countries (Egypt, Lebanon and Jordan) and one European country, Cyprus. But there are several agreements, which have either been signed but not ratified, (with the United Arab Emirates and Belarus) or are being negotiated (France and Turkey).

TABLE 23. AVOIDANCE OF DOUBLE TAXATION TREATIES

Treaties concluded and ratified:	Egypt Lebanon Jordan Cyprus
Treaties concluded but not ratified:	Belarus United Arab Emirates
Treaties under negotiations:	France Turkey

6. *Multilateral regional investment agreements*

On a regional level, the Syrian Arab Republic has, since 1970, been a party to a number of multilateral investment agreements in the context of the Arab League and the Islamic Conference. These agreements involve liberalizing restrictions to entry and to the establishment of FDI, guaranteeing free capital movement, fair and equitable treatment, and treatment according to the international law. They also provide a mechanism for the settlements of disputes and for investment insurance in the context of both the Arab League and the Islamic Conference.

The Syrian Arab Republic, has also been, since 1957, a party to a series of multilateral free trade agreements and regional economic integration schemes in the context of the Arab league. The last of these schemes was the Greater Arab Free Trade Area Scheme which was put in place in 1998, which provide for the gradual elimination of all tariff and non tariff barriers among member Arab countries by the year 2007.

In addition, the Syrian Arab Republic has been negotiating an association agreement with the EU in the context of the Euro-Med Partnership Scheme, launched in November 1995, involving the EU and 17 countries in the Southern and Eastern shores of the Mediterranean.

The draft EU association agreement with the Syrian Arab Republic lays down the following principles: (a) the free movement of goods between the two contracting parties, (b) the right of establishment of subsidiaries, branches or agencies of one party in the other party's territory, and (c) the free movement of capital within the territories of the two parties and the disposal of direct investment and repatriation of proceeds therefrom.

TABLE 24. REGIONAL MULTILATERAL INVESTMENT AGREEMENTS

		Date of signing	Law No. and date of ratification
1.	Agreement on Arab Capital Movement Among Arab States (اتفاقية رؤوس الأموال العربية وانتقالها بين البلدان العربية)	1970	Law No. 59 for 1971
2.	Inter-Arab Investment Guarantee Corporation (اتفاقية المؤسسة العربية لضمان الاستثمار)	1970	Law No. 50 for 1971
3.	Settlement of Arab Investment Disputes (تفاقية تسوية منازعات استثمار الأموال العربية)	1974	Law No. 108 for 1974
4.	Arab League: Unified Agreement for Investment of Arab Capital Among Arab States (الاتفاقية الموحدة لاستثمار رؤوس الأموال العربية في الدول العربية)	1980	Law No. 27 for 1986
5.	Islamic Conference: Agreement on Investment Among Members of the Islamic Conference (اتفاقية حول الاستثمار بين الدول الأعضاء في المؤتمر الإسلامي)		
6.	Islamic Corporation for the Insurance of Investment and Export Credit	1999	

D. REVIEW OF PAST INVESTMENT AND DEVELOPMENT

The policy framework for attracting FDI to the Syrian Arab Republic has not been effective. The combined investment incentives accorded by different investment laws, and the bilateral and multilateral investment and avoidance of double taxation agreements have not attracted FDI of significance to the Syrian Arab Republic outside the oil sector.

In this section, a survey of the flow and content of FDI to the Syrian Arab Republic is presented, differentiating between the oil and the non-oil sectors. In the subsequent two sections the impact of FDI on the national economy is assessed and the impediments to the flow of FDI to the Syrian Arab Republic are identified.

The published data on FDI in the Syrian Arab Republic is not reliable. The FDI figures shown in the balance of payments statistics prepared by the Government and adopted by the World Bank, IMF and UNCTAD publications are estimates based on the following two figures:

(a) Imports of all projects set up under investment law No. 10 for 1991 (data obtained from the Customs Authorities);

(b) Funds transferred to the Syrian Arab Republic through the Commercial Bank to finance projects under investment Law No. 10 for 1991 (US$ 12 million in 1994 dropping to about US$ 6 million in 1998).

Moreover, it appears that FDI figures in the oil sector are not included in the above balances-of-payments data, nor are they included in the Government annual national investment figures. This was confirmed by comparing the data obtained from international oil companies on their annual investments in the Syrian Arab Republic with the published annual FDI figures for the country; both series of data are shown in table 25.

1. *The flow of FDI to the Syrian Arab Republic*

Table 25 shows published figures of FDI to the Syrian Arab Republic in the period 1986-1998, as shown in the World Bank, IMF and UNCTAD publications. The data averaged at about US$ 68 million a year in the five-year period 1986-1990, US$ 131 million a year in the 1991-1995 period and US$ 90 million a year in the three-year period 1996-1998.

Data published by the Kuwaiti based Inter-Arab Investment Guarantee Corporation puts total direct investments to the Syrian Arab Republic from Arab countries during the period 1985-1998 at US$ 1208.4 million (see table 26), an average of US$ 86 million a year. The data also show that the United Arab Emirates and Saudi Arabia were the major source of Arab direct private investments in the Syrian Arab Republic during this period followed by Kuwait and Lebanon (the source of the data is unavailable).

TABLE 25. FDI IN THE SYRIAN ARAB REPUBLIC, 1986-1998
(*Millions of dollars*)

1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
65	7	121	74	71	62	67	176	251	100	89	80	100

Sources: *UNCTAD, World Investment Report*, 1999; *IMF, Balance of Payments Statistics Yearbook: 1998, and Financial Flows and the Developing Countries, A World Bank quarterly*, August 1996.

TABLE 26. TOTAL ARAB DIRECT INVESTMENTS IN THE SYRIAN ARAB REPUBLIC BY COUNTRY OF ORIGIN, 1985-1998
(*Millions of dollars*)

Country/area	Total	Average annual
United Arab Emirates	342.1	24.4
Saudi Arabia	302.8	21.6
Kuwait	211.3	15.1
Lebanon	187.4	13.4
Palestine	69.6	5.0
Jordan	53.0	3.8
Bahrain	20.7	1.5
Oman	5.8	0.4
Tunisia	5.6	0.4
Libya	3.8	0.3
Egypt	3.6	0.3
Qatar	1.5	0.1
Iraq	0.6	0.0
Algeria	0.3	0.0
Sudan	0.2	0.0
Morocco	0.1	0.0
Total	1 208.4	86.3

Source: The Inter-Arab Investment Guarantee Corporation. *Investment Climate in Arab Countries*, 1998.

Another set of data published by the **Inter-Arab Investment** Guarantee Corporation show that the value of Arab investment projects licensed by the Syrian Arab Republic authorities during the period 1995-1998, range from US$ 212 million to US$ 303 million, again with investors from Kuwait, Lebanon, Saudi Arabia, and the United Arab Emirates leading the way (see table 27).

TABLE 27. ARAB DIRECT INVESTMENTS LICENSED IN THE SYRIAN ARAB REPUBLIC BY COUNTRY OF ORIGIN, 1995-1998
(Millions of dollars)

Country	1995	1996	1997	1998
United Arab Emirates	53.9	127.3	128.2	26.9
Saudi Arabia	58.3	71.5	74.1	92.0
Lebanon	110.2	14.2	20.3	37.9
Kuwait	45.6	46.4	61.7	55.1
Jordan	..	20.0	31.2	..
Bahrain	..	7.6	12.5	..
Palestine	61.3	6.4	..	..
Egypt	3.3	3.0	..	..
Oman	..	5.8	..	..
Iraq	..	0.6	..	..
Algeria	..	0.3	..	..
Libyan Arab Jamahiriya	0.3	..	..	..
Total	333.0	303.0	328.0	212.0

Source: The Inter-Arab Investment Guarantee Corporation, *Arab Investment Climate Report*, 1998.

(a) *FDI in the oil sector*

Table 28 below shows the annual expenditures by international oil companies in the Syrian Arab Republic in the period 1980-1998, covering expenditures on oil and gas exploration and development. The expenditures averaged at about US$ 42 million annually in the period 1981-1985, increased to an average of US$ 400 million a year in the subsequent five years (1986-1990) and to a further average of US$ 608 million in the 1991-1995 period. Expenditures dropped to an annual average of US$ 501 in the 1996-1998 period.

TABLE 28. FDI BY INTERNATIONAL OIL COMPANIES IN THE SYRIAN ARAB REPUBLIC, 1981-1998
(Millions of dollars)

Period	Total	Average annual
1981-1985	210.07	42.1
1986-1990	2 002.85	400.6
1991-1995	3 043.90	608.9
1996-1998	1 491.45	501.2

The total amount spent during the 1980-1998 period was US$ 6.8 billion. The expenditure on development amounted to a total of US$ 5.4 billion and on exploration US$ 1.4 billion (see table 30).

The end result of the FDI activity has been the establishment of two international oil companies, Shell and Elf Aquitaine that discovered oil in commercial quantities. The two companies in association with the Government are producing and exporting oil. The Syrian Arab Republic Shell Petroleum Development B.V. is the partner and the operator of Al-Furat Petroleum Company, the joint venture between SPC (50 per cent) and a consortium of the Syrian Arab Republic Shell Petroleum B.V. (33.4 per cent) and Deminex of Germany (16.6 per cent) and Elf Hydrocarbures. The Syrian Arab Republic is the partner and operator of Deir Ezzor Petroleum Company, the 50-50 joint venture between SPC and Elf Hydrocarbures (100 per cent owned by Elf Aquitaine). Shell's oil and gas investments alone were about US$ 5.4 billion between 1980 and 1998 while Elf Aquitaine's investments amounted to US$ 776 million (see table 31).

(b) *FDI outside the oil sector*

Direct foreign investments in the Syrian Arab Republic outside the oil sector has been meager, mainly taken place in the past 15 years, in response to the gradual opening of the economy and the introduction of investment incentive laws (most important of which has been investment law No. 10 for 1991). There were fewer FDI projects during the central planning era, but almost all of these were set up in association with the Government.

(i) *FDI during the central planning era*

Four projects involved FDI during the central planning era of which two projects were 50-50 joint ventures between the Government of the Syrian Arab Republic and each of the Governments of Saudi Arabia and the Libyan Arab Jamahiriya. One project was a joint venture between the Syrian Government (75 per cent) and a Spanish tractor company, Iberia Motor Company (25 per cent). The fourth project was a holding-type company set up by four Arab institutional investors (62.5 per cent shareholding) and the Ministry of Tourism (37.5 per cent) for investing in the Syrian tourism sector.

(ii) *FDI since the beginning of liberalization*

Most recent FDI includes small individual investments, undertaken by expatriate Syrian and Arab Gulf investors and a number TNCs from Arab Gulf countries and from developed countries. Many formed joint ventures with local partners. Most of the projects were greenfield, and market seeking investments and some were targeting the regional market.

Some foreign portfolio investments are in publicly traded companies set up under laws No. 10 for 1986 and No. 10 for1991, and other portfolio investments in tourism companies are set up by special presidential decrees in the late 1970s and early 1980s, such as Sham Palace Hotel chain, Trans-tour and Al-Sharq tourist transport.

A relatively large number of non-equity agreements, specifically licensing agreements, has been concluded for the manufacture of international brand products particularly in pharmaceutical and food industries and a number of subcontracting arrangements for the Syrian manufacturers to produce, under design and technical guidance, products for the export markets under an international brand name.

a. *Investments in tourism under directive 186 of 1985*: Under this directive a number of domestically financed tourism investments and two tourism projects with the majority shareholders from the Arab Gulf investors were licensed. One project is the Happy Land Amusement Park in Damascus with a majority investment by the Brother Commercial Group, headed by Sheikh Abdel Aziz Al-Nouaiser form Saudi Arabia, and the other project is the Four Seasons Hotel in Damascus set up by the Saudi prince Al-Walid Bin Talal (65 per cent), a Gulf Arab TNC investor, and the Ministry of Tourism (35 per cent). The first project is already in operation while the second is under construction.

b. *Investments under law No. 10 for 1991*: A total of 1619 projects were licensed under this law by the end of October 1999, worth US$ 7.6 billion (see tables 33 and 34). These projects, concentrated in Damascus and Aleppo are mostly of transport projects including car rental companies and passenger and freight transport, and industrial projects mostly in agro-industries and textiles with low cost, consumer-oriented, and short payback period. The record of execution was modest, as only about 30 per cent of industrial projects licensed has actually been executed, reflecting bureaucratic impediments and an immature investment climate.

TABLE 29. EXPENDITURE OF INTERNATIONAL OIL COMPANIES IN THE SYRIAN ARAB REPUBLIC, 1980-1998
(*Millions of dollars*)

Name of Company	Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993*	1994	1995	1996	1997*	1998*	Total
Rompetrole	Exploration	0.5	0.0																		0.5
Chad Oil	Exploration	4.9	1.6	0.0																	6.5
Pecten	Exploration	12.8	14.5	9.6	9.0	10.9	3.2	2.0	1.2	0.8	0.0										63.8
Shell Deir Ezzor	Exploration	5.3	8.1	6.9	5.7	33.4	57.9	105.2	34.3	2.5	10.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0			269.6
Contract	Development						31.1	101.6	128.0	198.1	189.3	282.0	168.6	187.3	193.8	160.0	140.8	129.7	130.0	120.0	2 160.1
Shell Badhle Contract	Exploration						0.4	7.3	6.2	24.0	57.1	36.2	42.9	50.6	0.9	0.1	0.2	0.0	0.0	0.0	225.8
	Development										94.3	68.6	104.8	240.6	192.4	180.0	188.4	198.4	170.0	160.0	1 597.4
Shell Annex 4 Contract	Exploration								2.0	58.4	7.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	30.0	545.3
	Development									0.4	83.1	62.4	39.0	56.0	60.6	68.0	84.4	36.4	25.0	40.0	490.0
Shell Gas Contract	Development										1.2	49.0	159.6	53.0	35.8	39.0	43.1	34.4	35.0	40.0	490.0
Shell Al Waled Contract*																0.0	1.0	2.0	2.5	2.5	8.0
Shell Zenobia Contract*																			0.0	1.0	1.0
Marathon, USA	Exploration	2.1	5.9	1.0	1.3	1.2	9.2	31.5	3.7												55.8
Marathon, new contract	Development										25.7	57.8	25.4	39.7	3.1	0.0					151.6
Tricentrol	Exploration									3.5	5.9	3.0	6.1	6.6	0.0	0.0					25.2
Total CFP France	Ex & Dev								3.6	12.1	21.6	22.4	16.1	11.2	8.2	0.0					95.2
Oxy Boussra contract	Exploration									4.9	14.4	6.7									25.9
Oxy Nabek contract	Exploration												6.4	11.0	9.6	0.0					26.9
Enron Oil, USA	Exploration									2.4	7.2	4.1	5.6	2.2							21.6
Elf Aquitaine, France	Exploration									4.4	32.4	44.8	16.5	20.2	46.0	12.0	1.2	0.0	0.0	0.0	177.5
	Development											20.8	24.7	15.5	45.0	54.0	62.2	85.9	130.0	160.0	598.3
BP/Shell	Exploration										3.6	13.4	12.0	6.1	8.4	5.0	9.0	0.0			57.4
Unocal, USA	Exploration										5.9	13.2	11.0	3.8	0.0	0.0					33.8
Neste Oil	Exploration										4.2	9.1	5.0	2.2	0.0	0.0					20.5
Repsol, Espagne	Exploration											7.2	11.2	9.5	0.5	0.0					28.3
Tullow oil, Irlande	Exploration													3.4	5.4	6.0	7.2	1.4	0.2	0.0	23.4
	Development															0.0	0.0	2.1	3.1	0.0	5.2
Mol Hungarian oil	Exploration																		0.8	1.4	2.2
Ina nataplin, Croatia	Exploration																		0.4	1.5	1.9
Total		25.5	30.2	17.6	15.9	45.4	101.7	247.6	179.0	311.4	563.4	701.6	655.1	718.7	609.6	524.1	537.5	490.2	497.0	516.4	6 787.9

Source: Ziad Ayoub Arbache, "L'impact economique de l'action des compagnies pétrolières internationales dans les pays producteurs du pétrole: Le cas de las Syrie (1975-1997)", Thèse de Doctorat, I.E.P.E, Université Grenoble II, France.

* Estimates by Ziad Ayoub Arbache at SCB.

TABLE 30. EXPENDITURE BY INTERNATIONAL OIL COMPANIES IN THE SYRIAN ARAB REPUBLIC, 1980-1998
(Millions of dollars)

Activity	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Total
Total exploration	25.5	30.2	17.6	15.9	45.4	70.6	146.0	50.9	113.0	195.6	218.8	158.4	166.3	82.0	23.1	18.6	5.4	6.9	6.4	1 396.8
Total development	0.0	0.0	0.0	0.0	0.0	31.1	101.6	128.0	198.5	367.8	482.8	496.6	552.3	527.6	501.0	518.9	484.8	490.0	510.0	5 391.1
Total expenditures	25.5	30.2	17.6	15.9	45.4	101.7	247.6	179.0	311.4	563.4	701.6	655.1	718.7	609.6	524.1	537.5	490.2	497.0	516.4	6 787.9

Source: Derived by previous table.

TABLE 31. EXPENDITURE BY SHELL AND ELF AQUITAINE IN THE SYRIAN ARAB REPUBLIC, 1980-1998
(Millions of dollars)

Name of Company	Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993*	1994	1995	1996	1997*	1998*	Total
Shell	Exploration	5.3	8.1	6.9	5.7	33.4	58.3	112.5	42.5	84.9	74.8	37.1	43.1	50.6	0.9	0.1	1.2	2.0	2.5	3.5	573.3
	Development	0.0	0.0	0.0	0.0	0.0	31.1	101.6	128.0	198.5	397.8	462.0	472.0	536.8	482.6	447.0	456.7	398.9	360.0	350.0	4 792.8
	Total	5.3	8.1	6.9	5.7	33.4	89.4	214.1	170.5	283.4	442.6	499.1	515.0	587.4	483.5	447.1	457.9	400.9	362.5	353.5	5 366.1
Elf Aquitaine	Exploration									4.4	32.4	44.8	16.5	20.2	46.0	12.0	1.2	0.0	0.0	0.0	177.5
	Development											20.8	24.7	15.5	45.0	54.0	62.2	85.9	130.0	160.0	598.3
	Total									4.4	32.4	65.7	41.2	35.7	91.0	66.0	63.4	85.9	130.0	160.0	775.8
Other companies	Total	20.2	22.1	10.6	10.2	12.0	12.3	33.5	8.4	23.7	88.4	136.9	98.8	95.6	35.1	11.0	16.2	3.4	4.4	2.9	646.0
Total		25.5	30.2	17.6	15.9	45.4	101.7	247.6	179.0	311.4	563.4	701.6	655.1	718.7	609.6	524.1	537.5	490.2	497.0	516.4	6 787.9

Source: Ziad Ayoub Arbache, "L'impact economique de l'action des compagnies pétrolières internationales dans les pays producteurs du pétrole: Le cas de la Syrie (1975-1997)", Thèse de Doctorat, I.E.P.E, Université Grenoble II, France.

* Estimates by Ziad Ayoub Arbache at SCB.

TABLE 32. PROJECTS INVOLVING FDI TO THE SYRIAN ARAB REPUBLIC OUTSIDE THE OIL SECTOR, 1970-1985

Name of company	Date established	Ownership	Activities
The Syrian-Saudi Company for Agricultural and Industrial Investments (SIACO)	1974	Capital US$ 200 million; shareholders: Saudi Arabia, Ministry of Finance (50 per cent) and Syrian Government (50 per cent)	Two projects: one for the production of dairy products and the other for the manufacture of office furniture
The Syrian-Libyan Company for Agricultural Investments (SYLICO)	1978	Capital US$ 200 million; shareholders: The Libyan Company for Foreign Investments (LAFICO), a public sector Company (50 per cent) and Syrian Government (50 per cent)	Poultry, dairy and silo projects
Al-Furat Tractors Company	1973	Capital US$ million; shareholders: Syrian Government (75 per cent) and Spain, Iberia Motor Company (25 per cent)	Production of tractors and their spare parts (annual capacity of 3,000 tractors and engines of 45 and 70 horse-power)
The Syrian Company for Hotels and Tourism	1977	Capital US$ 44 million; shareholders: Arab Investment Co., Riyadh, Kuwait Real Estate Investment Group, Libyan Arab Bank, Arab Co. for Financial Investments, United Arab Emirates (62.5 per cent) and the Ministry of Tourism, Syrian Arab Republic (37.5 per cent)	Safir Ma'aloula and Safir Homs (four-star hotels) and 20 per cent shareholding in Al-Faradis Hotel in Damascus

As to foreign investment, 19 projects licensed under investment law No. 10 for 1991 have 100 per cent foreign ownership (including expatriate Syrian and Arab investors), and 200 projects have foreign ownership ranging between 1 and 99 per cent. Arab investors are from Algeria, Egypt, Jordan, Iraq, Kuwait, Lebanon, Saudi Arabia, and the United Arab Emirates and non-Arab investors are from Finland, Republic of Korea, Switzerland, the Russian Federation and the United States of America. Projects with foreign participation are mostly in textiles and clothing, metal, irrigation, cement, cattle raising and dairy, chemicals (including plastics), animal feed, printing and packaging, olive and vegetable oils, wheat grinding, land and sea transport.[17]

Among these projects one Saudi TNC (Dallah Al-Baraka Group) has two investments, one in a sea-transport project (40 per cent shareholding) and the other in a carton packaging project, and three non-Arab TNCs are Valio International of Finland, Nestle of Switzerland and Samsung of the Republic of Korea. Another project, an oil lubricant project, by a major TNC, the Mobil Corporation, has been set up under law No. 103 for 1952.

All above projects were set up in association with the Syrian private investors and some included the Syrian Government participation.

Another foreign investment project was set up by a special presidential decree in 1995 involved the establishment of the Kuwait United Investment Company, a holding company, with a subscribed capital of US$ 200 million and a paid-in capital of US$ 25 million from the Kuwaiti Government; the company is planning to establish several building materials projects.

[17] Information from the Higher Council for Investment.

TABLE 33. THE SYRIAN ARAB REPUBLIC: PROJECTS APPROVED UNDER INVESTMENT LAW NO. 10 FOR 1991 BY ECONOMIC SECTORS UNTIL THE END OF OCTOBER 1999
(*Millions of Syrian pounds and millions of dollars*)

Sector	No. of projects	Estimated capital cost of projects		Foreign exchange component of projects	
		SL	US$	SL	US$
Agriculture and irrigation	54	10 207	222	6 241	136
Industry	737	295 524	6 424	227 852	4 953
Extractive industry	1	50	1	43	1
Electricity	2	1 735	38	1 634	36
Transportation	820	40 698	885	33 556	730
Land transport and car rental	818	39 501	859	32 377	704
Sea transport	2	1 197	26	1 179	26
Others	5	751	16	572	12
Total	1 619	348 965	7 586	269 898	5 868

Source: Syrian Arab Republic, the Higher Council for Investment.

Rate of exchange used in US$ 1.00 = SL 46.00.

TABLE 34. SYRIAN ARAB REPUBLIC: PROJECTS APPROVED UNDER INVESTMENT LAW NO. 10 FOR 1991 BY ECONOMIC SECTORS UNTIL THE END OF OCTOBER 1999
(*Millions of Syrian pounds and millions of dollars*)

Sector	No. of projects	Estimated capital cost of projects		Foreign exchange component of projects	
		SL	US$	SL	US$
Agro-industries	262	68 382	1 487	41 282	897
Textile and clothing	106	34 245	744	26 731	581
Wood and furniture	6	509	11	314	7
Paper and carton	20	5 034	109	4 210	92
Chemical industries	97	26 843	584	22 300	485
Metals	144	26 549	577	18 710	407
Non-metals and construction material	60	127 915	2 781	110 450	2 401
Pharmaceutical and medical	32	5 367	117	3 508	76
Others	10	680	15	345	8
Total	737	295 524	6 424	227 850	4 953

Source: Syrian Arab Republic, the Higher Council for Investment.

Rate of exchange used in US$ 1.00 = SL 46.00.

TABLE 35. THE SYRIAN ARAB REPUBLIC: PROJECTS LICENSED UNDER INVESTMENT LAW NO. 10 FOR 1991 BY TYPE OF ESTABLISHMENT UNTIL THE END OF OCTOBER 1999
(*Millions of Syrian pounds and millions of dollars*)

Sector	No. of projects	Estimated capital cost of projects		Foreign exchange component of projects	
		SL	US$	SL	US$
Corporation	54	115 546	2 512	99 942	2 173
Partnership company	457	46 149	1 003	34 896	759
Limited partnership company	322	44 910	976	30 271	658
Limited liability company	100	19 713	429	14 713	320
Individual establishment	672	85 016	1 848	61 889	1 345
Mixed partnership company	1	50	1	43	1
Mixed limited liability company	9	36 116	785	27 101	589
Existing companies	1	321	7	139	3
Others	3	1 144	25	904	20
Total	1 619	348 965	7 586	269 898	5 867

Source: Syrian Arab Republic, the Higher Council for Investment.

Rate of exchange used in US$ 1.00 = SL 46.00.

2. *The Syrian FDI abroad*

The UNCTAD *World Investment Report, 1999* shows the Syrian FDI abroad range between US$ 1 billion and US$ 3 billion a year during the period of 1996-1998. The Kuwait based Inter-Arab Investment Guarantee Corporation puts the total Syrian investments in Arab countries during the period of 1985-998 at US$ 435.8 million, an average of US$ 31 million a year. The largest part of these investments went to Egypt, Lebanon and Saudi Arabia (see table 36).[18]

TABLE 36. TOTAL SYRIAN DIRECT INVESTMENTS IN ARAB COUNTRIES BY COUNTRY OF DESTINATION, 1985-1998
(*Millions of dollars*)

Country/area	Total	Average annual
Lebanon	100.6	7.19
Saudi Arabia	96.8	6.91
Egypt	78.8	5.63
Sudan	51.5	3.68
Jordan	34.9	2.50
Morocco	26.8	1.92
United Arab Emirates	18.0	1.29
Kuwait	17.5	1.25
Yemen	4.1	0.30
Tunisia	3.0	0.22
Qatar	2.3	0.17
Oman	1.2	0.08
Djibouti	0.1	0.01
Total	435.6	31.15

Source: The Inter-Arab Investment Guarantee Corporation, *Arab Investment Climate Report, 1998.*

E. IMPACT OF FDI ON THE SYRIAN ECONOMY

The economic impact of FDI outside the oil sector has been minimal, in view of the small number of projects and their spread among various sectors. In the oil sector, one company, Shell, has had a remarkably direct impact on the country's energy supply and the Government's foreign exchange resources, and an indirect impact, through the effect of the Government new foreign exchange resources on the rest of the economy. But being an investment in an enclave sector, this oil investment generated few linkages, backward or forward, and its effect on domestic investment and employment has been minimal, not generating any significant technology transfer, or skill building/creation. Although the Shell company has been carrying out training programs for the Syrians, but top and most middle managerial and technical jobs remain in non-the Syrian hands. Employment of the Syrian and non-Syrian in the international oil companies operating in the Syrian Arab Republic is shown in table 36.

The direct impact of FDI can be observed in the city of Deir Ezzor, near the oil wells, that shows a visible recovery; the road network has increased, an airport has been built, and a new four-stars hotel and several restaurants have emerged in town.

[18] The source of the data are unavailable and hence difficult to establish their reliability, but it is likely that these are not investments abroad by established business groups inside the Syrian Arab Republic; more likely, they are investments by expatriate Syrians.

TABLE 37. ESTIMATE OF EMPLOYMENT IN THE FOREIGN OIL COMPANIES IN THE SYRIAN ARAB REPUBLIC, 1998

Name of company	Syrian	Non-Syrian	Total
Syria Shell Petroleum Development B.V.	170	90	260
Al-Furat Petroleum Company (Shell: 33.3 per cent, Deminex: 16.7 per cent, SPC: 50 per cent)	1 800	130	1 930
Elf Hydrocarbures Syrian Arab Republic	35	15	50
Deir Ezzor Petroleum Company	120	25	145
MOL and INA	50	18	68

Source: SCB estimates based on discussions with staff of companies.

TABLE 38. OIL PRODUCTION, 1968-1998
(1000 barrels/day)

Year	The Syrian Petroleum Co.[a]	Foreign companies	Total production
1968	20	..	20
1973	106	..	106
1976	192	..	192
1979	166	..	166
1980	158	..	158
1981	163	..	163
1982	155	..	155
1983	161	..	161
1984	162	..	162
1985	159	9	168
1986	161	22	183
1987	169	61	230
1988	168	100	268
1989	164	175	339
1990	159	245	404
1991	159	311	470
1992	154	359	513
1993	153	409	562
1994	155	403	558
1995	157	412	569
1996	155	455	610
1997	150	430	580
1998	148	417	565

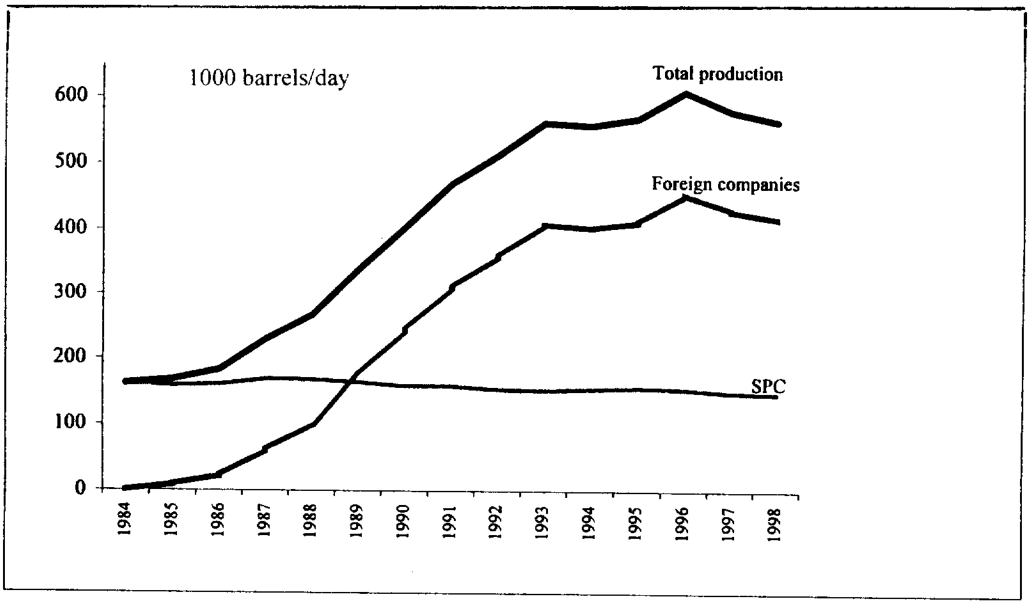
a/ 1996-1998: Estimates.

Oil discoveries in the Syrian Arab Republic by Shell and Elf Aquitaine brought the total production of crude oil from 158,000 barrel per day in 1980 to 565,000 barrel per day in 1998, of which about 240,000 barrel per day are taken to the local refineries and 325,000 barrel per day are exported. Of the oil produced, about 74 per cent is accounted for by the two foreign oil companies and of this oil 85 per cent is accounted for by Shell and the rest by Elf Aquitaine.

TABLE 39. OIL PRODUCTION IN THE SYRIAN ARAB REPUBLIC, 1998
(Barrels per day)

	Production	To refineries	To export
Shell and Elf-Aquitaine	417 000	150 000	270 000
SCP	148 000	90 000	50 000
Total	565 000	240 000	320 000

Figure II. Syrian Arab Republic: Oil production by operating companies, 1984-1998



The oil discovered and produced by the two foreign companies helped convert the Syrian Arab Republic from a net importer of oil in the 1980s to a net exporter of oil as of the early 1990s, and oil exports became a dominant factor in the Syrian exports. Oil exports were in range of US$ 1.5 billion to 2.0 billion a year in the past few years, accounting for 51 to 64 per cent of the Syrian total exports.

The new foreign exchange from oil made it possible for the Government to revive the public sector enterprises and enabled the economy to recover from its 1986 foreign exchange crisis.[19] In fact, the economy grew at an average rate of 7 per cent per year in the first half of the 1990s, owing to the foreign exchange the oil sector yielded to the public sector economy and to some economic reform measures introduced in the economy in the second half of the 1980s and early 1990s.

The oil and gas discovered also helped meet the rising demand for energy in the domestic market. Final consumption of energy is estimated to have risen by 70 per cent during the period 1985-1997; demand arising mainly from population growth and a surge in new factories and from the import of new cars in response to law No. 10 for 1991. The Government followed a policy of converting the public sector industrial plants such as cement, fertilizers and electricity plants from fuel based plants to gas based plants in order to make more crude oil available for export.

Against the inflow of foreign capital by the international oil companies, and the foreign exchange they generated through exports companies have taken out US$ 8 billion in profits and in exploration cost recovery during the period 1980-1998. Table 43 shows an annual outflow (cost recovery and profits) by the two foreign oil companies ranging between US$ 774 million and US$ 878 million during the period 1990-1998.

The oil impact on budgetary revenues, has also been significant. The two operating foreign oil companies, Shell and Elf Aquitaine, contribute to the central Government budget through the royalty (12.5 per cent of the value of oil purchased) and the income tax they pay to the Government budget (paid by SPC on their behalf), and through the profit transfers of the Syrian Petroleum Company, their joint venture partner, to the budget. This total contribution represented 44.2 per cent of total domestic budgetary revenues in 1996, 49 per cent in 1997, and 40 per cent in 1998.[20]

[19] Nabil Sukkar. "The Crisis of 1986 and Syria's Plan for Reform" in *Contemporary Syria*, Eberhard Kienle, ed. (London, British Academic Press, 1994).

[20] The Syrian Arab Republic, Minister of Finance, "Reports on the annual budget" (*in Arabic*).

F. IMPEDIMENTS TO FDI IN THE SYRIAN ARAB REPUBLIC

1. *General impediments*

Despite the Government's more positive attitude towards FDI in recent years and an improved policy framework, FDI to the Syrian Arab Republic remains minimal outside the oil sector. An unsustainable growth record, lack of serviced industrial areas and less than perfect infrastructure have probably contributed to this, but the most compelling factors have been the poor regulatory framework in the economy and the absence of a modern banking system (together with the absence of organized capital, foreign exchange and financial markets).

2. *The poor regulatory framework*

Investment laws, in the Syrian Arab Republic, offered investors exemptions from constraining laws and regulations affecting imports, foreign exchange dealings and labor relations, (in addition to tax exemptions), but these exemptions proved to be insufficient. The obstacles in the regulatory environment and in its administration remain overwhelming. For example, law No. 10 for 1991 allows the repatriation of capital, but imposes a five-year restriction before repatriation can take place, and it does not allow the capital taken out to exceed in value capital that was brought in originally. Also domestic and foreign investors remain unable to have legal access to foreign exchange to purchase needed imports and to repatriate profits unless they earn their own foreign exchange through exports.

The most constraining aspects of the regulatory framework are the following:

(a) A restrictive trade regime characterized by high tariffs (that reach 250 per cent in some instances), and extensive quantitative restrictions. Limited tariffication effort has taken place in recent years, and the Syrian Arab Republic has not decided yet to join the WTO;

(b) An exchange control system that (i) restricts the outflow of currency and the domestic dealing in foreign currency, (ii) imposes severe penalties for violators and (iii) gives the private sector limited accessibility to foreign exchange through legal channels;[21]

(c) A multiple exchange regime, which creates a complex environment for investors and traders;[22]

(d) Unpredictability of Government policies;

(e) Judiciary court decisions being subject to undue influence;

(f) Cumbersome and lengthy administrative procedures (there is no one shop stop to cater to the needs of investors), creating a need for investors in some cases to bring in a well-connected patron as a shareholder or as a facilitator to assist in obtaining licenses and dealing with administration difficulties;

(g) A complex tax system and an inconsistency in its application.

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[21] Law No. 24 for 1986 imposes penalties up to 25 years of imprisonment for violators. Although the Government gave verbal assurance in recent years that the law will not be invoked on activities connected with Law No. 10 of 1991, the law remains an anathema for investors, both local and foreign. As of 1984, the Central Bank of the Syrian Arab Republic stopped providing the private sector with the foreign exchange it needs for its imports. At present, the private sector finances its imports through its own deposit, held abroad or locally, or through the private sector export proceeds held at the Commercial Bank of the Syrian Arab Republic. Exporters are allowed to retain 75 per cent of export proceeds earnings to be based exclusively to finance imports of designated items.

[22] The officially recognized exchange rates for the United States dollar against the Syrian pound (LS) are the following: LS 11.25, LS 23 and LS 46.25 applicable to different transactions, and the two market-determined rates are the export rate that fluctuated between LS 53 and LS 57 for the dollar and the black market rate that has been fluctuating between LS 49 and LS 59 for the dollar over the past five years.

TABLE 40. SYRIAN ARAB REPUBLIC: OIL AND NON-OIL EXPORTS, 1993-1998
(Millions of Syrian pounds and percentages)

	1993		1994		1995		1996		1997		1998	
Years	SL	%	SL	%	SL	%	SL	%	SL	%	SL	%
Oil[a]	63 235	66.7	65 973	55.1	84 773	64.5	107 679	63.8	111 990	61.5	78 874	51.2
Other public sector	7 936	8.4	13 603	11.4	8 259	6.3	25 603	15.2	33 359	18.3	35 272	22.9
Private sector	23 620	24.9	40 131	33.5	38 411	29.2	35 500	21.0	36 730	20.2	39 782	25.8
Total	94 791	100	119 707	100	131 403	100	168 782	100	182 079	100	153 928	100

a/ Includes petroleum products.

TABLE 41. SYRIAN ARAB REPUBLIC: OIL AND NON-OIL IMPORTS, 1993-1998
(Millions of Syrian pounds and percentages)

	1993		1994		1995		1996		1997		1998	
Years	SL	%	SL	%	SL	%	SL	%	SL	%	SL	%
Oil[a]	4 873	4.7	2 136	1.4	967	0.7	2 832	1.6	5 718	3.5	5 423	3.3
Other public sector	22 430	21.5	33 087	22.3	30 253	22.2	44 671	25.2	30 280	18.7	13 665	8.4
Private sector	77 168	73.9	112 848	76.2	105 051	77.1	129 840	73.2	125 704	77.7	143 284	88.2
Total	104 471	100	148 071	100	136 271	100	177 343	100	151 702	100	162 372	100

Source: Syrian Arab Republic, Central Bureau of Statistics, *Statistical Abstract*, 1994-1999 issues.

Note: Figures in the statistical abstract show export and import figures in local currency on the basis of an exchange rate of US$ 1.00 = SL 11.25. We converted these figures to US dollars on the above official rate of exchange and back to local currency using the following weighted average rates for US$ 1.00 the US dollar as used by the Central Bank of the Syrian Arab Republic in agreement with the IMF:

1993	1994	1995	1996	1997	1998
30.06	33.00	34.06	39.27	44.88	49.10

a/ Includes petroleum products.

TABLE 42. ENERGY CONSUMPTION IN THE SYRIAN ARAB REPUBLIC, 1985-1997
(*Thousand barrels of oil equivalent per day*)

	1985	1990	1995	1996	1997
Oil	142	163	184	181	180
Gas	3	16	59	64	66
Electricity	10	7	14	15	17
Total consumption	155	186	257	260	263

TABLE 43. CAPITAL OUTFLOW BY INTERNATIONAL OIL COMPANIES PRESENTLY SHARING IN PRODUCTION, 1985-1998
(*Millions of dollars*)

Year	Production	Cost recovery	Profit oil	Share of international oil companies (cost recovery + profit oil)
1985	67	23	8	32
1986	170	60	21	80
1987	375	131	45	177
1988	520	182	63	245
1989	1 144	378	141	518
1990	2 101	616	263	878
1991	2 189	604	276	880
1992	2 517	657	330	987
1993	2 471	633	301	934
1994	2 225	583	287	870
1995	2 197	576	281	857
1996	2 093	523	293	816
1997	2 060	515	288	804
1998	1 984	496	278	774
Total	22 114	5 976	2 875	8 851

Source: Ziad Ayoub Arbache, *L'impact Economique de l'action des compagnies pétrolières internationales dans les pays du pétrole: Le cas de la Syrie (1975-1997)*, Thèse de Doctorat, I.E.P.E, Université Grenoble II, France.

3. *Lack of a modern banking system*

The banking system in the Syrian Arab Republic was set up to cater to a central planning regime, consisting of a central bank and five public sector banks specialized in each of commerce, agriculture, industry, real estate and small business credit. The system is not profit-driven and the mandatory legal specialization removed any competitive element from the system. In recent years, reforms in the banking system have been confined to expanding the network of bank branches, upgrading equipment, conducting staff training and sanctioning the opening of private foreign currency accounts, while keeping the central planning character of the system intact.

The banking system still suffers from an inefficient retail banking services, and inability to cater to the financing needs of a rapidly growing private sector market-oriented economy. The system lacks diverse saving and investment instruments, shows little experience in risk finance (hence requiring heavy finance collateral), has rigid interest rate structure and is unable to access international financial markets. This banking situation together with exchange controls regulations resulted in the absence of organized capital, foreign exchange and financial markets. Hence private business in the Syrian Arab Republic tends either to be content with equity finance, or seek debt finance in neighboring Lebanon. The EU is providing technical assistance to reform the banking system, with a focus on updating technology and providing staff training.

In addition to the economic factors impeding the flow of FDI to the Syrian Arab Republic, there are two political impediments: (a) the political instability and high perception of risk in the region resulting from the Arab-Israeli conflict, and (b) the United States sanctions against the Syrian Arab Republic, which help in the creation of an anti foreign investment climate in the country. [23]

4. *The external debt situation becoming less of an impediment*

The 1986 foreign exchange crisis[24] forced the Syrian Arab Republic to suspend servicing some of its external debt, in the second half of the 1980s, including debt owed to the World Bank and to commercial creditors. In 1991, it also stopped servicing its debt to the dissolving Soviet Union. Since then, the Syrian Arab Republic's external foreign exchange position improved as a result of the new oil funds and has cleared its arrears to all commercial banks and to most national export guarantee agencies, including those of Belgium, France, and the United Kingdom and Northern Island, and its arrears to Iran. It has also been clearing its arrears to the World Bank in accordance with an agreement signed in 1998 and is now negotiating with Germany to clear its debt arrears, owed mostly to former German Democratic Republic.

The Syrian Arab Republic has a total external debt of about US$ 20 billion at the end of 1997.[25] Of the existing debt about US$ 11 billion is owed to the former Soviet Union, which has been assumed by the Russian Federation. The Russian debt has been a subject of negotiations between the two countries and a substantial part of it may be written off (as happened with other countries). If the Russian debt is removed, this leaves a modest US$ 9.8 billion debt owed to international and regional Arab finance institutions and to export guarantee agencies in OECD countries.

In recent years, the Syrian Arab Republic has been careful not to incur heavy debts. The ODA received has been mostly in the form of technical assistance from the EU and Japan, and soft loans from Arab finance institutions received on concessionarey terms. In fact, ODA per capita has dropped from US$ 56 million in 1990 to US$ 13 million in 1997.

Despite an improved debt situation, the Syrian international creditworthiness is still low. The Institutional Investors gave the Syrian Arab Republic a credit rating of 23 in March 1999, as compared to a rating of 37.3 to Jordan, 44.4 to Egypt, 53.7 to the Republic of Korea and 92.7 to Switzerland. [26]

5. *Regional arrangements and the flow of FDI to the Syrian Arab Republic*

The Syrian Arab Republic signed a number of regional conventions and agreements on the free flow of FDI (see table 22 above), but none of these agreements, owing to the prevailing impediments to the flow of FDI, helped the flow of FDI to the nation.

The Syrian Arab Republic is moving towards joining various regional economic groupings to help mitigate losses from globalization and benefit from its challenges and, the same time, to attract FDI. An agreement was signed with Lebanon in 1998, aiming at establishing an industrial free trade area between the two countries by the year 2002 (later to include agriculture). The Syrian Arab Republic also joined the

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[23] The sanctions against the Syrian Arab Republic include the following:

(a) The United States Government imposes a licensing requirement on "dual use items" exported to the Syrian Arab Republic, such as computer equipment and oil exploration technology;

(b) The United States companies are prevented from taking advantage of foreign tax credits on royalties paid to the Government of the Syrian Arab Republic;

(c) American investments in the Syrian Arab Republic may not benefit from the United States Overseas Private Investment Corporation (OPIC) insurance cover because of the United States listing of the Syrian Arab Republic among countries that harbor terrorism.

[24] See Nabil Sukkar, "The Crisis of 1986 and Syria's Plan for Reform", *Contemporary Syria*, Eberhard Kienle, ed. (London, British Academic Press, 1994); and Nabil Sukkar, "Syria: Strategic Economic Issues", *Economic Challenges Facing Middle Eastern and Northern African Countries: Alternative Features*, Nemat Shafik, ed. (London, Macmillan Press Ltd., 1998).

[25] World Bank, *World Development Report, 1999-2000* (United Nations publication), Appendix, p. 271.

[26] Ibid. pp. 262-263

Greater Arab Free Trade Area Scheme in 1998, which involves the removal of all tariff and non-tariff barriers among Arab countries by the year 2007. The Syrian Government is negotiating to join the European initiative for the establishment of a Euro-Med Scheme, which includes the establishment of free trade areas between the EU and individual countries in the southern and eastern shores of the Mediterranean, targeted for completion by the year 2010.

These regional schemes have the potential to help the flow of FDI to the Syrian Arab Republic, provided the country undertakes the necessary economic and institutional reforms to create a climate attractive to the flow of FDI.

G. POLICY CONCLUSIONS FOR ENCOURAGING THE FLOW OF FDI AND OBTAINING THE MOST DEVELOPMENT IMPACT FROM IT

FDI in the Syrian Arab Republic has gone mostly to the oil sector, leaving a major positive impact on the country's foreign exchange resources. The new foreign exchange helped the economy recover from its 1986 foreign exchange crisis and came just in time to substitute for the dwindling ODA flow to the country. The negative side is that the Syrian nation's recent heavy dependence on oil has given the economy a rentier character and made it heavily dependent on a depletable national resource.

The Syrian Arab Republic, similar to other developing countries, has to attract substantial amount of FDI in the future to supplement its domestic savings and to help enhance its technological upgrading, it should attempt to attract FDI not only in the oil sector but also in the non-oil sectors as well. At the same time, there should not be any illusion that the flow of FDI to the country could be enhanced easily or that FDI to the country is going to bring growth and prosperity by itself.

Surgical economic and institutional reforms should be undertaken in the Syrian Arab Republic to create an environment attractive to FDI, and efforts of a similar magnitude and depth should be undertaken to develop a vision and a plan for the Syrian's own economic, social and technological development over the next 20 to 25 years. It should attempt to attract FDI within such a comprehensive national scheme in order to derive from it a maximum economic benefits.

Within the needed reform and development plans, a more active FDI policy is needed that includes: (a) rationalizing incentives under existing investment laws on the basis of the country's development priorities, possibly joining all laws in one all encompassing investment law,[27] and (b) targeting and promoting FDI. This should start from a vision of how FDI can be made to contribute to the country's national development and include what type of FDI to be attracted, to what sectors in the economy, and from what sources. Syrian private savings abroad and private investors should be as important sources as international TNCs. The policy should also include incentive measures to encourage FDI to contribute in a more direct way to the country's local technological and skill upgrading through carrying out research and development (R and D) locally and training local personnel.

Furthermore, policy efforts to attract FDI to the country should be undertaken in the context of Arab Free Trade Area Scheme which the Syrian Arab Republic has joined and its expected membership with the Euro-Med Partnership Agreements. It is the potential FDI benefit from these regional groupings that constitute their main importance to The Syrian Arab Republic.

Finally, peace in the region will create a momentum for increasing both ODA and FDI flows to the Syrian Arab Republic and the region, adding another reason for the Syrian Arab Republic to accelerate its economic and institutional reforms and for formulating its future development schemes as early as possible. The ODA and FDI flows should not be left to the whims of the donors or to TNCs. The country should first have a vision of its development priorities and should formulate its own reform and development policies and plans so as to derive maximum benefits from external capital flows.

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[27] The Government is considering amendments to law No. 10 for 1991 which involves further relaxation of foreign exchange restrictions and more targeted tax exemptions, but these amendments should not be a substitute to the more needed overall of the regulatory system (see annex I).

Annex I

PROPOSED AMENDMENTS TO LAW NO. 10 FOR 1991

The proposed amendments being considered by Government at present to Law No. 10 for 1991 are the following:

(a) Offering an additional five-year income tax exemption for projects set up outside the major urban centers, Damascus, rural Damascus, Aleppo and Homs;

(b) Exempting additional income tax for projects considered strategic by the Higher Council of Investment;

(c) Allowing ownership of land by projects to exceed ceilings set by land reform laws;

(d) Allowing more freedom of foreign exchange dealings, including the opening of bank accounts abroad, and retention of 100 per cent foreign exchange proceeds in some instances;

(e) Permitting corporations to prepare their own articles of association, irrespective of the 1949 commercial law provisions. This frees corporations from commercial law limits on foreign representation on their board of directors;

(f) Exempting form stamp duties for projects that sell 50 per cent or more of their shares to the public;

(g) Recognizing holding companies in the law.

Annex II

DIRECTORY OF FDI IN THE SYRIAN ARAB REPUBLIC

Name of company	Syrian Arab Republic Shell Petroleum Development B.V.[a]
Capital and shareholders distribution	100 per cent Royal Dutch Shell group, The Netherlands
Main activity	Exploration for hydrocarbons in the Syrian Arab Republic
Parent company and country	See above
Date of entry to the Syrian Arab Republic	1987 (Replacing Pecten United States, 100 per cent subsidiary of shell Group)

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total assets	n.a.	n.a.	n.a.
Foreign assets	n.a.	n.a.	n.a.

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total sales[a]	None	None	None
Foreign sales	None	None	None

	1996	1997	1998
Total number of employees[b]	None	None	None
Foreign employees[b]	None	None	None

a/ This company explores for oil in the Syrian Arab Republic. If oil is discovered, a new joint venture company will be created with the Syrian Petroleum Company to develop and produce the oil discovered.

b/ Estimate.

Name of company	Al-Furat Petroleum Company
Capital and shareholders distribution	50 per cent Syrian Petroleum Company 50 per cent Foreign partner (33.3 per cent Syrian Arab Republic Shell Petroleum Development, 16.7 per cent Deminex Gmbh. Shell is the operator.
Main activity	Development and production of oil and gas
Parent company and country	See above
Date of entry to the Syrian Arab Republic	Established in 1984

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total assets	n.a.	n.a.	n.a.
Foreign assets	n.a.	n.a.	n.a.

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total sales[a/]	90 850	88 650	83 901
Foreign sales			

	1996	1997	1998
Total number of employees[b/]	1 944	1 950	1 930
Foreign embloyees[b/]	125	128	130

a/ Total production value: The Syrian Petroleum Company is responsible for marketing the production (which uses a small part for local consumption and the rest is for export). The share of the foreign company is defined according to the Production Sharing Contract, which represents cost recovery and share of produced oil.

b/ Estimate.

Name of company	Elf Hydrocarbures Syrie (EHS)[a]
Capital and shareholders distribution	100 per cent Elf Aquitaine, France
Main activity	Exploration for hydrocarbons in the Syrian Arab Republic
Parent company and country	EHS a subsidiary of the French Elf Aquitaine Group, France
Date of entry to the Syrian Arab Republic	1988

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total assets	n.a.	n.a.	n.a.
Foreign assets	n.a.	n.a.	n.a.

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total sales[a]	None	None	None
Foreign sales	None	None	None

	1996	1997	1998
Total number of employees[b]	50	50	50
Foreign employees[b]	15	15	15

a/ This company explores for oil in the Syrian Arab Republic. If oil is discovered, a new joint venture company will be created with the Syrian Petroleum Company to develop and produce the oil discovered.

b/ Estimate.

Name of company	Deir Ezzor Petroleum Company
Capital and shareholders distribution	50 per cent Syrian Petroleum Company 50 per cent Elf Hydrocarbures Syrie
Main activity	Development and production of oil and gas
Parent company and country	See above
Date of entry to the Syrian Arab Republic	Established in 1990

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total assets	n.a.	n.a.	n.a.
Foreign assets	n.a.	n.a.	n.a.

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total sales[a/]	14 250	14 400	13 100
Foreign sales			

	1996	1997	1998
Total number of employees[b/]	138	140	145
Foreign employees[b/]	28	26	25

a/ Total production value: The Syrian Petroleum Company is responsible for marketing the production (which uses a small part for local consumption and the rest is for export). The share of the foreign company is defined according to the Production Sharing Contract, which represents cost recovery and share of produced oil.

b/ Estimate.

Name of company	MOL Syrian Oil and Gas Company B.V.[a]
Capital and shareholders distribution	Rotary Drilling Company Ltd., Hungary GEOINFORM Well Services Ltd., Hungary
Main activity	Exploration for hydrocarbons in the Syrian Arab Republic
Parent company and country	See above
Date of entry to the Syrian Arab Republic	1997

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total assets			n.a.
Foreign assets			n.a.

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total sales[a]			None
Foreign sales			None

	1996	1997	1998
Total number of employees[b]			32
Foreign employees[b]			9

a/ This company explores for oil in the Syrian Arab Republic. If oil is discovered, a new joint venture company will be created with the Syrian Petroleum Company to develop and produce the oil discovered.

b/ Estimate.

Name of company	INA Industrial D.D. Naftaplin[a]
Capital and shareholders distribution	
Main activity	Exploration for hydrocarbons in the Syrian Arab Republic
Parent company and country	Croatia
Date of entry to the Syrian Arab Republic	1998

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total assets	0	0	n.a.
Foreign assets	0	0	n.a.

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total sales[a]			None
Foreign sales			None

	1996	1997	1998
Total number of employees[b]			32
Foreign employees[b]			9

a/ This company explores for oil in the Syrian Arab Republic. If oil is discovered, a new joint venture company will be created with the Syrian Petroleum Company to develop and produce the oil discovered.

b/ Estimate.

Name of company	Al-Amir Lube Oil Industry and Marketing Company[a]
Capital and shareholders distribution	SP 200 Million 49 per cent Mobil Corporation 51 per cent Syrian private investors
Main activity	Industrial and automotive oil lubricants for the local market
Parent company and country	Mobil Corporation, Delaware, United States of America
Date of entry to the Syrian Arab Republic	1997

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total assets		200	200
Foreign assets	--	--	--

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total sales		88	130
Foreign sales		--	--

	1996	1997	1998
Total number of employees	--	45	51
Foreign employees	--	--	1

a/ The company strategy is to meet local market needs and later to export to Jordan and Commonwealth of Independent States (countries that were part of the former Soviet Union).

Name of company	Al-Amir Company for Food Products[a/]
Capital and shareholders distribution	SP 950 Million (US$ 19 million) 75 per cent Nestle S.A. 25 per cent Syrian private investor
Main activity	Food products (Milo; Chicken and beef stock; Noodles, Ketchup; Cereals: Cerelac)
Parent company and country	Nestle S.A.
Date of entry to the Syrian Arab Republic	Licensed in 1994; commercial production started in January 1997

	1996 Millions of Syrian pounds	1997 Millions of Syrian pounds	1998 Millions of Syrian pounds
Total assets		950	950
Foreign assets			

	1996 Millions of Syrian pounds	1997 Millions of Syrian pounds	1998 Millions of Syrian pounds
Total sales		250	350
Foreign sales		--	

	1996	1997	1998
Total number of employees		130	130
Foreign employees		5	6

a/ The company strategy is to meet local market needs initially and to move to export at a later stage (export through Nestle's distribution network).

Name of company	STE-SAMSUNG[a/] (The Syrian Korean Company for Manufacturing and Marketing of Telecommunication Equipments)
Capital and shareholders distribution	SP 255 Million (US$ 5.1 million) 51 per cent The Syrian Telecommunication Establishment 49 per cent Samsung
Main activity	Production of advance hyperlink systems (Digital Pabx system)
Parent company and country	SAMSUNG, Republic of Korea
Date of entry to the Syrian Arab Republic	Established in 1996; commercial production started in 1997

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total assets		170	200
Foreign assets			

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total sales	..	450	550
Foreign sales		..	30

	1996	1997	1998
Total number of employees		85	95
Foreign employees		5	6

a/ The company strategy is to meet local market needs initially and to move to export at a later stage.

Name of company	Syrian Finnish dairy Company[a/]
Capital and shareholders distribution	SP 150 million (US$ 3.0 million) 35 per cent Valio (Finland) 65 per cent Syrian private investors (9 persons)
Main activity	Processed cheese (7 products)
Parent company and country	See above
Date of entry to the Syrian Arab Republic	1995

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total assets	100	140	150
Foreign assets	..	..	..

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total sales	72	108	84
Foreign sales	0	0	0

	1996	1997	1998
Total number of employees	45	60	65
Foreign employees	..	..	..

a/ Company strategy: local sales.

Name of company	Syrian-Saudi Company for Tourist Investments
Capital and shareholders distribution	US$ 98 million 65 per cent Kingdom Holding (Al-Waleed Bin Talal) 35 per cent Ministry of Tourism (Syrian Arab Republic) and Damascus Municipality
Main activity	Tourism: Establishment of a tourist complex consisting of a five-star hotel (Four Seasons) and a shopping centre in Damascus
Parent company and country	Kingdom Holding, Saudi Arabia
Date of entry to the Syrian Arab Republic	1998 (project under construction)

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total assets			
Foreign assets			

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total sales			
Foreign sales			

	1996	1997	1998
Total number of employees			
Foreign employees			

Name of company	Kuwait United Investment Company (Holding Company)
Capital and shareholders distribution	US$ 200 million (US$ 25 million paid-in) 100 per cent The General Authority for Investment in Kuwait
Main activity	Investment in various projects in the Syrian Arab Republic (several feasibility studies undertaken for building material manufacturing)
Parent company and country	See above
Date of entry to the Syrian Arab Republic	1997

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total assets			
Foreign assets			

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total sales			
Foreign sales			

	1996	1997	1998
Total number of employees			6
Foreign employees			2

Name of company	Al-Sham Shipping Company
Capital and shareholders distribution	SP 804 million (US$ 16.1 million) 40.30 per cent Dallah Al-Baraka Group, Saudi Arabia 5.60 per cent Brothers Commercial Company, Saudi Arabia 2.24 per cent Mohamed A. Jamil Al-Dahlawi, Saudi Arabia 26.86 per cent Haykal-Kassab Bashi, Syrian Arab Republic 25 per cent Syrian Navigation Co., Syrian government
Main activity	Shipping
Parent company and country	See above
Date of entry to the Syrian Arab Republic	1994

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total assets	804	804	804
Foreign assets	..	..	–

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total sales	..	..	..
Foreign sales	..	..	..

	1996	1997	1998
Total number of employees[a/]	7	7	7
Foreign employees	..	..	..

a/ At Foundation Stage Corporate Strategy: The Al-Sham Shipping Company's corporate strategy for the future is to develop a cost-efficient, reliable and quality-conscious international shipping operation, by acquiring a fleet through a mixture of debt and equity financing.

The intention is to commence this fleet development with two multi-purpose vessels (dry cargo/container) new building when launched, will fly Syrian flag. The vessels will, however, operate in the open international market, and not be restricted solely to Syrian trades. The Company's future fleet development strategy may well also encompass diversification into other adjacent fields, such as general cargo and containers although, for the moment, the focus will clearly be on building up an efficient multi-purpose bulk carrier operation.

Name of company	The Arab Company for Paper Products
Capital and shareholders distribution	SP 142.8 million 64 per cent Dallah Al-Baraka Group, Saudi Arabia 36 per cent M.A. Badenjki and Sons, Syrian Arab Republic
Main activity	Manufacturing paper
Parent company and country	See above
Date of entry to Syrian Arab Republic	1994

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total assets	297	328	344
Foreign assets			

	1996	1997	1998
	Millions of Syrian pounds	Millions of Syrian pounds	Millions of Syrian pounds
Total sales	..	..	74
Foreign sales	..	..	..

	1996	1997	1998
Total number of employees[a/]	..	..	75
Foreign employees	..	..	..

a/ The Corporate Strategy is to fulfill the Syrian market and later for export in the region.

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