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Doing business in Syria  
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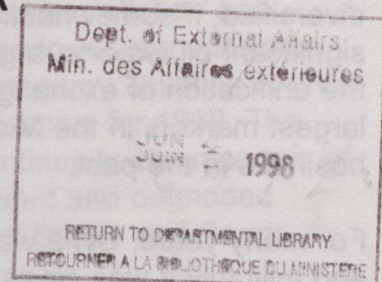






**DOING BUSINESS IN SYRIA****CONTACT:**

Commercial Division,  
Canadian Embassy in Damascus  
Street Address: Plot 12, Mezza Autostrade, Damascus  
Mailing Address: P.O. Box 3394, Damascus, Syria  
Tel: (011-963-11) 611-6692/611-6851  
Fax: (011-963-11) 611-4000  
Time: 2 hours ahead of GMT

**SYRIA**

Area:	185,180 Km <sup>2</sup>
Population:	14.3 million (1995 est.)
Official language:	Arabic
Other spoken languages:	French, English
Currency:	Syrian Pound
Current Exchange Rate	US\$ 1 = 42 Syrian Pounds
Capital:	Damascus (population 4.0 million)
Other Major Cities:	Aleppo (3 million), Homs (1.5 million), Latakia (1 million), Hama (1 million), Deir Ezzor (1 million)
Normal Business Hours:	
Government	08:00-14:00, Saturday - Thursday
Private	09:00-14:00 and 17:00-20:00, Saturday - Thursday

**IN BRIEF**

A Syrian Businessman recently said that up to about two years ago, a private sector business could not import anything without an import license, and it needed political connections to obtain a license. Now, as long as you have the money, you can get an import license for almost anything.

This change exemplifies the way Syria is changing. For years, Canadian firms had problems penetrating this major Middle Eastern market. Lately, major contracts have been won by Canadian suppliers, and more potential exists, in both the public and the private sector, in the communications, power, plastics, pharmaceutical, agricultural and oil and gas sectors.





Officially the Syrian Arab Republic, Syria has a population of over 14 million, a diversified, if somewhat inefficient economy with a strong agricultural base and significant oil exports, a gradual programme for the reform of the economy, including the unification of exchange rates, and a stable political system. Syria is one of the largest markets in the Middle East, but has been largely overlooked by Canadian business in the past.

For many years, Syria was virtually a closed market for Western business. Politically and militarily it was close to the Soviet Union and pursuing a policy of "Arab Socialism". It had built many Soviet-style public sector industries, which were over-staffed and inefficient, in the effort to achieve self-sufficiency. A restrictive foreign exchange regime also limited the availability of foreign goods in the market.

With the break-up of the Soviet Union in 1989, Syria lost its Superpower patron and its privileged trade links with the Soviet Bloc began to disappear. Syrian economic reform began after 1989, as the regime changed focus to the support and encouragement of the private sector. In an effort to attract foreign investment and Syrian expatriate foreign capital back to Syria, the Law on Foreign Investment, Law Number 10, was issued in 1991 which offered tax holidays for five years and duty free imports of equipment and machinery needed to start up a project or a joint venture under this law. Law Number 10 has been successful in attracting an estimated US\$ 7 billion in returning funds since 1991. To date, there has been only one major multinational investment by Nestle's of Switzerland.

Syria has foreign debts in the region of US\$ 22 billion. Although approximately US\$ 12 billion of the debt is to the former East Bloc countries, debts are owed to Germany, France, the I.B.R.D., and Japan. Syria has refused to enter debt rescheduling arrangements under normal I.B.R.D./I.M.F. conditions, and is not eligible to receive further financing from most donor countries. At the current time, only Japan and Arab Funds are providing financing for major projects. In Canada, Syria is not eligible for either finance or insurance from the Export Development Corporation, although E.D.C. will consider providing insurance under certain circumstances.

Syria exported US\$ 2.2 billion in 1994, which accounted for two thirds of all export earnings to complement her textile and agricultural products exports. Latest estimates project that, in 1995, G.D.P. growth was in excess of 5%. Despite the relatively strong G.D.P. growth, exports have remained relatively stable, while imports have been growing, and, since 1992, have exceeded exports. The current account balance for 1994 was estimated at almost US\$ 1 billion.



Government programs to liberalize the economy and encourage private sector are still in progress. Reforms are deliberately slowed down to avoid sudden inflation and negative social impact. Inefficient state enterprises will continue to require subsidies from the state budget and will continue to be a drain on the economy. Inflation is once again becoming a problem; an inflation rate of over 20 % is forecast for 1996. The pace of new investment is slowing as Syrian businessmen continue to be uncertain of the progress in the peace process and frustrated by an inefficient and outmoded banking system. Funds from the Gulf are drying up as the Gulf States and Saudi Arabia reduce their commitments to other than regional projects.

The private sector is permitted to import either with foreign currency gained through exports and held at the Commercial Bank of Syria, or with funds from outside Syria. This latter is the source of many of the investments currently undertaken.

Canadian-Syrian trade continues to expand. Merchandise total exports from Canada to Syria for 1995 exceeded \$C 21.5 million in 1995, up from \$C 18 million in 1994. This export figure, of course, does not include payments for services such as oil field and consulting services. Imports from Syria exceed \$C 27.3 million in 1995, mainly due to a \$26 million oil purchase from Syria.

## PROSPECTS

In the **electricity** sector, prospects are good for 1996 as more companies become interested in the market, and bids are entered for two major electrical projects - the Zahra power station, financed by a loan from Japan, where Canadian companies are bidding as sub-contractors, and the Jordan-Syria power interconnection, financed by the Arab Fund for Economic and Social Development. More generation projects are planned but will depend on financing. There will be possibilities in the consulting field as projects are prepared for both the Syria-Turkey and the Syria-Iraq interconnections. The European Investment Bank, we understand, has loaned Turkey the funds for a project to link Aleppo to the Attaturk Dam in Turkey. The Arab Fund has recently signed a loan for the Syrian section.

Prospects are also good for the **telecommunications** sector as Syria will be installing a cellular system and expanding in the urban areas with 800,000 new lines, and installing 250,000 in the rural areas. There may also be potential for a PCS system, but this is currently uncertain. A paging system is also planned. These projects will be supply and install projects as there are currently no plans to privatize the sector.

The **agricultural** sector will be opening up more on-farm storage with a tender called for 20 ten-thousand-ton metal silos and a further two tenders planned for the same





amount, one in each succeeding year. There will be the need to modernize and re-focus mechanization towards the private farmer. Companies interested in joint ventures will find willing partners in Syria. The growth of the private sector in agricultural processing will create further opportunities for Canadian machinery exporters, with finance for projects readily available.

Other growth areas where potential exists for Canadian exporters are the pharmaceutical and plastics industries, but we are still in the process of identifying specific opportunities.

The **oil and gas** sector will provide a continuing demand for products which will extend the life of existing oil fields, as exploration has not resulted in new commercially exploitable sites. The production and use of natural gas will be expanded, and the gas pipeline network has been expanded to serve more of the generation capacity and industrial uses.

Other opportunities for Canadian business exist in **food processing and packaging machinery** and **technology products**. Canadian Lumber could also increase its market share.

## CONSTRAINTS

Major competitors continue to be the European Union countries, led by Italy and Germany, followed by Japan, France and the U.S.A. The Syrian businessperson is normally fairly conservative; he depends on personal relationships rather than North-American style corporate relationships. He will normally prefer to set up a long term personal business relation built on mutual trust, which requires the Canadian business person to devote more time than one would in North America to conclude a deal. Trust is a precious commodity in this market and it is the gateway especially when doing business with the private sector.

The system of public sector purchasing in Syria depends on competitive tendering. By law, there must be at least three bidders or the tender call is cancelled and repeated. Bidders must submit bid bonds or be excluded from consideration. If a tender is awarded, the bid bond must be replaced by a performance bond of, normally, ten percent of the value of the contract. In years past, Syria was very slow to return the bid bonds of unsuccessful bidders. The situation has greatly improved and we have heard of no recent case of delays in return of bonds.





Wheels turn rather slowly especially with the public sector, so patience, persistence and a long term approach are needed, but once a first deal is secured, the chances of future business increase substantially.

For the public sector, once a contract is negotiated and signed, the contract is not valid until a letter of credit (L\C) is opened. This requires, for major purchases, that the Cabinet instruct the Commercial Bank of Syria to open the L\C, which can take some months, or even longer, depending on the availability of foreign exchange and the priority assigned the purchase.

Local Syrian agents or consultants are a must in order to make things easier, but there are problems still unresolved in the Syrian rules which create a somewhat strange situation. By law, the use of non-registered agents is not permitted in dealing with the public sector. However, an agent or representative with good contacts with the buyer is a necessity for ensuring that your bid is considered by the buying organization. Most Syrian businessmen do not wish to register their agency or status of representation with the government as this restricts their ability to vary their commissions or fees. Normally only those who will be importing on their own will register. Thus most Syrian companies wishing to represent Canadian companies will ask for an unofficial arrangement. This has not presented difficulties for Canadian companies to date. There are currently recommended changes to this situation in Cabinet, with these changes expected in 1996.

Despite the upbeat introduction, import licensing can still create problems for Canadian exporters. For example, most construction materials cannot be imported, automobiles are still basically controlled by central government purchasing, used or previously owned machinery is banned for the public sector. But this can change at any time, and you should query the embassy before planning a trip.

<b>ECONOMIC INDICATORS</b>	<u>1994</u>	<u>1995</u>
GDP at market price SYP billion	550.6	699.0
Real GDP Growth %	5.2	5.8
Merchandise exports fob \$m	3,555	4,000
Merchandise imports fob \$m	4,570	5,000
Exchange rate	SYP 42 : US\$ 1	
Inflation Rate (1995 est)	20%	



**PRINCIPAL EXPORTS 1993 (% OF TOTAL)**

Petroleum & Petroleum Products	66.7
Textiles & raw cotton	13.4
Agricultural produce	11.4

**MAIN DESTINATIONS OF EXPORTS 1994 % OF TOTAL**

Germany	18.2
Italy	13.8
Lebanon	13.0
France	10.8
Saudi Arabia	3.8
Spain	3.6
EU	53.8

**PRINCIPAL IMPORTS CIF 1992 (% OF TOTAL)**

Machinery & equipment	17.8
Metal & metal Products	14.7
Foodstuffs	10.3
Textiles	7.5

**MAIN ORIGINS OF IMPORTS 1994 (% OF TOTAL)**

Italy	10.8
Germany	10.5
Japan	9.4
France	5.3
USA	4.1
Turkey	3.7
EU	37.1

**CANADIAN TOTAL EXPORTS TO SYRIA 1995 (\$ 21.548 MILLION)**

Wheat flour, wood, aluminium, instruments and apparatus, plastics and machinery.

**CANADIAN IMPORTS FROM SYRIA 1995 (\$ 27.305 MILLION)**

Petroleum oils (\$ 26.347 million), textiles, foodstuffs.

(Prepared by the Canadian Embassy, Damascus, Syria)



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