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SME in Syria:

Analysing - Managment - Import Export

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FAKULTA PODNIKATELSKÁ
FACULTY OF BUSINESS AND MANAGEMENT

**SME in Syria:
Analysing - Management - Import Export**

DISSERTATION THESIS

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ABSTRACT

This dissertation is devoted to “Small and Medium Sized Enterprises (SME) in Syria: Analysing - Management - Import Export” for doctoral study program at Faculty of Business and Management. Syrian market is quite open to international trade. Free-trade agreements have been signed with many countries. Syria also signed an Association Agreement with the EU in October 2004.

This work describes and analyses the small and medium sized Syrian Enterprises for international trade and the Syrian market as well. The obtained results will be discussed and on the basis of it recommendation for the companies planning to import export goods from / to Syria will be stated.

KEYWORDS

Small and Medium Sized Enterprises SME, Investment in Syria, Syrian-Czech Import-Export

ABSTRAKT

Tato disertační práce je věnovaná tématu malých a středních podniků v Sýrii: Analýza - Management - Dovoz a Vývoz. Syrský trh je mezinárodnímu obchodování poměrně otevřený. Obchodní smlouvy byly podepsány již s několika zeměmi. V říjnu 2004 Sýrie podepsala také smlouvu o spolupráci s evropskou unií.

Tato práce popisuje a analyzuje malé a střední podniky v Sýrii pro potřeby mezinárodního obchodu i Syrského trhu. Získané výsledky jsou zpracovány a na jejich základě jsou stanovena doporučení pro firmy hodlající dovážet či vyvážet do /ze Sýrie.

KLÍÈOVÁ SLOVA

Malé a střední podniky SME, Investování v Sýrii, Syrsko - Český dovoz a vývoz

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List of Symbols and Shortcuts

SME	Small and Medium Sized Enterprises
\$	USD dollar
€	Euro
S.P.	Syrian Pound
CZK	Czech Crown
FAO	Food and Agriculture Organization of The United Nations
MFA	Multi-Fiber-Agreement
EC	European Commission
EU	European Union
GDP	Gross Domestic Product
ISO	International Standards Organization
HACCP	Hazard Analysis and Critical Control Points
FDI	Foreign Direct Investment
SITC	Standard International Trade Classification
EFTA	European Free Trade Association
CIS	Commonwealth of Independent States

1. Introduction

1.1 Problem formulation and objectives of the dissertation

In the first years of this decade, the Syrian economy benefited from a number of positive developments. The rise in oil prices and a rebound in agricultural output after the widespread drought in 1999 led to growth rates 3.4% in 2001, 3.2% in 2002 and 2.5% in 2003 [48]. Syrian trade with Iraq also flourished in the last years before the fall of the Saddam regime. However, these factors were of a temporary nature and the growth rate is in a downward trend. In fact, growth rates would need to be sustained at significantly higher levels (between 5% and 7%) to lift standards of living and to provide jobs for a new generation entering the labour market. The population growth rate has fallen over the past few years, but is still estimated at 2.4% in 2004. An estimated 350.000 persons enter the labour market every year and unemployment is very high especially among the urban youth. The social situation is better than in most countries at the same income level (e.g. life expectancy and literacy rate), but this situation is hardly sustainable without an increased growth rate outside the petroleum sector.

Syria has recently started a gradual opening of its centrally-planned economy to market-oriented reforms. Structural measures aimed at economic reform have been announced in support of the private sector in order to create a legislative and regulatory environment more favourable to investments. A more far-reaching programme of reforms is expected as a part of the next five year plan, to be presented to the Baath Party in 2005. The most important reforms so far are the revision of Law No.10 (1991) allowing better terms for foreign investment and the new banking law, which since 2003 has allowed the establishment of private banks with some foreign ownership. The exchange rate mechanism has also been simplified, even if there is still a system of multiple overvalued exchange rates [19, 20].

The Syrian trade regime contains numerous restrictions on imports as well as on exports. A wide range of products are only allowed to be imported by the government or government agencies upon special permission. Export restrictions have been put in place to ensure access to raw materials for industry as well as to avoid shortage of certain basic products. This system is malfunctioning and will have to be dismantled in order to establish the Association Agreement with the EU.

Syria agreed to the start of negotiations of an Association Agreement with EU as late as 1997 and has been quite reluctant to move forward since. The Syrian government seems to have decided to go ahead with negotiations while remaining unconvinced whether finally to sign an agreement. In an encouraging step, the Syrian government on 30 October 2001 applied to join the WTO. The reforms necessary for this purpose are largely the same as for the Association process.

The EU is Syria's biggest trading partner, accounting for just over 40% of its trade in 2003. 87% of EU imports from Syria consisted of energy, making the country the EU's ninth largest source of imports in this sector. The remaining 13% consisted mainly of textiles and

agricultural imports. Due to a dip in energy imports, however, Syria's trade surplus with the EU shrank to € 331 million [35, 49]. Syria occupies the 48th rank for the EU's trade with the world. EU exports to Syria consist mainly of machinery (32%), chemical products (16%) and transport materials (12.2%) [51]. The Syrian market is open for opportunities with foreign partners offering a wide scope of cooperation deals: investment ventures, licensing agreements, transfer of know-how, trade deals. Large European companies and global groups have shown interest in the Syrian markets and have set up very successful projects. Syria provides many opportunities for other similar projects on its territory.

Czech Republic is a member of the European Union since May 2004, the Czech and the Syrian markets are not well known for each other as is it with the western EU countries.

For the aforementioned reasons this work is devoted to the following objectives:

- Introducing the state of the art of business in Syria: Economy, Trade, Investments and Banks
- SME financing in Syria
- The EU-Syrian economic and business relationship
- The Czech-Syrian economic and business relationship
- Case studies of selected SME companies in Syria
- Interviews with selected Syrian SMEs
- Evaluation of the obtained data

Table 1 Basic Economic Data of the Syrian Arab Republic

Basic Economic Data of the Syrian Arab Republic	
GDP (2004)	€ 19 billion
GDP growth (2004)	3.4 %
GDP/capita (2004)	€ 1051
Inflation (2004)	3.5 %
Unemployment	11 - 20 % (estimate)
Current Account Balance (2004)	-0.4 % of GDP
Syrian Exports to EU (2003)	€ 3.1 billion (41 % of total exports)
Syrian imports from EU (2003)	€ 2.2 billion (39 % of total imports)
Oil as % of Syrian Exports	84 %
Total external debt	\$ 21.9 billion
Total EC assistance per year	€ 28.8 million
Total EU assistance in 2003	€ 65.89 million

2. Research methodology of the dissertation thesis

In this research I will be used the secondary and primary research and case studies to cover a big part of my dissertation topic.

Secondary research will involve the summary and collation of existing data mainly from the magazines, newspapers, companies and Central Bureau of Statistics [17].

Primary research will involve the collection of data that doesn't already exist [17]. Collecting information in Syria is not so easy, for this reason we decided to create a team work of three specialized persons to help me with this task. The methods of collection primary data will be mainly:

- Collecting primary data through observation
- Collecting primary data in depth interviews

Case studies

A case study is an extensive examination of a single instance of a phenomenon of interest and is an example of a phenomenological methodology [18].

The case studies in this research will be focused on understanding the dynamics of the SME mainly in Syrian and which data to be collected and analysed. It involves gathering detailed information about the SME companies and suitable analyzing of this information, with a view to obtaining in-depth knowledge.

Case studies in my thesis will be focused on the following types:

- Descriptive case studies where the objective is restricted to describing current practice
- Illustrative case studies where the research attempts to illustrate new and possibly innovative practices adopted by particular companies

Interviews

Interview is a purposeful discussion between two or more people. The research interview seeks to describe and the meanings of central themes in the life world of the subjects. The main task in interviewing is to understand the meaning of what the interviewees say. A research interview seeks to cover both a factual and a meaning level, though it is usually more difficult to interview on a meaning level [17, 57].

Interviews are particularly useful for getting the story behind a participant's experiences. The interviewer can pursue in-depth information around the topic. Interviews may be useful as follow-up to certain respondents to questionnaires [58].

The Aspects of Research Interviews:

- Interviews are completed by the interviewer based on what the respondent says.
- Interviews are a far more personal form of research than questionnaires.
- In the personal interview, the interviewer works directly with the respondent.
- Unlike with mail surveys, the interviewer has the opportunity to probe or ask follow up questions.
- Interviews are generally easier for respondent, especially if what is sought is opinions or impressions.
- Interviews are time consuming and they are resource intensive.
- The interviewer is considered a part of the measurement instrument and he has to be well trained in how to respond to any contingency.

The Types of interviews I have chosen for my research are:

1. Personal standardized interview (open-ended interview): the questions are asked to all interviewees, this approach facilitates faster interviews that can be more easily analyzed and compared.

2. Telephone interview: telephone interviews enable a researcher to gather information rapidly. Like personal interviews, they allow for some personal contact between the interviewer and the respondent.

The stages in the research process of my dissertation thesis are illustrated in the following figure.

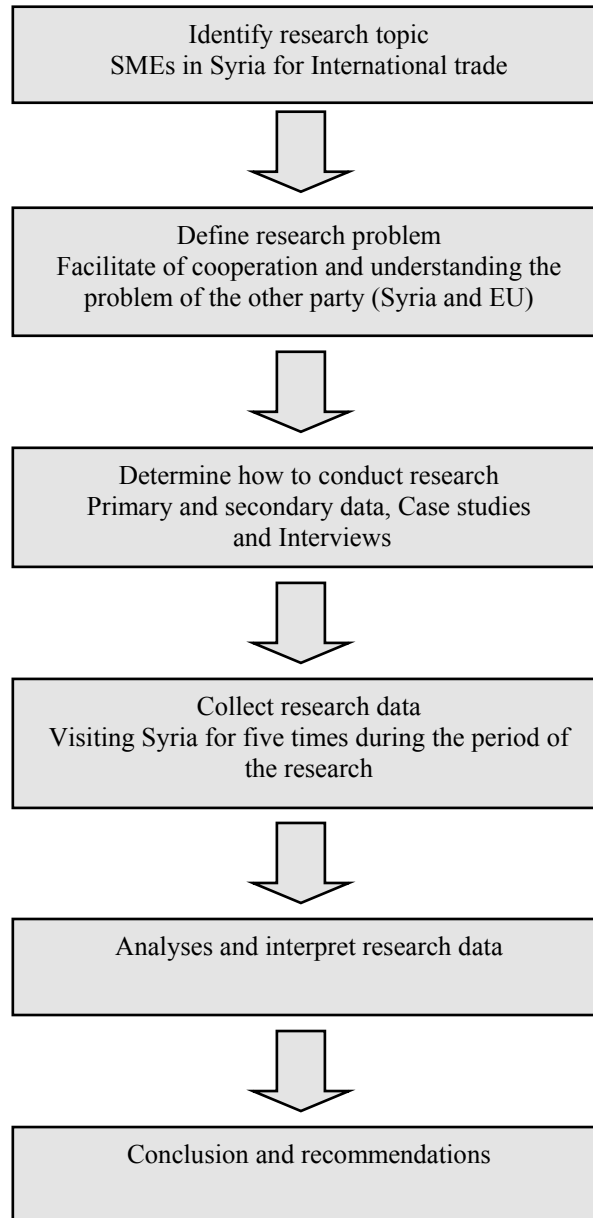


Figure 1 Stages in the research process of the Dissertation thesis

3. Overview of actual state

3.1 Terminology of export- import

When an exchange of goods and services takes place across national boundaries, it is called international trade [1]. Exports are the goods and service sold by individuals or nations. Imports are the goods and services purchased. By these methods, products valued at more than \$7 trillion worldwide are exchanged every year. When we as consumers enjoy fresh flowers from Latin America, tropical fruits in the middle of winter, or a foreign car, we are participants in - and beneficiaries of - international trade, which is not a zero-sum game of winners and losers. It is a game in which every one wins [1].

The opportunity to conduct import export is everywhere, because international markets have become much more interdependent. Trade conditions among nations have changed. Today, conditions favor importing and exporting from all countries.

Realistically, international trade involves both importing and exporting, not one at the exclusion of the other. Novices to international trade, whether companies or individuals, can get started through either importing or exporting. Once trade begins, opportunities spring out of nowhere. A person who successfully starts importing very soon learns of exporting opportunities and vice versa. In any case, a whole lot of money can be made.

Starting an Import Export Business covers not only how to plan and start a successful import export agency, but also how to manage it on a day-to-day basis. Valuable forms, regulations, and worksheets are exhibited, and a comprehensive glossary of international business and trade terms is positioned for easy reference. Starting an Import Export Business is not a get-rich-quick scheme [3].

A Brief History of International Trade in Ancient Period [2]:

- International trade based on the free exchange of goods started as early as 2500 B.C. Archaeological discoveries indicate that the Sumerians of Northern Mesopotamia enjoyed real prosperity based on trade by sea in textiles and metals. The Greeks profited by the exchange of olive oil and wine for grain and metal somewhere before 2000 B.C.
- By around 340 B.C., many devices of modern commerce had made their appearance in Greece and its distant settlements: banking and credit, insurance, trade treaties, and special diplomatic and other privileges.
- With the decline of Greece, Rome became powerful and began to expand to the East. In the first century A.D., the Romans traded with the Chinese along the Silk Road and developed many trade routes and complex trading patterns by sea. However, the absence of peace made traveling unsafe and discouraged the movement of goods, resulting in the loss of distant markets.

- By the time of the breakup of the Roman Empire in the fifth century, the papacy (papal supremacy) had emerged as a strong institution in a new and unstable world. The church's support (sponsorship) for the crusades (eleventh century) revived international trade in the West through the latter's discovery and introduction of new ideas, customs, and products from the East. New products such as carpets, furniture, sugar, and spices brought from Egypt, Syria, India, and China stimulated the markets and the growing commercial life of the West. This helped Italian cities such as Venice and Genoa to prosper and to replace Constantinople as the leading center of international commerce. Letters of credit and bills of exchange and insurance of goods in transit were extensively used to accommodate the growing commercial and financial needs of merchants and travelers.

The globalization process of recent years has been expressed in the growth of many types of international transactions, but few more salient than the expansion in the activity of multinational firms [7]. The growth rate of sales by foreign affiliates of multinational corporations outpaced the growth of exports of goods and non-factor services by almost 7% per year from 1990 to 2001. Gross product by all foreign affiliates accounted for an estimated 11% of world GDP in 2001, while exports by these affiliates represented an estimated 35% of total world trade [9].

Multinational firms have pursued a multitude of strategies for international expansion, as described in the World Investment Report [8, 10]. Firms have opened foreign affiliates to perform activities ranging from research and development to after sales service, and including production of parts and components, assembly, and wholesale and retail distribution, among others. Some firms procure parts from subsidiaries in many countries and assemble them in a single location. Others concentrate production of parts in one place and assemble final products in several plants located close to their customers. Still others erect an integrated plant in a low-wage country and use it to serve consumers around the globe. The motives for foreign direct investment are similarly diverse, but the potential for factor cost savings, for transportation cost and trading cost savings, and for the realization of economies of scale seem to be among the primary inducements.

3.2 Theory of export- import

International trade is the exchange of goods and services across national boundaries. It is the most traditional form of international business activity and has played a major role in shaping world history. It is also the first type of foreign business operation undertaken by most companies because importing or exporting requires the least commitment of, and risk to, company's resources. For example, a company could produce for export by using its excess production capacity. This is an inexpensive way of testing a product's acceptance in the market before investing in local production facilities. A company could also use intermediaries, who will take on import-export functions for a fee, thus eliminating the need to commit additional resources to hire personnel or maintain a department to carry out foreign sales or purchases.

International trade in services has grown over the past decade at an annual rate of about 16 percent compared to that of about 7 percent for merchandise trade. Trade in services constitutes between 20 to 25 percent of overall world trade today. In some countries, such as Panama and the Netherlands, services account for about 40 percent or more of total merchandise trade. Typical service exports include transportation, tourism, banking, advertising, and construction, retailing, and mass communication [2].

3.2.1 Importance of International Trade to the Global Economy

International trade allows manufacturers and distributors to seek out products, services, and components produced in foreign countries. Companies acquire them because of cost advantages or to learn about advanced technical methods used abroad, for example, methods that help reduce the cost of production, lower prices, and, in turn, induce men consumption, thus producing increased profit. Trade also enables firms to acquire resources that are not available at home. Besides providing consumers with a variety of goods and services, international trade increases incomes and employment. In 1990, the number of U.S. jobs supported by merchandise exports to all foreign markets reached \$7.2 million. Merchandise exports to all foreign markets contributed to 25 percent of the growth in U.S. civilian jobs between 1986 and 1990. It is estimated that each billion dollars of merchandise exports supports about 25,000 jobs, even though imports are associated with loss of jobs due to plant closings or production cutbacks of domestic industries, the export job generation effect is about 7,5 percent larger than the import job loss effect.

Exports create high-wage employment. In a study of recent wage statistics, the U.S. Trade Representative's Office found that U.S. workers employed in port-related jobs earn 17 percent more than the average worker in the United States. Export-related wages are higher for manufacturing and service sector jobs. Although service-related jobs generally pay less than manufacturing jobs, service jobs in export sector were found to pay more, on average, than manufacturing jobs in the overall economy [2].

3.2.2 Determination of Export Import

Some countries export or import more than others. Several studies have been conducted to establish major factors the influence exports. The trade and exchange rate regime (import tariffs, quotes, exchange rates), presence of an entrepreneurial class, efficiency-enhancing government policy, as well as secure access to transport and marketing services are considered to be important influential factors of export behavior. A study on the nature, composition, and determinants of Singapore's technology exports suggests that the country's open trade and investment regime and its development-oriented economic policy have been the key factors in enhancing the country's exports. Singapore's economy has shown continued and remarkable growth in exports for over thirty years with only two brief and mild recessions in the mid-1970s and mid-1980s. Its total trade as a proportion of gross domestic product (GDP) remains one of the highest in the world over 250 percent.

Much of the research literature on imports underlines the importance of high per capita incomes, price of imports, and the exchange rate in determining import levels. For developing countries, however, determinants of import demand also include factors such as government restrictions on imports and availability of foreign exchange. A recent study examining the factors influencing import demand in Pakistan from 1959 to 19861 found that the policies of devaluation and raising tariffs were not significant in reducing imports except in the case of imports of machinery and equipment [2].

3.2.3 Volume and Direction of Export Import

The growth in the volume of world merchandise trade has always exceeded the growth of output (1870 to 1997), except for the period 1913 to 1950, which was marked by global political and economic instability (World Bank. 1999). Since 1950, while world economic output has shown steady growth, world exports have increased at an average annual rate of more than ten times the estimated rate for the previous period. The volume of world trade in 1997 more than tripled the 1970 figure, approaching \$7 trillion (U.S.). The dollar value of total world trade in 1997 was greater than the gross national product (ONP) of every nation in the world, except the United States. Another measure of the significance of world trade is that one-fourth of everything grown or made in the world is now exported.

Since 1970, the average annual growth in world merchandise exports is estimated at about 12 percent. The rapid increase in the growth of world trade after the Second World War can be traced to increased consumption of goods and services as more people joined the middle class in many countries of the world. Trade liberalization, both at the regional and international levels, has created a global environment that is conducive to the growth and expansion of world trade. New technologies such as computers, telecommunications, and other media also assisted in the physical integration of world markets.

Small countries tend to be more dependent on international trade than larger ones because they are less able to produce all that they need. Larger countries (in terms of population) import fewer manufactured goods on a per capita basis because such countries tend to have a diversified economy that enables them to produce enough to meet most of their

own needs. This view can be exemplified by comparing the United States, Japan, India, and China, which have low import propensities, to such countries as Belgium or the Netherlands.

Merchandise trade currently accounts for about four-fifths of world trade. The top seven exporters accounted for just over one-half of world merchandise exports (United States, Germany, Japan, France, United Kingdom, Italy, and Canada). Merchandise trade includes three major sectors: agriculture, mining, and manufacturing. Trade in manufactured goods has been the most dynamic component of world merchandise trade. Commercial service exports exceeded \$ 1.2 trillion in 1995 (World Bank, 1999), but growth for the last few years has lagged behind the growth of merchandise trade.

Industrial market economics account for the largest part of world trade. Trade among these countries is estimated to be greater than 67 percent of global trade in view of their role in world trade. Western countries also account for major shares of trade with developing countries and an increasing share of trade with East European countries [2, 5].

An examination of the international business literature reveals two important issues for present purposes [11]. First, the firm's export behavior has attracted heightened research interest over the last 20 years, as a result of such factors as: the increasing globalization of markets; the intensifying worldwide competition in many industrial sectors; the severe trade deficit problems experienced by many national economies; and that exporting is viewed as a less resource laden strategy as contrasted with other foreign market entry alternatives, such as joint venture arrangements or overseas manufacturing operations. Second, scant research attention has been given to the import side of the international exchange process. This gap is surprising for several reasons:

1. International purchasing decisions have become particularly important for the survival and growth of the firm due to the improvement of manufacturing technology in many parts of the world, along with the tendency toward the adoption of liberal trade policies by most countries [12];
2. There is a consistent thread in the marketing literature which links the significance of the purchasing function with the effectiveness of the marketing process [13];
3. Much international exchange can be better conceptualized as buyer-coordinated importing rather than producer initiated exporting [14];
4. Increasing emphasis is placed upon developing market-oriented corporate cultures and pursuing customer-driven strategies [15].

3.2.4 Important Development in Export import

- In 1994, the World Trade Organization (WTO) was established, replacing the General Agreement on Tariffs and Trade (GATT) under the Final Act of the Uruguay Round. As of the enforcement date of the WTO agreement, member countries of the GATT became original member of the WTO. WTO became the principal agency of the United Nations (UN) with responsibility for international trade [4].
- The Final Act of the Uruguay Round was signed (1994) by 124 governments, providing for a global reduction in trade barriers, establishment of a multilateral

framework of discipline for trade in services, and protection of trade-related intellectual property rights. The agreement also strengthened existing multilateral rules in agriculture, textiles, and clothing and provided for a more effective and reliable dispute settlement mechanism.

- There has been a steady growth in the role of developing countries in world trade. In 1993, developing countries accounted for over one third of the worlds top twenty-five exporters and importers. Since the 1980s, a number of newly industrializing countries, particularly the four in the Pacific Rim (Hong Kong, Singapore, South Korea, and Taiwan) have greatly increased their roles in world trade.

4. Solution and results of the dissertation thesis

4.1 Secondary research- business in Syria

4.1.1 Economy

4.1.1.1 The Agro-Food Industry

Syria is well known for a wide range of fruits, vegetables, meats, grains and dairy products, and Syrian products have a sizable market in the Gulf and to a lesser extent in Europe. With investment on the rise, large manufacturing groups forming and trade liberalization steadily being implemented, the agro-food sector in Syria provides extraordinary potential [25].

With a strong agricultural basis, Syria's agro-food industry presents itself as a leading and most promising sector. This sector employs about 27% of the labour force directly and another 20% indirectly; and contributes to around 30% of the GDP. It also accounts for 20% of total exports, or 38 % of Syrian exports excluding oil.

More importantly, the agro-industry is considered the second largest manufacturing industry in Syria after the textile industry. It accounted for 31% of the total manufacturing value added during the past decade [28].

The strengths of Syria's agro-industry sector are numerous. Syria has a long tradition in the agro-industry, and offers cheap and yet qualified labour force. Its high quality raw materials are in abundant supply, input costs are low and private entrepreneurship is deeply rooted within this sector. In addition, Syria's close location to Europe is a vital advantage, as it can benefit from the relocation of labour-intensive operations from Europe to neighbouring countries [24].

Fruits and vegetables are among Syria's most plentiful products for food processing, and their exports go mostly to the Gulf countries. Another promising resource for food processing is olive oil, which ranks Syria as the fifth in the world. Increasing fourfold between 1992 and 2000, olive oil needs new technologies and more innovative packaging and marketing to reach its potential export figures [29].

Table 2 Production of Fruits & Vegetables

Production of Fruits & Vegetables (thousands tons)			
	2001	2002	2003
Water melon	227.90	480.10	674.20
Apples	263.00	215.80	306.7
Apricots	66.00	100.90	104.90
Grapes	389	341.90	307.30
Oranges	464.90	427.10	398.80
Lemon	79.40	84.90	71.40
Other citrus fruits	289.10	234.10	182.30
Tomatoes	771.80	900.10	923.10
Potatoes	453.40	513.20	486.60

Syrian agro-industry is divided between a large public sector, and a private sector dominated by small and family-run businesses. During the past few years, private sector investment has taken an increasing pattern and now occupies a major role in the agro-food sector and dominates the production of certain commodities such as olive oil, chocolate, fruit juice, pasta, alcoholic beverages, and others.

Foreign investments have had a real presence in Syria since the beginning of the 1990s after the introduction of Investment Law No. 10, but mainly after 1995. So far, according to the numbers of the World Bank, the net flow of Foreign Direct Investment to Syria has increased from \$80 million in 1997 to \$111 million in 2001 [48, 51].

Large European companies and global groups have shown interest in the Syrian markets and have set up very successful projects. Syria provides many opportunities for other similar projects on its territory, selected examples of these are the Spanish producer of olive oil "Aceites del Sur", the French processed cheese manufacturer "Group Bel" and "Nestle" the Swiss food giant.

Also Syrian producers realise that more advanced processing, packaging, and labeling are necessary to sell their products in the International market place, as well as supplying a product mix that meets market expectations and specifications. They have moved to meet the demands of the global market place by introducing technology and quality control, such as International Standards Organization (ISO) and Food Safety Certifications (HACCP), which makes Syrian exports even more competitive.

With the overall current wave of change in the Syrian economy and the drive for rapid and stable development, the agro-food industry, with its significant natural advantages, is proving to be one of the most promising emerging sectors in Syria.

4.1.1.2 Textile

The Syrian textile industry is increasingly a key source of export earnings for the country. The low cost to quality ratio in the textile sector has seen exports increase substantially in recent years.

With the opening of the domestic market and the liberalizing of investment laws that encourage both Syrian expatriates and foreign businesses to work in the country, Syria's textile industry has clear potential, emerging as one of the most modern parts of the manufacturing sector in terms of both technology and management systems.

Syria's textile industry has many strong points including an abundance of skilled, experienced and inexpensive labor, especially relative to Europe or even to neighboring Arab economies. Blended with experienced management, Syrian textile companies have a good chance to grow quickly and generate strong profits through exports.

The production of yarns in Syria strongly relies on the country's large supplies of cotton. Syria is a major producer of cotton (800,000 Tons/Year on average in the last decade) and the large investments in the spinning industry, essentially by the state-owned General Organization of Textile Industries GOTI, that have been focusing on adding value to the country's production of raw cotton. As a result of this policy, production of cotton yarns increased significantly in the last few years. Total production of cotton yarns from GOTI plants stood at 107,610 tons in 2004, an almost 50% rise in less than four years [24, 34].

Table 3 Cotton Yarn Production

Cotton Yarn Production (in Tons)					
1999	2000	2001	2002	2003	2004
61,680	78,019	82,975	90,600	98,374	107,610

Syria's garment industry can be divided in three large sections: the public sector, which is limited in size and whose production is of average quality; the private sector which has grown steadily in the last 15 years and which is made mostly of average size ventures; the informal sector made up of thousands of small units employing on average 1 to 15 people. In the private sector, the relatively new feature is the production under license of foreign brands. Since the mid-nineties a number of private Syrian manufacturers entered into agreements with producers of well-known foreign brands and introduced new consumption patterns. International brand names such as Adidas, Benetton, Stefanel, Naf Naf and Kickers are being produced locally under license and sold at retail franchises. If the experiment continues to be successful, Syrian companies could even branch out into neighboring markets such as Lebanon and Jordan, where profit margins are higher than at home.

In 2003, the export of textile products (excluding raw cotton) stood at \$322 million, making up around 6.3% of Syria's total foreign sales of \$US 5 billion. Garment sales stood at \$108 million, i.e. 33% of textile exports [34].

Sales figures to the EU, Syria's prime export market, are on the rise compared with a decade ago, from 69 million Euros in 1996 to 91 million Euros in 2003. The last few years, however, have witnessed stagnation and even a retraction in these numbers.

Table 4 EU Imports of Syrian Apparel and Clothing Accessories

EU Imports of Syrian Apparel and Clothing Accessories (in €)			
	2001	2002	2003
Knitted or Crocheted	62,539,590	59,427,720	62,457,090
Not Knitted or Crocheted	46,393,750	43,441,680	29,212,660
Total	108,933,340	102,869,400	91,669,750

Comparative figures from competitors, meanwhile, dwarf Syria's share of the European textile market. Tunisia exported €2.5 billion of garments in 2003, Morocco €2.2 billion and Turkey €7 billion. These figures are reflective of the very long road the Syrian textile industry has still to go through before it can have any significant impact on the world market.

In addition to that, Syrian manufacturers are contemplating, much like most other developing countries in the world, the prospect of a surge in Chinese exports, following the end of the Multi-Fiber-Agreement (MFA) on January 2005. The MFA had been established by the World Trade Organization in the seventies as a mean to protect industrialized countries from the flow of textile imports from low labor-cost countries. In practice it put quota restrictions on international textile trade.

Whilst the effects of the end of the MFA are yet to be felt, many analysts believe, however, that Syrian exporters should be able to offset the "Chinese" risk. Syria's textile products are now reportedly of good quality and competitiveness. The country's two main markets, the EU and the Gulf countries, are geographically close, meaning that Syrian manufacturers have the capacity to react and supply at much shorter notice than Chinese exporters who are less flexible and have long delivery time. Also while most Chinese exporters are looking for large volume of exports, Syrian exporters are able to compete for small to medium-sized orders.

The success of many other countries with a potentially lower comparative advantage than Syria says a lot of the potential before Syrian companies, should they manage to meet the challenge facing them. More aggressive marketing and a better understanding of customers needs are the way forward for the Syrian garment industry.

4.1.1.3 Oil and Gas

Syria's first commercial oil field began production in 1968, but it was not until the mid-1980s that exports started. Syria is not a major oil exporter by Middle Eastern standards and is not a member of OPEC. However, oil has become a major pillar of the Syrian economy and its share of total exports has risen to over 60% in recent years. It also accounts for some 15% of GDP and forms a large part of government revenue. Syria's oil industry is dominated by Al-Furat Petroleum Company (AFPC), a joint venture between the state-owned Syrian Petroleum Company (SPC, with a 50% share), Royal Dutch/Shell (15.6%), Pecten of the US (15.6%) and Deminex of Germany (18.7%), and a second joint venture, the Deir al-Zour Petroleum Company, formed with a French conglomerate, Elf Aquitaine (now TotalFinaElf).

Syria's oil production peaked at 604,000 barrels per day (bpd) in 1996 and has been in gentle decline ever since, with production for 2004 expected to be no more than 520,000 bpd. Refining capacity is currently 250,000 bpd with half of that volume processed in the port of Baniyas, and the remainder at another refinery in Homs. A third plant is planned at Deir al-Zour to serve the east of the country with an initial capacity of 60,000 bpd [16, 48, 52].

Syria's reserves were never large, and official sources now expect the country to become a net oil importer within 20 years. Against this, Syria's petroleum ministry hopes that, through a combination of the discovery of new reserves and the optimizing of output from fields already under operation, production can be brought back previous levels and maintained at that level beyond 2020.

With domestic oil production falling, and rising domestic demand for energy, the government began to exploit the country's huge natural gas reserves more actively in 1999. Natural gas has long been produced in the north-east area, but the largest stand-alone reserves was discovered close to Palmyra in the centre of the country in 1997 which led to faster development of the sector, with construction of pipelines and treatment plants.

According to the Ministry of Petroleum and Mineral Resources, Syria's gas reserves stands at around 500-600bn cu meters, of which around 300bn cu meters is recoverable [52]. Having grown rapidly since the mid 1980s, production for 2004 is expected to reach around 9bn cu meters. Of this, around 40% is associated gas found in oil wells in the north-east of the country and 60% of non-associated gas from the fields around Palmyra.

This balance is expected to change gradually over the coming decade as the production of associated gas declines and new gas fields around Palmyra come on stream. Growth in overall production is expected to reach a peak of between 10bn cu meters and 11bn cu meters by 2009 and to remain fairly constant thereafter. At this level of consumption Syria's existing known reserves will last for around 30 years.

Almost all the gas production in Syria is used to generate electricity. However the Petroleum ministry has reported that it has plans both to construct distribution networks to allow gas to be used by both domestic and industrial customers and to begin selling compressed natural gas (CNG) as a vehicle fuel, as well as constructing petrochemical plants to produce polypropylene and polyethylene using natural gas as feedstock.

4.1.1.4 Telecommunications

The telecommunications sector in Syria is undergoing extensive change. The poorly developed, state-controlled fixed-line network has been expanded and upgraded and a new privately operated mobile phone sector has been created in 2000. Growth and change are set to continue for the foreseeable future as the demand for telecom services is continuously increasing.

The Ministry of Communications and Technology foresees penetration rates of 30% for fixed lines, 30% for mobile lines and 20% for Internet subscriptions by 2007, and is pursuing a policy of restructuring the state telephone operator, the Syrian Telecommunications Establishment (STE), allowing it greater freedom to work with private sector companies- both as a contractor and as a contracted operator- while encouraging the expansion of Syria's two private mobile operators [53].

STE: Prior to 2000, telecommunications in Syria were controlled by the state-controlled STE. In addition to maintaining responsibility for the operation, expansion and maintenance of its fixed-line network, the STE acts as a licensee and regulator for private operators - the two GSM operators and the call-box operator. The STE progress has been remarkable. In the early 1990s national teledensity stood at only 4.1% largely due to insufficient capacity and the lack of digitalization. By the end of 2003, the STE's entire network digitized and 607,000 new lines were added, thus increasing the capacity of the fixed-line network to 3.4 million lines. Over the same period, the number of subscribers grew to 2.41million - a teledensity rate of around 13.75% of which 81% live in cities and 19% in rural areas.

Stiff competition from Syria's two GSM operators has reinforced the need for the STE to expand the capacity of its network and the quality of the services provided. By 2005 the area of the country covered was greatly expanded and the capacity for a further 800,000 lines added. A further 350,000 lines are being installed in rural areas of Syria currently either unserved or poorly served by telephone access. The project, which has yet to be tendered, is expected to cost \$100m and will utilize a variety of technologies to link rural exchanges to the STE's main network.

Help in reforming and modernizing the Syrian Telecommunications Establishment is being provided via the EU - funded Telecommunication Sector Support Programme (TSSP). The TSSP forms a part of the regional MEDA programme, it has began in 2002 and it is expected to last three years, the programme is contributing in building world-class capabilities for STE by developing functions, processes, skills, tolls and systems.

GSM: The first operations were launched in February 2000 when two newly created companies set up a 60,000 line pilot project in Damascus, Aleppo and Lattakia. The two companies brought together Syrian and other Arab investors. Syriatel was created as a joint venture between Egypt's Orascom and a group of Syrian investors who in 2003 bought out Orascom's share. Spacetel was created as a joint venture between Investcom owning 75% and the Syrian company Dallah al-Baraka holding a 25% stake.

Following the successful conclusion of the pilot project in July 2000, a tender was launched for the sale of two 15-year build-operate-transfer (BOT) contracts granting operators the right to construct and operate a GSM network at 900MHZ and 1800MHZ and the contracts were awarded to the pilot scheme operators. Services began in March 2001 with both operators claiming around 100,000 subscribers by the end of 2001. By the end of 2002, both networks were expanding tandem, claiming around 190,000 subscribers. Subsequent growth was rapid as both operators expanded both coverage and the range of services on offer and reduced subscription charges to coincide with the introduction of pre-paid lines in the final quarter of 2003.

By mid-2004 both operators covered around 90% of the Syria population and 70% of the country's main roads. Regarding subscriptions, Syriatel claimed 750,000 active subscribers, of which 225,000 were pre-paid, against 660,000 for Spacetel, of which 230,000 were pre-paid. Analysts predict that both operators reached 1million subscribers in 2005, with most new subscribers being pre-paid. As the growth of pre-paid subscription continues to outstrip that of the post-paid, pre-paid subscriptions are expected to reach international levels of 80-85%.

Both operating companies have paid strong attention to customer services, establishing chains of service centers where customers can subscribe to new services and pay their bills- an important consideration given the nature of the Syrian banking sector. As of mid-2004 there has been little impact from the arrival of private banks in Syria, although observers

predict that if Syria follows other markets, operators will build strong alliances with banks to allow both payments and accessing banking services via handsets.

4.1.1.5 Tourism

For several years now, the Syrian government has decided that the tourism sector is a strategic sector in Syria, i.e. sector of special interest to the country's economic, social and even political plan towards liberalization and modernization. The government's ambitious plan in terms of tourism aims to attract 5 million tourists by the year 2010 [16, 54].

Syria has the necessary potential to make its tourism sector as vibrant as it is in many of its neighboring countries such as Lebanon or Egypt, if not more. Syria's tourist attractions are plentiful, are spread throughout the country and are, for the most part, easily accessible. In fact, Syria can be pictured as a huge open-air museum, with historic sites and monuments illustrating 20 different civilizations across the history of humankind. In fact, Syria, often called the "cradle of civilization", is the home of the first alphabet ever, the home of the first encryptions, the first library ever and many other cornerstones of the oldest civilizations in history known to us.

Furthermore, Syria offers a wide spectrum of landscape ranging from arid deserts to mountains, green fertile land around the legendary Euphrates and other Syrian rivers in addition to a beautiful coastline along the Mediterranean. Syria's urban and rural population offers worldwide famous hospitality, generosity and tolerance for foreigners. Visitors can also enjoy a wide variety of folkloric activities, traditional artisanship and renowned cuisine. The sites, which foreign tourists most commonly visit, include the cities of Damascus, Aleppo and Hama, the Crack des Chevaliers in the rural central-west of Syria, the Euphrates River, the Mediterranean coast, and finally the Roman ruins in the desert at Palmyra.

However, tourism in Syria suffers from a few weaknesses, which still inhibit this sector from achieving its full potential. Syria has to compete for tourists, with regional competitors such as Jordan and Lebanon having a more structured tourism sector and more experience in servicing Western tourists. Deficiencies in the Syrian tourism services include a comparative lack of foreign language skills among Syrian workers. The Syrian government, in recognition of the need to compete with the facilities of neighboring states, has indeed tried to improve a number of facilities and services, which not only attract tourists, but also encourage them to return to Syria for a second or third visit. Recently, Syria has even increased its emphasis on international marketing, spending on which has increased by about 20 percent per annum since 1990. Still, these measures are still not enough to expand and develop tourism as desired. Syria has to focus more on satisfying the requirements of visitors and on increasing the confidence of these foreign investors, which would increase foreign investment in the tourism sector and attract more tourists, especially Western tourists.

Table 5 Tourist Statistics

Tourist Statistics for the first 11 months of 2005 (in Thousands)					
Nationality	The first 11 months of 2004		The first 11 months of 2005		Change %
	Arrivals	Tourists	Arrivals	Tourists	
Arabs	4542620	2203139	4197644	2362729	+7
Foreigner	1222584	629895	1255368	790791	+26
Total	5765204	2833034	5453012	3153520	+11

Despite these weaknesses, it is obvious that opportunities in Syrian tourism are endless. As an untapped economic resource compared to other industrial sectors, which have reached saturation in terms of growth potential, tourism offers potential to continue to expand for years to come. This fact explains the private sector's eagerness to invest and participate in tourism; encouraged even further, by the way tourist investments are treated under Syrian law. Start-up times for tourism projects are shorter than for industry, returns are greater than for agriculture, and less specific skills are required to manage tourism projects compared with other sectors. The most important motivation for the private sector, however, has been economic liberalization. As for its impact on the economy as whole, tourism satisfies all the requirements to make it a key sector to Syria, as it provides labor-intensive employment and valuable foreign currency.

The major drawback to the tourism sector in Syria is that it is largely influenced by external actors and events, and not only by internal political and economic dynamics. For better or worse, events outside of the control of Syrians have an impact on the propensity of tourists to visit Syria, and on the internal circumstances influencing tourism in Syria. The real and perceived political stability of the Middle East is and will always be important determinant of tourists' willingness to visit Syria.

4.1.2 Trade

4.1.2.1 Trade Laws & Regulations

Foreign Trade Regulations

Syrian commercial law recognizes all the usual corporate entities found in the Western world. The principal forms are limited liability companies, partnerships and joint stock or shareholding companies. Joint ventures between the government and the private sector may be incorporated under Syria's investment law. Many of the largest are however established by decree and thus governed by rules and regulations outside the standard commercial law. In principle, foreign firms or individuals are permitted to participate in all types of corporate entities. Foreign ownership is, however restricted to projects under Investment Law No 10 [41, 42, 48].

4.1.3 Investment

4.1.3.1 Investment Indicators

Openness to Foreign Investments

Syria is opening up toward a free market economy. Investment promotion and especially Foreign Direct Investment FDI are an integral part of its reform program. Existing investment Law no. 10 of 1991 represent the government instrument to encourage domestic and foreign investments with equal treatment and incentives that are in favor of foreign investors in some cases.

Protection of Property Rights

The Syrian legal system especially Investment Law no. 10 protects the acquisition and disposition of property rights of a licensed investment.

Copyright Protection Law no. 12 was issued in 2001. Trademarks and patents registered at the Ministry of Economy and Trade are protected for a period of years.

Expropriation and Compensation

Investment Law no. 10 and its amendment Law no. 7 stresses that ownership in Syria is protected and expropriation is prohibited unless deemed in the public interest, and calls for fair compensation to the investor in convertible currency.

Labor Availability and Labor Laws

Syria has a high population growth rate of 2.4%; about 61% (10.9 millions) of population are under the age of 25. The labor force constitutes 29% of population (5 millions). Syrian annual graduates of universities and colleges (including Intermediate institutes) are on average: 48,781 and 23,490 respectively.

Investment Law no. 10 gave flexibility to owners of licensed projects in labor related issues and exempted them from certain labor relations laws in industry and in agriculture (law No. 49 for 1962 in industry and law No. 137 for 1958 in agriculture; both laws are considered overprotective to labor).

Right to Private Ownership and Business Establishment

Syrian investment laws permit ownership of domestic and foreign entities and entitle them to own business enterprises and engage in remunerative activities except for military and national security interests.

A foreign company may do business through a branch in Syria, which must be registered with the Ministry of Economy and Trade, department of companies. Private sector projects or companies in which a foreign government is a shareholder or a participant require the special permission of the president of the Republic.

Liberalization of Banking Sector

The liberalization of the banking sector through a new law in March 2001 -Law no. 28 on Banks- put end to the state monopoly. The new law followed a decision in 2000 to allow private banks to operate in Syria's free zones. A banking secrecy law and a new money and credit law were also passed²⁸. The new banking law allows Syrian individuals and institutions to establish 100% privately-owned banks. The law also allows Arab and foreign individuals and institutions to set up banks with up to a 49% stake, in association with the Syrian private and public sector. A private bank's capital should not be less than \$30 million, and no single individual may own more than 5% of a banks shares. Finally, banking profits will be subject to a flat tax of 25% [19].

Repatriation of Invested Capital and Earned Profits

Investment Law no. 10 of 1991 permit the repatriation of 75% of earned profits in foreign currency, while Law no.7 of 2000 (amendment of Law no. 10 of 1991) allowed the repatriation of the invested capital after five years of investment at the market value of the investment.

Infrastructure, Energy, and Resources

Syria has two ports on the Mediterranean capable of accommodating vessels of all descriptions. They provide the services of maritime transport between Syria and all parts of the world and are used to provide transport services to contiguous countries, particularly Jordan and Iraq. Studies are underway to build a third seaport and to expand the existing two ports and upgrade their outfitting to meet the requirements of the expanding national economy.

Transport is provided through a 45000 km network of roads and highways linking all Syrian cities and also neighboring counties. A 2,790 Railway links between the production zones with points of sale and various Syrian regions with the Syrian seaports and with Iraq, Jordan, and Turkey.

Syria has three international airports that cater for passenger and freight aircraft of various cargos and other domestic airfields in the north and middle of Syria. Also under consideration are studies to build other domestic airfields to provide passenger and freight service between the Syrian provinces.

Syria is self sufficient in all energy resources (oil, gas and petroleum products) for local consumption, with a surplus for exportation. Over and above crude oil production exceeds national needs and Syria has two oil refineries that satisfy the local consumption requirement in petroleum products, with a handsome surplus for export.

The government constructed new power plants to meet the increasing electricity consumption for domestic, industrial and agricultural uses. The government also participated in the electric grid linking with Jordan, Lebanon, Iraq, Egypt and Turkey in order to ensure the supply of power as requested.

It can be fairly asserted that infrastructure services with all components, including the telecommunications service, are available for industrial, agricultural, tourist and service investments of all descriptions. The cable telephone service is provided by the government

and covers all Syrian territory. Two mobile phone private companies have been incorporated and have started to cover all Syrian land, along with a projected international mobile phone system of communication with neighboring countries at first and then with other countries worldwide.

Syria has 18 rivers, the Euphrates and Orontes play key roles in supplying a number of irrigation projects that have helped Syria feed its growing population. Central to this effort was the construction in 1973 of a large dam on the Euphrates, which also generates around 15% of the electricity distributed via the Syrian national grid.

Simplification of Administrative Procedures

Administration procedures are under development and streamlining. New Citizen Service Centers (of economical nature) will be established with the help of the Institutional and sector modernization Facility, which is an EU funded project. These centers are expected to be functional by end of 2006.

The existing Investment Bureau is playing a major role through its one-stop-shop service and is organizing with all investment related bodies to facilitate and streamline existing procedures. ICT solutions will be utilized.

Investment Opportunities

Almost all sectors are now open to private shareholding, after several decades of public monopoly that controlled whole blocks of the economy. All business statuses – from private limited companies to holdings – are authorized. Electrical power production and cement mills are among the sectors most recently made accessible to private investors. Air and rail transport, telephone systems, oil refineries, mineral water, the commercialization of cereals are some of the few sectors still under public control.



Figure 2 Investment opportunities in Syria

As to international trade, the Syrian authorities have also launched a gradual opening policy in the last few years. Some major free trade agreements have been signed with neighboring countries. They provide real export opportunities at the regional level. The implementation of the Arab Free Trade Zone, scheduled for 2005, will enable Syria-based investors with free access – without tariffs or customs barriers – to more than 14 other Arab countries. Moreover, at the beginning of 2004 a partnership agreement had been signed with the European Union.

Investors who mainly target export markets can also invest into one of the seven ‘‘free trade’’ zones of the country. Those zones are scattered throughout the country (Damascus, Aleppo, Lattakia and soon the cities of North-East Syria), and they provide the same facilities as any other free trade zone in the world.

The liberalization and unification of the Syrian currency rate seems to be on the right track, following the lifting of major restrictions in 2003. Moreover, private banks have returned to the country after 40 years of absence. Numerous spin-offs such as access to easy credit and improved banking services are expected to enhance.

Industrial Investment Opportunities

- Food industries
- Packaging
- Agro-industrial projects

- Textiles and textile machinery
- Spare-parts industry
- Consumer products
- Chemical and pharmaceutical industry
- Petrochemical projects
- Leather industry
- Industry requirements
- IT projects
- Cement production
- Car assembling and manufacturing

4.1.3.2 Investment in Syria

4.1.3.2.1 Industrial Investment in the Free Zones

Free Zones' Locations and Services

Syria has already six established free zones, managed by the General Organization for Free Zones, in addition to a joint free zone on the Syrian-Jordanian border. Recently, Syria signed an agreement with Turkey to establish a joint free zone on the Syrian-Turkish borders.

The following table shows the six free zones with the total area, investment capacity and occupancy. A description of these zones in addition to the Syrian-Jordanian free zone is presented in the following section [48].

Table 6 Free Zones in Syria

Free Zone	Total Area (m ²)	Investment Capacity (m ²)	Occupancy (m ²)
Damascus Free Zone	70,000	46,301	46,301
Damascus International Airport Free Zone	24,000	11,262	11,262
Adraa Free Zone	680,000	343,400	188,400
Aleppo Free Zone	1,145,660	771,397	771,397
Lattakia Free Zone	273,000	141,000	58,000
Tartous Free Zone	436,000	250,000	247,500

Damascus Free Zone:

The activities set up in the zone are mainly:

1. Commercial Activities: storage of various goods such as strings and electronics.
2. Industrial Activities: factories for ready-made clothes, socks, drugs, oil packaging, and computer assembly.
3. Banking Activities: constituted of the Commercial Bank of Syria and the six foreign banks mentioned above.

Damascus International Airport Free Zone:

The activities conducted within this free zone are mainly:

1. Storing electronic equipment, victuals, raw materials, and computers.
2. Producing medical injection, fertilizers, metal blocks for cutting boards, house ware, metal cupboards, ready made clothes, and plastic.
3. Computer assembly.

Lattakia Free Zone:

The commercial and industrial activities within the zone are mainly storing goods such as wood, iron, cars and victuals and factories for cold iron pulling, strings and ready-made cloths.

Tartous Free Zone:

The major activities conducted there are:

1. Commercial: storing cars, building materials, liquids, victuals and fodder.
2. Industrial: Big projects for rice purification, oil production, and cold iron pulling.

Adraa Free Zone:

This free zone is located in the Damascene suburbs, on Damascus - Baghdad highway. Commercial activities of this free zones are composed of the storage of fabrics, strings, cars spare parts, electronic devices, victuals, air conditionings, farming equipment, building materials, cars, and vehicles. On the other hands, industrial activities are broken down into the production of shoes, plastic, wood chairs, air pumps, cutting marble, embellishment stones, and production of casts bands.

Aleppo Free Zone:

This zone is currently the largest Syrian Free Zone. Activities set up within the zone are:

1. Commercial activities: storing industrial equipment and tools, house wares, computers, victuals, frames, wood, clothes, cars, and vehicles.
2. Industrial activities: manufacturing ready-made clothes, plastic granules and printing.

The Syrian-Jordanian Free Zone:

It is a jointly established free zone, set up first purely as an industrial zone by virtue of law No. 21 of 1975. The zone extended its activities in 1988 to allow for commercial, tourism, and agricultural investments. Located along the Jordanian borders in Nasseb, south of Daraa, its total area is 6 million m². As mentioned above, this zone is managed by the Syrian-Jordanian Industrial Free Zone Company, a limited shareholding company located in Daraa.

This Zone has witnessed an increase of investments during the past five years. In 1993, there was only one investor operating. By 1999, 17 investments were established in this zone from which only 5 were industrial. By July 2002, the number of investments increased to reach 136.

Benefits Offered in the Free Zones

The government provides the following benefits to companies operating in the free zones:

1. No import licensing requirement for inputs and goods entering the zones. Importers need only present a manifest as documentation and for inspection purposes. Only military and other prohibited items are excluded.
2. No re-export regulations or restrictions are imposed except for military and internationally prohibited items.
3. All goods entering and stored in the zones are exempt from local taxes and duties.
4. All foreign exchange operations are free of applicable currency restrictions.

5. Any commodity permitted to be imported into Syria can be imported from free zone manufacturing facilities, but an import permit is required.
6. Access to private banks operating in the free zone areas.

It also grants them:

1. The right to receive Syrian certificate of origin for goods produced in Syrian free zones
2. The right to temporarily admit cars and loading vehicles
3. Simplified procedures for importing and re-exporting supplies, material, and equipment.

Laws and Regulations

Investment in the Free Zones is regulated by legislative decree no. 40 of year 2002. Industrial investments are given priority in the free zones. To establish a business within the free zone, investors can either set up a building on an assigned plot of land or use an existing building.

This investment is made against an annual fee for long-term tenancy in the case of plot of land used to erect buildings (not exceeding 20 years). Tenancy of existing buildings is limited to a maximum of 5 years and is renewable with mutual consent and new tenancy fees. Incentives granted to industries established in the local market are almost equivalent to those given to Free Zones industries.

4.1.3.2.2 Investment in the Industrial Estates

Locations and Services

Syria has leveraged on the experience of several Arab and foreign countries (Egypt, Jordan, Saudi Arabia, Iran, etc) when planning its industrial estates.

Industrial Estates are authorized by Decree No. 326 of 1996. They are established outside the urban and agricultural zones and they are expected to be equipped with all the necessary facilities and infrastructure such as residential areas, green spaces, resorts, etc.

There are three industrial estates currently in Syria and they are In Damascus, in Aleppo, and in Homs. These estates are expected to be constructed on phases. The one in Damascus and the one in Aleppo have already completed phase one with the necessary infrastructure such as; water sources, networks, reservoir, electricity transformation stations, asphalted roads, phone and sewerage networks.

Investment areas in these zones are divided into small, medium, and large plots. Small plots would be 150 – 600 m² large, medium plots would be of 1,200 – 4,800 m², and large plots 9,600 – 42,000 m². In 2000, the industrial estates were opened for subscription. Within one month, plots are delivered to subscribers. Moreover, both construction and investment permits are granted easily.

Damascus Rural: (Adraa Industrial Estate)

The Damascus Industrial Estate is located in Adraa, 35 km away from Damascus, in the Damascus Rural governorate (where 40% of industrial projects established under the

Investment Law No. 10 are located). It will occupy 7,000 Ha (70 million m²) of land and will cater to four major industrial sectors: Food, Textile, Engineering, and Chemicals.

The Adraa Industrial Estate is divided into three zones:

1. A residential zone of about 1,000 Ha (10,000,000 m²), expected to host 200,000 people
2. A zone of 2,500 Ha (25,000,000 m²) including roads, gardens, parking, etc.
3. A 3,500 Ha zone (35,000,000 m²) divided into plots for heavy industries (2,000 Ha), medium industries (1,000 Ha) and light industries (500 Ha).

Highways link the Adraa Industrial Estate, making it more accessible to Damascus and its suburbs. Railroads heading from Adraa and Aleppo to northern Damascus will travel through the Industrial Estate.

Adraa's industrial estate construction was started in 2001. It is divided into two phases. The estimated time for completion is 30 years. The first phase contains 5,450 plots for textile, engineering, chemical and agro-food industries. It will be completed in consecutive phases where the first one is of 400 Ha (4 million m²) including 1,800 plots.

Today, 1126 plots are ready for sale and 230 investors have subscribed for plots. Plots are sold at 900 SP/m² (\$20), one-third (SP 300) payable upon reception, another (SP 300) after one year, and the remainder after one year of occupancy.

Aleppo: (Sheikh Najjar Industrial Estate)

The Aleppo Industrial Estate is located to the East of the city, in the Sheikh Najjar area. This location allows a future expansion to the East and North-East. Sheikh Najjar has a total area of 4,285 Ha (42 million m²), divided into 9,939 industrial plots. By the end of 2002, 150 investors have subscribed. The price is 980 S.P./m². Sheikh Najjar's industrial estate is expected to comprise all the randomly and illegally established industries in addition to the future expected industries until 2025. The estimated cost of Sheikh Najjar's Industrial Estate is S.P. 9.28 billion. The Aleppo industrial estate will be set up in three phases:

1. Phase One with 550 Ha (5,500,000 m²) which contains plots for Food, Textile and Engineering Industries, to be completed in five years starting in 2001
2. Phase Two with 650 Ha (6,500,000 m²) to be completed in five years starting in 2005
3. Phase Three with 800 Ha (8 million m²) to be completed in ten years.

Homs: (Hassya Industrial Estate)

Located in Hassya, 47 km from Homs, its total area is around 2,495 Ha (24.95 million m²) with a possibility of expansion. The area will be developed in three phases, the first one will be of 831 Ha (8,310,000 m²) from which 167 Ha (1,670,000 m²) are already finished.

This first area is divided into 225 plots allocated as follows: 95 for textile, 46 for agro-food, 57 for engineering, and 27 for chemical industries. Moreover, around 440 Ha (4.4 million m²) will be used for the establishment of residential areas, 56 Ha (560,000 m²) for social and entertainment services, and 33 Ha (330,000 m²) for sport facilities.

The main industries to be established in Hassya are textile, engineering, agro-food, Chemical industries, in addition to some light industries. Moreover, Hassya is expected to create 97,000 employment opportunities.

Benefits Offered in the Industrial Estates

Projects in industrial estates benefit from all incentives given to investors under Investment Law no. 10 and Industrial Law no.21. In addition, project constructed in industrial estates benefit from:

1. Lower utilities rates (electricity and water)
2. Enhanced infrastructure (roads, water treatment, telephone, gardens)
3. Investors have the right to sell their facility, which is not permitted outside industrial estates)
4. Investors have four seats in the management board of the industrial estate
5. Concentration of different kinds and scales of industries
6. Environmental friendly place
7. Less administrative work thus saving time and money
8. Availability of land for future expansion

Laws and Regulations

The main laws regulating industrial activities in the country are:

1. Decree no 47 of 1952
2. Law no 21 of 1958 (Legislative Decree No. 103 of 1952)
3. Investment Law No. 10 of 1991 amended by the Legislative Decree No. 7 of 2000 encouraging investment in Syria

These laws were discussed earlier and they apply to investment in the industrial estates.

Licensing Procedures and Costs in the Industrial Estates

A manufacturing plant may be licensed under one of two possible alternatives: either Law No. 21 of 1958 or Investment Law No. 10 of 1991 (provided that the project capital exceeds 500,000 USD for Investment Law No. 10 of 1991). Handcrafts (or small industries) are regulated by Decree no. 47 of year 1952.

4.1.4 Banks

4.1.4.1 Public Banks

Syria has six specialized state banks with around 268 branches. They generally provide only the most basic traditional banking services such as accepting deposits and giving loans. Each of the five state banks was created theoretically as a specialized institution, responsible for financing one sector of the economy on behalf of the state: The Real Estate Bank, The Agricultural Co-operative Bank, The Industrial Bank, The Popular Credit Bank and The Commercial Bank of Syria (CBS). There is also the Post Office Savings Bank, which began as a savings institution for small investors, before becoming a bank.

At 2004 Banks had assets of S.P. 1.25 trillion (\$23.59bn), with 75% for the Commercial Bank of Syria CBS as the largest state bank. It is also the only institution permitted to deal in foreign currency, engage in international transactions and hold foreign-exchange deposits outside Syria. CBS is now pushing through fresh reforms: it has computerized its 53 branch network, added 32 ATMs machines all over the country and a new credit card payment centre [19].

While these changes are significant, perhaps the most dynamic of state banks, is the Real Estate Bank which is making the strongest progress. Established in 1966 to offer long-term loans for state capital investment projects, notably in real estate, it has embarked in the past decade on a radical reform programme to increase products and services. Since the legislative changes of 2000 and 2001, it has used the opportunity to push into retail banking and in 2002 began to offer personal loans of up to S.P. 5million to borrowers with real estate collateral. In terms of size, Real Estate Bank had deposits of S.P. 56 billion at the end of 2004, loans of S.P. 47.4 billion, and 17 branches.

While the Real Estate Bank is making strong progress, other state institutions have a much steeper climb ahead, but each has a distinct place in the market. The Agricultural Co-operative Bank, for example, was established to fund state agricultural organizations and co-operatives, and has a comparatively large branch network of 106 outlets. Given that the agriculture sector –particularly fruit farming has strong private sector participation, the bank has a relatively large portfolio of private sector loans. At the end of 2002, some 56% of credits were to private sector, 43% to the co-operative sector and 1% to the state. Most loans were short –term and for seed purchases and current expenditure rather than long-term investment.

The Industrial Bank by contrast, founded in 1958, has a more urban focus with some 17 branches, half of which are in Damascus. This bank has enjoyed steady growth over the years as the country pushed through state-centered industrial projects, with credits climbing from S.P. 80million in 1970 to S.P. 16.5 billion in 2004, with 66% short-term loans. Total deposits at the end of 2004 were S.P. 22.6 billion. It has however, faced problems with credit provisioning in 2004.

The Popular Credit Bank meanwhile was set up specifically to offer loans to those on limited income, largely artisans. In 2000, it had a relatively stable credit portfolio of S.P. 12.8 billion with a large private sector component. Deposits amounted to S.P. 36 billion, with total assets of S.P. 48.4 billion and 62 branches.

Finally, the Post Office Savings Bank, established in 1963 to direct savings from small investors into government projects, began as an institution independent from the banks, but in recent years it has come more and more to resemble the other banking institutions. In 1999, it was given permission to start lending beyond the government to industry and tourism projects, working through its 58 branches.

4.1.4.2 Private Banks

The Syrian authorities are aiming to improve the functioning of the banking sector in order to revive the economy. On 2001, the Syrian parliament passed law No.28 establishing the legal framework for the new institutions, including licensing the conditions under which they would operate and the principles of supervision. The legislation ruled that banks could be wholly private owned, or joint ventures between the private sector and state bodies, with the latter holding 25%. In either case, the new institution must be at least 51% Syrian-owned, allowing foreign individuals or institutions to own up to 49%. In addition, no individual could own more than 5% of share capital. Minimum capital for the new ventures was set at SYP 1.5billion (\$ 30million), with 10% lodged with the central bank as a non-interest earning reserve. In terms of taxation, the banks were to pay a 25% tax on net profit. Another crucial aspect of the 2001 legislation was LawNo.29, which enshrined banking secrecy. Law No.29 ruled that bank accounts could be numbered, as well as named, and the identity of the owners could only be released with their explicit permission, or in the cases of bankruptcy or a lawsuit.

In 2004 private sector banks opened their doors for the first time in four decades to the delight of the business community, investors, analysts and members of the government. Two institutions began trading in the first week of January, a third was opened mid that year.

Business was brisk in taking local and foreign currency deposits, offering short-term credits and exploring new markets as retail banking. Within six months, one bank had plans to double its capital; another was installing ATMs, while all three were planning to open up new branches in different parts of the country, collectively promising up to 15 by early 2005.

The three pioneer institutions were all joint ventures between regional banks and local investors; each was- as required by law- majority Syrian –owned.

The first one launched in 4th January were Bank BEMO Saudi Fransi (BBSF), a joint venture between Lebanon's Banque Européene pour le Moyen Orient (BEMO), the Saudi Fransi Bank, and local investors. BBSF has the maximum permissible foreign holding of 49%, with 22% held by BEMO, and 29% by Saudi Fransi. The remaining 51% is held by Syrian investors, including 5% by Obeji Family and 46% distributed through a local offer in October 2003, reportedly 40% over subscribed.

The bank focused activities on taking deposits, offering short-term trade financing, issuing letters of credit, letters of guarantee, and discounting commercial papers. It found an enthusiastic market combining new customers, and existing clients who previously traveled to Lebanon to bank with BEMO. BBSF head office is located in Damascus and it has over than 10 branches spread across Syria.

The second one to open on January 7th 2004 was the Bank of Syrian and Overseas (BSO), formed by Banque du Liban ET d'Outre Mer (BLOM), The World Bank's International Finance Corporation (IFC), and local investors. BSO has also the maximum foreign shareholding of 49% with BLOM holding 39% and IFC 10%, individual investors

account for the remaining 51%. BSO was launched with the minimum capital requirement of \$ 30 million and issued half-yearly accounts in September 2004.

BSO as well, has focused activities on taking deposits and offering short-term trade financing, planning to broaden its range of products as the market develops. Reflecting its strong performance BSO doubled its capital to \$ 60 million at the end of October 2005 and it has now 5 branches, with a total of 15 by the end of 2006.

In June 2004, the International Bank for Trade and Finance (IBTF) began trading, a venture between Jordan's Housing Bank holding the entire 49% foreign share, and local investors.

While offering trade financing, as in the other two ventures, it plans a fast move in retail banking, mirroring Housing Bank in Jordan. As an expression of this, it was the first new bank to offer an array of retail products, including interest-earning current accounts, instant-access deposit accounts, and term-deposit account for retail clients, all with ATM cards. It also offers consumers loans ranging from mortgages, education and car loans, to unsecured personal loans. It has now 7 branches spread across the country.

The new "second wave" of private banks came early 2006. Banks include Arab Bank of Jordan and two more Lebanese institutions Banque Audi and Byblos Bank.

The arrival of private banks in Syria is widely seen as a landmark step in bringing genuine economic reform to the country. For the first time in more than four decades, individuals and companies have access to market-oriented domestic financial institutions, with the promise of an array of modern products and services. In the macroeconomic terms, there is high expectation the banks will perform miracles, including mobilizing domestic savings, drawing funds from overseas, providing a stronger market between savers and investors with a range of risk and reward packages, improving the efficient allocation of capital to projects with the greatest potential, and generally expand the allocation of resources in the wider economy.

4.1.5 SME financing in Syria

In order to boost its growth, Syria will need to diversify its economy, away from the oil sector and to increase private sector development and the associated exports. The successful development of SME activity in Syria will contribute to that need.

Research indicates that developing economies with effective financial intermediation systems are more likely to grow than those without. Some donor funded programmes are examining ways of improving the availability of finance to SMEs but there is also the need to prepare the Syrian business community for the current and future financing facilities available in Syria.

The Syrian business community in large part makes very little use of formal bank finance. This is the consequence of weaknesses on both the supply and demand side of the SME financing market.

On the supply side, banks are too conservative and lack the lending and marketing skills associated with SME financing. As a consequence the supply of finance to SMEs is limited in both quality and quantity. On the demand side, the enterprises lack good governance, transparency, reliable financial information, efficient business and financial management. In addition, they have to operate in a bureaucratic environment that is less than conducive to entrepreneurial drive.

Financing for SMEs in Syria is mostly provided by entrepreneurs' own finance, families and friends. Only a limited number of well known businesses are financed by banks. Alternative formal sources of finance from neighbor countries are limited by strict financial regulations.

There are currently three interventions initiated by the European Investment Bank (EIB) in conjunction with the EU. It is providing € 40 million to support long term loans to Syrian SMEs, it is carrying out a review of the banking sector and has launched a major financial institution building programme. These initiatives are aimed at addressing the problems of SME financing at the bank (supply) level.

The Syrian European Business Centre (SEBC) is addressing the weaknesses at the enterprise (demand) side. Its objectives are to improve transparency, management skills, business and financial planning. The ultimate objective is to make the SMEs better clients for banks so that they are eligible for financing using the existing and new financial instruments that will be put in place. This will include the SME Fund of the EIB referred to above [36, 37].

4.1.5.1 Analyzing of SME Financing in Syria

4.1.5.1.1 Types of Capital

All enterprises need capital. Capital is usually provided to the enterprise in the form of cash (money) and the enterprise uses the cash to acquire assets and to purchase the goods and services required for its operation. The assets may be fixed (land, buildings, plant) or current (stocks and receivables). In some cases instead of receiving capital in the form of money the enterprise receives the assets. In this case the capital has been contributed 'in kind' [38].

There are three basic types of capital instruments:

- Grants
- Equity
- Loans (referred to as debt)

Grants are donations, usually in the form of cash, which the enterprise receives from some third party (eg. friends of owners, government or multi-lateral donors). Grants may be conditional upon the enterprise achieving pre determined milestones (eg. purchase of machinery or employing certain number of staff). In other cases the grant could be completely unconditional. The balance sheet of the enterprise will record grants as being part of the shareholders funds and reserves.

Equity is the capital that has been introduced into the business by the company's owners (the share capital) together with the retained profits and other reserves. Usually the share capital is not repayable other than as the surplus following the ceasing of the enterprise's operations and the winding up of its activities. The balance sheet of the enterprise will record the equity under the heading of share-capital and reserves.

Loan / Debt is the capital owed for borrowed funds. The debt may be owed to banks, other institutions, enterprises or individuals. The balance sheet of the enterprise will record the accumulated value of outstanding loans either as a current liability (amount repayable within twelve months) or as a long term liability (amounts repayable after twelve months).

There are some instruments that are hybrid. Repayable grants, mezzanine finance and preference shares are examples of instruments that have the partial features of two out of the three types of capital. However these are more sophisticated instruments and it is likely that the capital required by SMEs will be supplied in the form of grants, equity or loans.

4.1.5.1.2 Problems and risks of SME finance

Generally SMEs experience problems when seeking to secure the finance that is necessary for the enterprise to either begin or expand its operations. This is because financial institutions consider investing into SMEs a risky operation. SMEs are difficult to assess financially due to their insufficient disclosure and the limited quality of the financial information they are ready to provide. In addition, SMEs are often under-capitalised and do not have generally sufficient collateral to provide security to the financial institutions [38, 41].

These problems are greater for the start up enterprise than for those which have been operational and successful for some time. The start up enterprise is usually little more than a business idea that may or may not be successfully developed into a viable business. The determining factors will be:

- Whether the developed idea will result in a product or a service that will generate sufficient profits to enable the enterprise meet its financial obligations.
- Whether the promoters have sufficient knowledge and drive to be successful
- Whether the enterprise has sufficient finance to enable it to acquire the necessary fixed assets and pay for the costs of at least the first cash cycle (working capital).

Thus the risk associated with a possible failure is higher for a start-up than for an enterprise that has a 'track record'. This higher risk deters the institutional providers of capital from lending to start-up businesses.

In order to try to mitigate these disadvantages the start up SME needs to have a business plan professionally prepared. The better the quality of the business plan the greater the prospect of the obtaining a positive decision from a financial institution.

The promoters own savings (if any) and 'friendly investors' are likely to be the main source of finance for the start-up SME. If the business plan indicates that the start up SME is going to receive significant finance from 'friendly investors' it may be able to use that as leverage to enhance its prospect of obtaining loan finance.

For SMEs that have progressed beyond the 'start-up' phase the prospects of obtaining finance from conventional sources are enhanced. SMEs that can demonstrate a successful track record, based on accurate information over at least a two year period will have more than a reasonable prospect of obtaining additional institutional finance. In addition, being able to present the financial institution with professionally prepared and accurate business plan and financial statements will enhance the prospects of the application being approved. In this case, historical financial statements for recent years and business plan covering at least the next three years will be required.

In Syria the lack of a professional lending attitude has resulted in little requirement for audited financial statements and little consultancy skills available for the preparation of business plans. The owners of SMEs based in Syria need to understand that the availability of audited financial statements and a sound business plans will help them to obtain the necessary funding to grow their businesses. The emerging presence of firms of international auditors, the business planning skills available through SEBC and the initiatives being taken at bank level should be factors that will positively improve the access to finance for Syrian SMEs.

4.1.5.1.3 Equity finance for SMEs

There are three main sources of equity finance:

- Contributions, usually of cash, from existing or new shareholders
- Accumulated undistributed profits
- Other reserves

The aggregate value of these three items is often referred to as the 'net worth' of the enterprise. If the SME is profitable then the net worth of the enterprise will increase as will the value of each share.

If the directors of the SME decide that it needs additional capital they may decide to try to raise some or all of that additional capital in exchange for new shares. These new shares can be offered to both existing and / or new shareholders.

In these circumstances it is likely that the price per share paid by the new investor will be greater than the price paid by the original shareholders (almost certainly the promoters). If the exiting shareholders decide to not contribute proportionately to the additional fund raising then they will own a lower percentage of the total number of issued shares. In this case their shareholding has been 'diluted'.

The owners of shares usually have the right to vote at the statutory meetings of the SME and have the right to receive a dividend providing the amount of the dividend has been approved by the directors and shareholders.

The contribution for share capital is of a long term and indefinite nature. The shareholders therefore cannot demand that the company repays their investment other than if there is a surplus on the cessation of the company's activities.

The shareholders can sell their shares to other shareholders or to third parties. If the company has been successful, the increase in share prices will generate a profit for the seller. This is the result that external investors are seeking when they finance company's equity.

The raising of additional capital by way of equity finance is therefore an attractive source of new capital for the enterprise. There are no repayment obligations (as long as the SME continues to operate) and the dividends are only paid if the company can afford to do so.

The main downside is that the stake of the existing shareholders may be 'diluted'. Most of SMEs in Syria are family owned and the provision of equity from external sources can be perceived as an intrusion. However, this effect can be limited by a successful historical financial performance that will increase the premium price per share that the new investors will have to pay. The better the performance of the enterprise, the higher the share premium and the lower the 'dilution'

4.1.5.1.4 Loan / Debt Financing for SMEs

Loan capital (or debt) is the capital owed for borrowed funds. The funds are provided to SMEs by banks, other financial institutions, individuals or other enterprises. There is usually a written agreement (contract) between the borrower (the enterprise) and the lender (eg. the bank) as to the terms of the loan regarding the interest to be paid, the repayment schedule, the guarantees and any other security taken by the lender on the assets of the enterprise.

The capital repayment and interest due dates are, in developed economies, rigidly enforced. The borrower that fails to meet its obligations to the lender will in most cases be pursued by the lender. This may mean the lender taking a court action against the non performing borrower and obtaining financial satisfaction by enforcing its security or guarantees.

Loan financing is an important source of funds for SMEs. The rigid nature of the SMEs obligations in relation to the loan agreement imposes a discipline on the SME for the preparation of a sound business plan and careful cash planning, to ensure that loan obligations can be met when they fall due.

4.1.5.1.5 Stages of SME Financing

During all its life span the SME must address the need of raising finance. This need is different depending on the company's stage of development. Usually a SME develops through the following four stages:

- Seed
- Start-up
- Development
- Maturity

A brief summary of each capital stage is shown here below.

Seed Capital Money used for the initial investment in a project that may lead to a start-up enterprise. Funds are usually to be used for proof-of-concept, market research, or initial product development. This is very high risk capital that is usually supplied by the promoters, promoters' friends and maybe by business angels.

Start Up Capital Finance for young companies that have not yet sold their product commercially. This is high risk capital that is usually provided by the promoters, business angels or venture capitalists. There needs to be sufficient funds available to acquire the initial assets (fixed investments) and to be able to finance the expenses to be incurred during the first cash cycle, i.e. until cash is received from the enterprises' customers (working capital). Development banks, such as the EIB, can finance start-up capital complementing the promoters' own financing.

Development Capital Finance for enterprises that have successfully progressed beyond the start up phase and have identified further growth / development opportunities. Usually provided by a mixture of equity and debt and is unlikely to be a source of funds until the financial statements for two / three years are available.

Maturity Capital Finance for enterprises that have successfully progressed to the point at which their fixed assets are in need of replacement for reasons of obsolescence or the lack of capacity. The accumulated reserves of the SME should provide an internal fund but there might be the need for some additional external funding. This may be by way of equity and debt but if the enterprise has been particularly profitable then the external funding could be solely by debt provided by banks. Typically replacement capital would not be required until after five years, since start-up, have elapsed.

From the start-up phase on, the SME will face the problem of finding the most suitable combination of equity and debt capital. An enterprise that is 100% funded by equity is almost certainly restricting its development since the excess of equity could be used to leverage some loans to finance further investments. On the other hand an enterprise that is mostly funded by debt will be under extreme pressure to be able to meet, on time, all of its obligations to its lenders.

Therefore the equity debt profile should be somewhere between these two extremes. However the financing structure of each business sector is different as are the needs of the individual enterprises. There is no definite rule but generally banks will require manufacturing businesses to have not more than 50% of the total long term finance being provided by debt. On the other hand in the trade business, where investments in fixed assets are lower, the proportion of debt finance can be higher.

4.1.5.1.6 Long Term & Short Term Finance

The consideration of long or short term finance must take into account the mix of equity and debt referred to above. Equity and grants are long term finance. Loans can be of a short, medium or long term nature.

The general principle is that assets that are to be retained and used by the SME over a long period of time (in excess of two years) should be financed by long term borrowings. The estimated life of the asset should be longer than the term of any related loan finance. The

concept being that as the asset begins operating it generates additional cash that can be used to service any matched borrowing. This is a little theoretical because in practice the asset and the loan are not isolated but mingled with the other assets and loans of the SME. Nevertheless the general rule should be to match the funding term of both asset and liability.

Examples of assets that are of a long term nature are: land, buildings, machinery, vehicles, strategic investments in related companies, research and development expenditure, copyrights, patents etc.

Assets that are clearly of short term nature should be matched with finance of a short term nature. Examples of these assets are: investment instruments maturing within the next 1 to 2 years, stocks of seasonal crops and stocks of seasonal products. Short-term finance is commonly used to finance working capital and specific short-term cash flow needs. For instance, the trade cycle of certain businesses (eg. seaside hotels) will give rise to a need for finance during the off season to be more than replenished during the high season.

4.1.5.1.7 Collateral & Guarantees

The term collateral is sometimes replaced by the term 'security'. However both mean: "Assets pledged to secure the repayment of a loan". In other terms, collateral is property that secures a loan or other debt, so that the property can be seized by the lender if the borrower fails to repay the loan or debt. Assets that may be used as collateral include land, buildings, equipment, accounts receivables, securities.

The assessment by the bank of the risk associated with a particular loan application will include the risk of the enterprise collapsing or failing to meet its debts, and the estimated value that the bank would receive from the sale of the collateral assets. The ratio between this value and the amount of the loan is called "exposure cover". Bankers will seek to have their exposure covered by at least 120% and in some cases as high as 170%.

The exposure cover applied by banks varies according to the assets pledged as collateral: it is lower in case of real estate properties or equipment and higher for inventories and accounts receivables.

If the exposure cover is lower than the desired amount, the lending bank may seek additional collateral by requesting a personal guarantee. This is a promise made by a guarantor to the lender, to be responsible for the debt in case of default of the borrower. The guarantee is usually given by a shareholder or by a third party. Personal guarantors put at risk their own personal assets when guaranteeing a loan.

4.1.5.2 The Business Plan of SME in Syria

A business plan is a written document that describes the enterprise's current status and plans for several years into the future. It generally projects future opportunities for the enterprise and describe the organizational, operational, marketing and financial strategies that will enable the achievement of its goals.

A business plan is often requested by banks, financial agencies and investors from enterprises that are seeking finance for investments in their business. However, developing such a plan does not only help the entrepreneur to raise finance, but it also provides a benchmark to monitor the progress of his business idea. A business plan will help the

entrepreneur to clarify his strategic thinking at an early stage and provides a road map for the future of the business.

There is not one way to outline the business plan. The exact structure of it will vary according to the specific contingencies of each business. Whatever the format used, a business plan will include the following elements:

- Executive summary
- Ownership and Management Structure
- Business description
- Products and services
- Operations
- Market and competitive analysis
- Marketing strategy
- Assumptions and risks
- Financial Plan
- Supporting documentation.

4.1.5.2.1 Executive Summary

This should be an extremely concise section (three pages maximum) that encapsulates all of the key elements of the more detailed sections that follow. The summary must enable the reader to grasp the business logic and organisation behind the new venture and it should indicate some key financials, including the amount of external finance needed. The purpose of the summary is to catch the interest of the readers (investors, banks, etc.) and make them read on. If the entrepreneur cannot clearly explain the business idea and business model in 2-3 pages, it is unlikely that the investor will look at the business plan any further.

4.1.5.2.2 Ownership & Management Structure

The business plan should set out the company's shareholding and organisation structure that will include its management team and the operational departments. Lines of responsibility should be clear and it may be useful to support this with an organigram. Resumes of the key shareholders and managers should be included as appendices of the business plan. This section should demonstrate the capability of the owners and managers to profitably run the business, particularly in case of start-up.

4.1.5.2.3 Business Description

This section should describe the nature of the enterprise's business and the business sector in which the enterprise operates. A brief description is required of the recent developments in the sector and how those developments will affect the activity of the enterprise. Of particular importance is to highlight any new products that have arrived, or about to arrive, on the market and an assessment of the impact, either positive or negative, of such developments.

4.1.5.2.4 Products & Services

This section describes the products and or services that generate the income of the enterprise. If the enterprise has numerous products then there can be a general description of them followed by a more detailed description of the key products. Indications of the percentages of annual sales turnover of the key products will help to highlight their significance. If the purpose of the business plan is to finance the development and introduction of new products then more details should be provided about these. It is particularly important in this section to highlight the unique features of the main products and the added value, or benefit that they may offer to the customers, because these elements will determine the profitability of the whole business.

4.1.5.2.5 Operations

This section describes the production and distribution processes, the resources that are deployed in order to manufacture / distribute the products or services of the enterprise.

In most cases the purpose of the business plan is to help with the raising of funds in order to finance the purchase of assets. The business plan should set out a fairly accurate assessment of the cost of the new assets, the working capital required and the implications for other operational issues such as additional employees, training needed, raw materials, additional energy, maintenance, etc.

4.1.5.2.6 Market & Competitive Analysis

This analysis sets out the size, growth and market shares for the markets that are of key importance to the enterprise. If possible each market should be estimated by size (volume and value) and projected growth rates during the life span of the business plan. The target segments should be described.

The main competitors for each market should be identified, together with their market share and the projected market share of the enterprise. This should link with the previous section by indicating the effect that the unique features of the product will produce in terms of increased market share. This section demonstrates whether or not the market is big enough for the new venture or products that the entrepreneur is planning to introduce. It is extremely important that the entrepreneur understands the dynamics of the market into which he operates and how his business is positioned in that market.

4.1.5.2.7 Marketing strategy

If the investment is for the production of new products/services or for start-up enterprises, an effective marketing strategy should be developed in line with the previously defined strategic options. The marketing strategy should indicate the sales forecast and how these sales objectives should be obtained. This section covers promotional activities, sale channels, partnerships, pricing strategy, etc.

4.1.5.2.8 Assumptions and risks

The main purpose of the business plan is to focus on the future of an enterprise and in order to do this the plan has to be based on assumptions. It cannot be a certainty that the assumptions will be achieved. There is therefore an element of risk associated with the business plan and the financial projections contained therein.

This section describes the most important assumptions on which the business plan is built, the potential risks and their impact on the business. A useful tool for this analysis is the SWAT model, which summarizes the information of the business plan under four headings: strengths and weaknesses of the enterprise, opportunities and threats to the new business idea. This important planning process should lead to the formulation of policies aimed at accessing the business opportunities and minimizing the impact of the threats.

4.1.5.2.9 Financial Plan

The financial plan will include financial statements for at least the three previous years (Balance Sheet and Profit and Loss accounts) and projections of financial statements for at least three and sometimes five years ahead. These projections are based on the current company' position together with the assumptions for the future years. The financial projections include balance sheets, profit and loss accounts and cash flow for each year of the plan.

The key investments in fixed assets together with the working capital needs will be highlighted on the balance sheets as will the sources and amounts of funding required in order to finance the acquisition of those assets. This section should also contain financial analysis of the key items of income, expenditure, assets and liabilities. The use of a limited number of key performance ratios should be included together with some benchmarking against which these performance ratios can be judged. In order to assess the potential impact of variation on the assumptions, it is advisable to use sensitivity analysis. This is a financial analysis that calculates the extent of the change in the financial projections that will result from a change in the assumptions. This analysis will provide some comfort to the financial institution since it facilitates the assessment of the risk.

4.1.5.2.10 Supporting Documentation

The supporting documentation helps to give credence to some of the assumptions for the future. This could include: feasibility studies, market research, budget quotes for fixed assets procurement, contracts with suppliers and customers, letters of reference, letters of intent, agreements with trade unions, copy of the real estate title deeds / lease and any other legal documents, tax returns for the previous three years, and anything else relevant to the business plan.

Rather than include possibly voluminous documentation in the main body of the business plan it is suggested that these documents either be appendices or maybe in a separate folder.

4.1.6 The EU-Syrian economic and business relationship

Syria is a full participant in the Barcelona process. After a long period of political stability, it has recently started a cautious opening of the centrally planned economy to market-oriented reforms. While the rise in oil prices since 1999 gives Syria some time to play with, the economic situation is nevertheless showing clear signs of stagnation and of the inadequacies of the economic policies [48, 51].

The main challenges facing Syria over the medium term are the diminishing oil reserves, rapid population growth, environmental degradation, and the military and political conflict with Israel. Within that context and taking into account the objectives of the Barcelona process, the EC can most effectively assist Syria in meeting those challenges by focusing on five priority sectors: Institution-building, Industrial modernization, Human resources development, and Trade enhancement.

The EU's co-operation objectives with Syria are anchored in the Barcelona Process, a proximity policy which reflects the political and strategic importance of the Mediterranean region to the EU. The main goals as set out in the Barcelona Declaration and in the common strategy adopted by the European Council in Feira in June 2000 are:

- Creating an area of peace and stability based on fundamental principles, including respect for human rights and democracy
- Creating an area of shared prosperity through sustainable and balanced economic and social development, and especially the gradual establishment of free trade between the EU and its partners and among the partners themselves with a view to the creation of the wider Euro-Mediterranean free trade area by 2010
- The improvement of mutual understanding among the peoples of the region and the development of an active civil society.

This process is underpinned by a network of bilateral relations between each partner country and the EU, embodied in Association Agreements which provide for political dialogue, free trade between each partner and the EU to be established over a transitional period and various forms of co-operation.

The MEDA programme provides financial support for the objectives of the Association Agreements and the Barcelona Process. Taking into account the priority areas identified for Community Development Policy, the MEDA programme concentrates on a few key objectives, supporting:

- development of pluralistic democratic society based on respect for human rights and the rule of law
- The implementation of the Association Agreements, with a particular focus on development of the Euro-med market
- The economic and social reform linked to the implementation of the Association Agreements
- Sub-regional co-operation, by encouraging South-South development and economic integration initiatives helping existing Association Agreement signatories to move to free trade between themselves.

Moreover, this country strategy takes into account the Principles and Objectives of Community Development Policy as elaborated in the Joint Council and Commission Declaration on Development Co-operation of November 2000. Indeed, the reduction and eventual eradication of poverty through providing support for sustainable development, the promotion of the gradual integration of partner countries into the world economy and a determination to combat inequality are fully compatible with and supportive to the goals of the Barcelona Process. Refocusing the Community activities in a more limited number of areas and the implementation of measures that ensure a more effective and efficient co-operation are equally objectives that are pursued in the context of this strategy.

The EU-Syrian Agreement focuses on the following main elements:

- Regular political dialogue, including co-operation on non-proliferation.
- Economic, social, and cultural dialogue and co-operation in a wide range of fields.
- The progressive establishment of a free-trade area between the European Community and Syria over a maximum period of twelve years. Both Parties recognize the importance of free trade, as guaranteed by the General Agreement on Tariffs and Trade of 1994 (GATT) and by the other multilateral agreements annexed to the Treaty establishing the WTO.
- Industrial products, free access granted to Syrian exports to the Community under the 1978 Cooperation Agreement are reconfirmed. Reciprocally, Syria will liberalize its imports regime for Community products so that all tariffs are reduced to zero by the end of the twelve year transition period after entry into force of the Agreement.
- Processed agricultural products, specific reciprocal concessions are foreseen.
- Agricultural products from Syria to the Community will be liberalised conforming to Barcelona Process objectives. For a list of sensitive products tariff quotas shall be applied. Tariffs on products from the Community exported to Syria will be dismantled in a linear manner so as to reach zero by the end of the twelve year transition period after entry into force of the Agreement.
- Trade in fish and fishery products imported from Syria into the Community, with the exception of a limited number of products, will be liberalised over a two-year period. For those products where liberalization is not foreseen, tariff quotas will be provided under the Agreement. Tariffs on fish and fishery products exported from the Community to Syria will be dismantled in a linear manner over a maximum period of 12 years after the entry into force of the Agreement.
- Right of establishment and services granting European investors or national treatment for establishment in Syria and opening almost all sectors for investment, with the exception of some reserved currently for state monopolies. The area of telecommunications will be opened at the latest six years after entry into force.
- Dispute settlement provisions to resolve trade disputes in line with the WTO Dispute Settlement Mechanism.

- Provisions on the movement of persons.
- Payments and capital movements, competition, government procurement, intellectual, industrial and commercial property rights, and on standards, technical regulation and conformity assessment procedures.
- Institutional provisions for the management of the Agreement, which will include the establishment of an Association Council to meet at ministerial level to supervise the implementation of the Agreement, and of an Association Committee.
- The Association Council shall take all appropriate measures to facilitate cooperation and contacts between the European Parliament and the Syrian People's Assembly.

The Agreement aimed at supporting economic and political reform in Syria, preparing Syria for integration into the world economy and promoting regional integration. Through a regular political dialogue, it will also enable the EU to engage into discussions with Syria on all topics of mutual concern.

4.1.7 The Czech-Syrian economic and business relationship

Diplomatic relations, together with official business contacts, between the former Czechoslovak Republic and Syria were established soon after World War II, i.e. 60 years ago. Since then, relations have experienced great development, both on the governmental level and directly between the Czech and Syrian businessmen and entrepreneurs. This development has been followed, subsequently, by concrete results expressed by the attained trade volume [51, 55].

The Czech Republic, and until just a few years ago the former Czechoslovakia, has contributed to the industrialization of Syria. Among capital goods invested with the Czech participation, there rank among others oil refineries (Homs), thermal power-plants (Homs, Hama), production of ammonia-calcium saltpetre (Homs), four sugar refineries, a brewery (Damascus), three radio broadcasters, a tyre factory (Ilama), a distillery (Damascus), 7 grain mills, two shoe factories (Damascus, Homs), high-tension lines, an oil-processing factory (Omar), etc. Czech business entities have participated in the course of years regularly in selective procedures for contracts of technological goods in various fields.

The Czech Republic's foreign trade with the group of Arab countries has increased in the last decade significantly and Syria has always occupied an important place in this group. In 2005, only the United Arab Emirates and Algeria overcame the volume of the Czech-Syrian trade exchange. Over the past three years, traditional Czech Republic's positive exchange balance with Syria has been reduced to an important deficit, which has become a challenge for our exporters.

In spite of this, Czech exports to Syria accounted for \$30 million in 2005. The structure of the Czech export in the last 10 years has not changed significantly. 45 % of the Czech export items are constituted by road vehicles, namely cars ŠKODA, followed by supplies of spare parts to the existing investments, followed by a variety of industrial machines, iron and steel products, particularly for railways and oil exploitation industry. There are many other possibilities to extend the list of Czech exports as well: wide range of products is offered by

the Czech chemical industry. Highly competitive are our exporters in the sphere of telecommunications, electronic and information technologies.

Czech imports from Syria have focused particularly on oil products. Other items imported from Syria are cotton, textiles and tanning products, fruits and vegetables. These products do not, however, represent the overall interest of the Czech side for Syrian products. There are also vast possibilities on the Czech market for a variety of Syrian export products. Both sides emphasise not only a necessity of further enlargement of trade exchange but especially a diversification of its items. A completely liberalised Czech market awaits Syrian partners.

The Syrian businessmen and their professional entities are always considered a serious and perspective partner by their Czech partners throughout the whole period of relationship. Across the entire history of the relations, the principal export item has been capital goods, a fact which attests to the extent not only of trade but also the correct forms of cooperation.

4.1.7.1 Bilateral agreements

1. Agreement for the Avoidance of Double Taxation will play significant role in the development of the bilateral relations.

The respective Agreement has been already signed on the expert level in September 2006. The first round of the negotiation has been successfully accomplished in Damascus in July 2001, but one point – the percentage of the revenue of permit rights concerning licence fees – remained unsolved till September 2006. The respective Agreement will enter into the force next year 2007.

2. Agreement for the promotion and reciprocal protection of investments

The draft has been negotiated since April 2001; the pending point was the issue of repatriation of invested capital which is, according the Syrian law, allowed only in case of generating 75% of the transferred free currency proceeds by exporting.

Situation has changed after accession of the Czech Republic to EU. As a member of the European Union, the Czech Republic is bound, according to Article 307 of the Treaty establishing the European Community, to harmonize all its international legal commitments with EC/EU legislation. Consultations between the Czech Republic and the European Commission have shown that, as a member of the EU, the Czech Republic must include in its bilateral investment agreements a provision to limit, under exceptional conditions, free transfer of funds in order to protect the balance of payments of the EU and a provision to protect essential security interests of the EU. The consultations have also shown that the provision regulating national and most favored nation treatment should be amended as well.

The text of the Agreement under negotiation was found incompatible with the EC/EU legislation hence a new draft of the Agreement compatible with the EC/EU legislation was submitted to the Syrian side at the end of the year 2005, as a basis for further negotiation.

4.1.7.2 Foreign Trade of the Czech Republic in 2006

In 2006, foreign trade recorded the best results during the existence of the Czech Republic. Both exports and imports reached the highest levels in the history of the country and for the second time since its founding in 1993 (first time in 2005) the value of exports was higher than the value of imports and the foreign trade balance ended in a surplus which exceeded €0.3 billion year on year. Compared to 1993 foreign trade turnover was 5 times higher in 2006, per capita export increased more than five-fold, and the Czech Republic's involvement in world exports more than doubled. The improvement in export performance played an important role in economic growth (though less significant than in 2005). According to a preliminary estimate, the Czech economy rose by 6.1 % year on year in real terms in 2006 [41].

4.1.7.3 Main Characteristics of Foreign Trade Development

In 2006, compared to 2005, the increases in both exports and imports were higher and again amounted to double-digit figures. The results were boosted especially by the 1st quarter development when exports rose by 24.8 % and imports by 25.4 %, in the 2nd quarter exports and imports were 17.6 % and 19.4 % higher respectively, in the 3rd quarter the growth amounted to 17.6 % in exports and 16.6 % in imports and the 4th quarter increases were 22.3 % in exports and 21.2 % in imports. Foreign trade turnover rose by 20.5 %, i.e. €25.5 billion and totaled €149.8 billion. Exports accounted for a higher proportion of the year-on-year foreign trade increase (50.5 %), imports represented 49.5 %.

The foreign trade balance ended in a surplus of €1.6 billion. Territorially, the foreign trade surplus rose with EU25 countries (by €2.5 billion) and European transition economies (by €0.2 billion), and the foreign trade deficit increased with other states (by €1.3 billion), with the CIS (by €0.7 billion) and with developing economies (by €0.3 billion). In commodity structure, the foreign trade balance worsened in all SITC classes except machinery and transport equipment, in which the foreign trade surplus soared by €2.6 billion year on year. A massive year-on-year increase marked the foreign trade deficit in mineral fuels, lubricants and related materials (by €1.2 billion) and remained the highest (€4.9 billion) of all the SITC categories. The second highest deficit was recorded in the balance of foreign trade in chemicals and related products (€3.2 billion).

4.1.7.4 Factors Impacting on Foreign Trade Development

2006 foreign trade results were influenced by a number of factors. Factors with a favourable impact on foreign trade development were mainly: - industrial production growth, the highest since 2001. The January to December 2006 industrial production index reached 109.7 (of which 110.5 in manufacturing), as compared to the same period of 2005. The highest year-on-year increase was recorded by the production of transport equipment (20.6 %), followed by the manufacture of machinery and equipment (18 %), manufacture of electrical and optical equipment (16.3 %) and manufacture of rubber and plastic products (14.6 %). Production growth in the manufacturing industry created good prerequisites for boosting exports and at the same time lowered the demand for imports. Exports growth in the manufacturing sectors accounted for almost 97 % of the year-on-year increase in total exports in 2006 as against 2005.

Industrial production growth was backed by higher foreign demand mainly for products of the car making and electrotechnical industries. Production rose mainly due to new assembly and manufacturing facilities (in the manufacture of transport equipment and in the electrotechnical industry) built with the aid of foreign direct investment (FDI). Additional foreign investors continued to come also during 2006 (though to a lesser extent). Compared to 2005, FDI inflow to the Czech Republic was lower and amounted approximately to €4.8 billion. Main investors were EU25 countries (Germany, Austria, Netherlands and Slovakia). In the area of industrial production, or manufacturing industry, FDI headed mostly to the manufacture of dual-track motor vehicles, metals and metal products, rubber and plastic products, machinery and equipment, and chemical products.

The most significant item in manufacturing industry exports was road vehicles (SITC 78) with 25.3 % year-on-year export growth. In 2006 the export of road vehicles accounted for 17.0 % of total exports, with the exports of motor cars (SITC 781) and of parts and accessories of motor vehicles (SITC 784) amounting respectively to 8.8 % and 6.8 %. The balance of foreign trade surplus in motor cars rose from €3.6 billion in 2005 to €5.0 billion in 2006, and in motor vehicle parts and accessories remained practically unchanged (increased from €1.9 billion to €2.0 billion in the same period). Among other items of importance in machinery a high export growth was recorded by computer technology (SITC 75) and telecommunications equipment (SITC 76), but both categories simultaneously experienced a higher growth in import. An above-average export growth of general industrial machinery and equipment (SITC 74) resulted in the second highest surplus (€1.4 billion) of the machinery sections;

Economic development in the world and especially in countries of the European Union. In 2006 the economy of the European Union as a whole recorded the fastest increase of the last six years. According to a Eurostat estimate, gross domestic product of the EU25 states and the euro area rose respectively by 2.9 % and 2.6 % in 2006. This development was boosted among other things by economic growth in France, Italy, the United Kingdom, Austria, Spain and mainly Germany, which creates almost one-third of GDP of the euro area. The favourable economic development in EU states impacted on the economy of the Czech Republic, which is very open and depends strongly on exports to EU25 countries, the crucial markets for it. The dominant foreign trade partner of the Czech Republic among the EU25 countries is Germany. The German economy accelerated its growth to 2.7 % in 2006 and its recovery was reflected in an increase in Czech exports to Germany. Whereas in 2005 Czech exports to Germany rose by 8.0 % year on year, in 2006 the increase amounted to 13.9 % compared to 2005. Although the share of Germany dropped owing to the faster year-on-year growth of Czech exports to some EU25 countries (especially France, Italy, Hungary, Belgium, Poland, the United Kingdom and Sweden), and thus a rise in their share in the overall exports of the Czech Republic (by 2.1 p.p. year on year), Germany still accounted for 31.7 % (33.6 % in 2005) of total exports in 2006.

Significant improvement in the balance of foreign trade with countries where the Czech Republic had run a high deficit or the surplus had been much lower in the preceding period. Examples are some EU25 states (Italy, Sweden and France), Ukraine and Switzerland.

4.1.7.5 Factors which had a negative effect on foreign trade balance included

During 2006 export prices fell by 0.8 % on average and import prices increased by 0.8 %. Foreign trade prices reflected the price growth on the world markets (especially of petroleum and natural gas) and the strengthening of the CZK to the EUR and USD. In January

to December 2006 the CZK strengthened to the EUR by 7.1 % on average and to the USD by 7.3 % on average as against 2005, and the world prices of industrial crude materials and food rose by 26.2 % year on year, of which world petroleum prices by 20.1 % and natural gas by 33.5 %. The high petroleum and natural gas prices impacted negatively on the trade balance and contributed to a drop in the overall balance of trade surplus, the effect of the growth in the physical volume was much weaker. In 2006, the foreign trade deficit in petroleum, petroleum products and related materials amounted to €3.8 billion (€3.1 billion in 2005), and in gas, natural and manufactured, totaled €2.1 billion (€1.5 billion in 2005).

Further increase in the already high foreign trade deficit with Russia (from €2.4 billion to €3.0 billion) and especially with China (from €2.9 billion to €4.2 billion). However, the structure of the deficits with the above mentioned countries differs. Whereas the foreign trade deficit with Russia is influenced by the import of mineral fuels and lubricants and the price development, trade with China is marked by the import of computer technology, telecommunications equipment and electrical equipment, instruments and appliances.

4.1.7.6 Chief Trends in the Territorial Structure of Foreign Trade

In the territorial orientation of foreign trade, both exports and imports increased in relation to all the main territorial groupings. Exports rose year on year to all territorial groupings, but the increases were above-average (by 35.0 %) to other states (impact of exports to China), the CIS (by 33.3 %), namely to Russia and Ukraine, and to European transition economies (by 28.8 %) - e.g. to Romania and Bulgaria. This development was reflected in the strengthening of the position of the above mentioned regions in overall exports from 6.1 % in 2005 to 6.6 % in 2006. Below-average rise marked exports to developing economies (by 12.3 %). Exports to developed market economies were 20.2 % higher year on year, of which to EU25 countries by 20.3 %, to EFTA states by 33.3. % and to other developed market economies only by 12.1 %. The biggest proportion of exports (83.9 %) continued to head to EU25 countries. However, exports to EU25 states recorded the highest year-on-year increase in absolute figures (by €10.7 billion) of all the territorial groupings. The rise in exports to EU25 countries reflected the considerably varied growth of exports to the different countries. Above-average growth characterized exports to the majority of EU25 countries (especially to France, Hungary, Italy, Sweden, Belgium, Spain, Poland and the United Kingdom), but exports to some EU25 states were below average - for example to the Netherlands, Slovakia, Germany and Austria. Notable of the EFTA countries was export to Switzerland, and of other developed market economies an insignificant growth in export to the United States and above-average growth of exports to Japan.

Imports recorded year-on-year growth from all the main territorial groupings. A highly above-average increase marked imports from other states (impact of imports from China), from the CIS (mainly Russia), and from European transition economies (above all Romania); the position of these groupings in total imports strengthened from 13.9 % in 2005 to 15.4 % in 2006. Below-average growth rates were apparent in imports from developing economies and from developed market economies, i.e. EU25, other developed market economies as well as EFTA states. Despite the lower import dynamics from EU25 countries these states accounted for 70.1 % of total imports and at the same time for the highest year-on-year rise in imports in absolute figures (€8.3 billion). Imports from the different EU25 countries varied considerably. High above-average increases marked especially imports from Poland, Hungary, the United Kingdom, France and the Netherlands, below-average growth characterized imports from Spain, Slovakia, Italy, Germany and Austria, and import from Sweden dropped. Worth

mentioning of other developed market economies was the slight increase in imports from the United States and Japan, and among the EFTA countries the increase in imports from Norway.

4.1.7.7 Changes in the Commodity Structure of Foreign Trade

In the commodity structure of foreign trade, growth characterized both exports and imports in all the SITC classes, but the achieved growth rates varied. A highly above-average increase was recorded only in the export of machinery and transport equipment, and thus strengthened the position of this category in total exports from 50.8 % to 53.1 %. The other SITC classes experienced below-average export growths, which were reflected in the weakening of their role in total exports. Imports rose above average mainly in mineral fuels, lubricants and related materials, and in machinery and transport equipment. These SITC categories increased their share in total imports at the expense of all the other SITC classes.

Commodity structure development 2006 was characterized mainly by the following: - machinery and transport equipment determined the overall foreign trade dynamics by the above-average growth of both their export and import. The increases in the export and import of machinery and transport equipment accounted respectively for 64.4 % and 45.6 % of the total rises in total exports and total imports. The development of foreign trade in machinery and transport equipment led to the year-on-year rise of the surplus in this commodity class by €2.6 billion. The higher foreign trade surplus in this commodity category was particularly due to the above-mentioned growth of the surplus in road vehicles, and then in general industrial machinery and equipment, machinery specialized for particular industries, and the move from a deficit into a surplus in electrical machinery, apparatus and appliances, and in other transport equipment.

Manufactured goods classified chiefly by material maintained their second most important position in the overall foreign trade structure, but the share of this commodity class in overall exports and imports was weakened by below-average growth of their import and especially export. The foreign trade surplus in manufactured goods classified chiefly by material continued to be the second highest of all the SITC sections, but it was €0.4 billion lower year on year.

Miscellaneous manufactured articles and commodities n.e.s. experienced a weakening of their position in foreign trade due to the below-average export and import dynamics. The foreign trade surplus in these products dropped at the same time. A surplus (higher year on year) was produced only by two items, namely furniture and parts thereof, and prefabricated buildings, sanitary and plumbing fixtures and fittings. All the other 2-digit items in this SITC class showed a balance of trade deficit.

Chemicals and related products recorded below-average relative export and import growth. The foreign trade deficit in these products increased by €0.4 billion year on year and was the second highest among all SITC classes. The highest deficit (€1.1 billion), with a slight year-on-year drop, continued in medicinal and pharmaceutical products, and in plastics in primary forms and plastics in non-primary forms (€1.2 billion overall).

Crude materials, inedible, and mineral fuels experienced below-average growth of export and highly above-average growth of import and, as a result, the foreign trade deficit in this commodity category increased significantly (by €1.3 billion year on year). Its amount was the highest of all the SITC classes. Among items on the 2-digit level, the largest deficit was

shown, as mentioned above, by petroleum, petroleum products and related materials, and by gas, both natural and manufactured.

Agricultural and food materials and products, with low dynamics of import and especially export, recorded a year-on-year rise in deficit. The highest deficit with a year-on-year increase was shown by trade in vegetables and fruit and in meat and meat preparations. A sizable surplus was achieved in trade in dairy products and eggs, and in sugars, sugar preparations and honey.

4.2 Primary research

4.2.1 Case studies

4.2.1.1 Essential oil companies

Agriculture in Syria

Agriculture continues to represent a key sector of Syria's economy. In 2004, it contributed some 25 percent of GDP and employed the equivalent of 22 percent of the population. Agricultural exports meanwhile represented 14 percent of the country's total exports. Arable land reached 5.9 million hectares in 2004, around a third of the total area of the country (18.5 million). Only a quarter of cultivable land is irrigated, although this rate has risen gradually in the last decade. In 1995, only 18 percent of Syria's cultivable land was irrigated.

Agriculture is a main source of input for large segments of the industry, such as agribusiness and textile. The major crops grown in Syria are cereals, legumes, and oil and industrial crops. Foreign agricultural trade, meanwhile, recorded a positive balance of €191 million in 2004.

Table 7 Syria's Foreign Agricultural Trade

Syria's Foreign Agricultural Trade (2004, M euros)		
	with EU	TOTAL
Exports	150	546
Imports	212	355
Balance	-62	191

An essential oil is a volatile, highly concentrated liquid derived from aromatic compounds found in the leaves, stems, flowers, bark, roots, seeds or other parts of a plant. Essential Oil is also called «volatile oil» and «ethereal oil». It may also be referred to as «oil of» the raw plant material from which it was extracted, e.g. oil of clove. Contrary to the impression given by the word «oil», essential oils are not really oily-feeling. Most essential oils are clear, but some oils such as patchouli, orange, and lemongrass are amber or yellow. Essential oils are used in a broad range of applications and products that can be basically related to the food and beverages industry, the medical and pharmaceutical industry, and the cosmetic and fragrance industry. There are over 160 recognized essential oils but most are of minor importance in terms of world production. The top ten essential oils in terms of production account for about 80 percent of the total world production of essential oils.

4.2.1.1.1 Industry Structure

Inputs

The vast majority of raw materials used in essential oils production are sourced directly or indirectly from Syrian farmers. Most of these raw materials are cultivated, while a few other raw materials are hand-collected by farmers (e.g. rose and jasmine blossoms or laurel leaves that farmers grow around their houses). The necessary coordination between the agricultural and distillation stages does not exist. Demand of raw materials by distillers has not been significant enough for farmers to think of the essential oils industry as a target customer. As a result, essential oils production requirements in terms of quantity and harvest timing are rarely respected by growers, leading to supply uncertainty, reduced quality and an inconsistent chemical profile of plant parts. In addition, small farms cannot benefit from economies of scale and quite often essential oil raw materials are just a minor additional cash crop to farmers. Meanwhile, no agricultural research is conducted in order to support the needs of farmers in terms of yield increase and seeds optimization. Seeds are usually sourced from previous harvests or obtained from other farmers.

Production

The essential oils industry is currently an insignificant business in Syria. Volumes of export (13 tons) and import (89 tons) in 2003 provide an illustration of the immature status of the industry. Further, official production statistics do not provide essential oil production volumes because it is too small. The main essential oils produced in Syria are rose, neroli, anise, cumin, nigella, and citrus. Herbs and seeds include coriander, laurel, parsley, spearmint and wild thyme. Flowers include chamomile, jasmine, lavender, narcissus, rose, *rosa hybrida* and *polyanthus tuberosa*. Fruits and leaves include almond, olives leaves, peanut, neroli, orange, lemon and grapefruit. The level of specialisation in essential oils sector is low and essential oil producers are often involved in a broader business portfolio that consists of related activities (producing artificial aromatic components, mixing fragrances and perfumes, cosmetics) in order to overcome the limited size and uncertainty of the business. Moreover, an essential oil producer does not usually specialize in the production of one kind of oil. The production volume of true essential oils in Syria is estimated at less than 100 tons a year. Producers face difficulties in procuring financing for the modernization and expansion of their projects because essential oils production is regarded as a high-risk business. The public sector, which controls and participates in most of Syrian industrial sectors, has no presence in essential oil production, which is mainly carried out by private small businesses that have been run by the same family for decades. Steam distillation is the most common processing method in Syria. Steam distillation is especially useful to distill essential oils from soft components such as herbs, leaves and flowers. The still design and capacity, water purity levels and flow rates, operating temperatures, and length of distillation are important aspects that can affect the composition and quality of the oil. Solvent distillation is the most sophisticated method but is almost unused in Syria. Only one company, Biocham, possesses the necessary technology for solvent distillation but it does not make use of it. Solvent distillation becomes feasible only when a secure supply of large amounts of raw materials is available and when demand is streamlined and orders are large: both factors that are currently not present in Syria.

Packaging/Storing

Essential oils are bottled in glass or non-reactive metal containers of different sizes. For small volumes glass bins or bottles are used, while large volumes are filled into metal containers. A cool store or freezer is necessary to store the containers before transportation. In Syria, storing of essential oils is not common because of the huge capital investment needed to produce essential oils. Producers are reluctant to freeze cash in the form of bottled expensive essential oils waiting for uncertain orders to come. In addition, special conditions and standards of essential oils storage in terms of temperature, humidity, and light make the storing option costly and difficult.

Marketing

The essential oils business in Syria is driven neither by long-term contracts nor by estimates of domestic or international markets. It suffers from an uncertain supply of raw materials (raw materials producers are not dedicated to the small and unpredictable essential oils industry). No long-term planning or strategic partnership relations exist. Essential oils are bought in most cases directly by customers from producers and no intermediaries or exporters are involved in marketing the products. Currently a great proportion of essential oil production volume is directed to local consumption. Only a small proportion of Syrian essential oil production is directed to export markets. Local consumers are price sensitive and do not require a high quality level of essential oils. As a consequence, less-expensive squeezed extracts (from cumin, black cumin, almond and aniseed) and aromatic water (rose water and flower water) widely substitute true essential oils. The main importers of Syrian essential oils are currently Arab countries, Austria, Italy, France and the USA. The greatest demand in the local market comes from aromatherapy and cosmetics applications, while in export markets demand is for essential oils that are used in cosmetics and fragrance industries, i.e. jasmine and rose. There is a lack of marketing effort and strategies to promote Syrian essential oil products in international markets, while quality controls are not always enforced. The size of the Syrian production of essential oils in world market terms is negligible.

4.2.1.1.2 Production

There are no official estimates of the production volume of essential oils in Syria. A survey by the Syrian Consulting Bureau estimated annual production at around 100 tons. Below is a description of the main Syrian companies active in the sector.

Table 8 Overview of Essential Oils

Overview of Essential Oils				
Company	Products	Skilled Employees	Production	Target Market
Akkad Establishment	Lavender, Mint, Thyme, Citrus flowerfi leaf, Rose, Neroli	6	Steam distillation, Traditional methods with the capacity of processing 250 kg flowers/day	Retail, cosmetics, health and agro sectors
Shekh Salem Establishment	Aniseed, Rose, Neroli, Nigella, and other	5	Steam distillation, Traditional Methods	Mainly to local markets, cosmetics and food industry
Cortas Company	Neroli, Rose and Aniseed	15	Steam distillation, Traditional Methods	Alcoholic beverage and food industry
Sadat	Neroli and Rose	4	Steam and Solvent, Traditional Methods	Retail and food industry
Bio Cham	Various Oils	5	Steam and Solvent distillation, New extraction equipment	Cosmetic and perfume industries

4.2.1.1.3 Export/Import

Imports of essential oils fell by a third in the period 2002-2004. There is a discrepancy with statistics from other countries. According to EU statistics for instance, Syrian imports of essential oils from the EU reached 351,000 Euros in 2004. Imports of "essential oils of citrus fruits" in 2004 came exclusively from Egypt, while imports of "essential oils of other than those of citrus fruit" came from only three countries: the United States (USD 48,620), the United Kingdom (USD 23,800) and China (USD 6,420).

4.2.1.2 Textiles companies

Textile in Syria

The textile sector is a backbone of the Syrian economy and society as a whole. 10 percent of the labour force is employed in the sector, meaning that today there are few Syrian families that do not have a relative dealing in one way or another in textiles. Other figures point to the size of the industry and its strategic nature for the country: Syrian textiles make up 30 percent of industrial GDP, 10 percent of total exports and 30 percent of exports excluding oil. Syria is also one of the leading producers of cotton in the world. The total production in 2004 reached 1 million tons. The main textile products exported are cotton yarns, synthetic and cotton fabric and garments. The two leading export markets for textile products are the European Union and the Gulf countries.

Table 9 Syria's Foreign Trade

Syria's Foreign Trade (million USD)			
	2002	2003	2004
Exports	6300	5593	4823
Imports	4664	5001	5177
Balance	1636	592	-354

Syria is one of the largest producers of cotton in the world. Annual production of raw cotton averages 950,000 tons. Syrian terrains have the highest cotton yield in the region. Syrian exports of textile products reached USD 454 million in 2004. Home textile exports are classified under Yarns & Fabrics and reached only USD 11.6 million in 2004, i.e. 2.4 percent of total textile exports.

Employment

There are no detailed figures on employment in the textile sector. Unofficial estimates put the total number of people working in the textile industry at 10 percent of total active population, i.e. around 450,000 persons. People working in the private sector are rarely registered with social security and as a result they are not recorded in official statistics. The number of persons working in the state-owned textile sector stood at 29,000 in 2003.

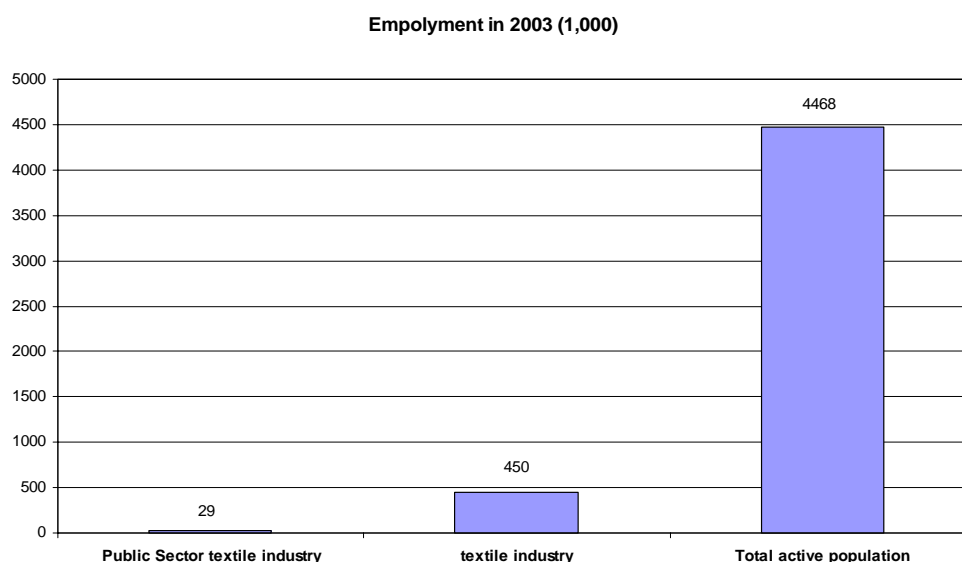


Figure 3 Employments in year 2003

4.2.1.2.1 Industry Structure

Cotton

Syria has the highest cotton yield in the region produces an average of 950,000 tons of raw cotton a year. The Government is the sole purchaser of raw cotton. Cotton production is subsidized by the Government, which buys cotton from farmers at prices above world markets prices. Imports are prohibited.

Ginning

Syria produces an average of 350.000 tons of ginned cotton annually. 50 percent of ginned cotton is exported because of low spinning capacity. There is a government monopoly in ginning and imports are restricted to kinds not produced locally, i.e. long fiber. The price of ginned cotton is fixed by the Government.

Spinning

Syria produces 70,000 tons of yarn annually. The price of cotton yarn is fixed by the Government. Yarn production capacity is low, meaning that it cannot meet market demand and does not absorb all the production of ginned cotton, but there is a wide variety of yarn products. There is government monopoly on cotton yarns while the private sector produces synthetic yarn. The technology of the public sector is generally outdated, although three large

new mills have been added recently. Syria produces all natural raw materials (cotton, wool, silk, hair) it uses in yarn manufacturing but it does not produce materials used in polyester and acrylic manufacturing and has to import them.

Fabric manufacturing

Syria produces a large variety of fabric products. Cotton fabric used is of good quality. Both the public and private sector are present in weaving and knitting while the private sector dominates bleaching and dyeing. Technology is usually not very modern and as a result the dyeing process results sometimes in quality problems.

Manufacturing

The Syrian home textiles industry is relatively fragmented and many production units are unregistered. Subcontracting prevails. Technology is relatively modern as most equipment was purchased after 1991. Efficiency is improving, although quality is not always of high standard and there is an inability to hold inventories. As a result Syrian home textiles exporters only rarely fill large export orders. Use of IT is not widespread. Management and marketing skills are improving. Quality and control systems are starting to appear but there is little Research and Development. The majority of home textiles mills are small to medium in size and there are no formal institutions that support the industry. There is only one state-owned firm that produces carpets. The use of machinery in the manufacturing process is growing.

Marketing

Home textiles producers rely on both export and local markets. However, larger manufacturers aim for export as the local market is too small to absorb all production. Profit margin in the domestic market is higher due to immature competition. Syrian operators accept orders of much smaller size than their Asian counterparts. Most Syrian home textiles exporters rely on Syrian traders in destination markets although some are building their own retail networks in neighboring markets.

4.2.1.2.2 Production of Home Textiles

The vast majority of home textiles production in Syria is manufactured by the private sector, where there is massive under-reporting for tax evasion purposes. In addition, many smaller companies that produce home textiles operate without proper legal registration. There are no data available on the value of the production. Production has remained generally stable in the last few years. Towels are the most produced item.

Table 10 Home Textiles Production

Home Textiles Production (in thousand pieces)				
	2000	2001	2002	2003
Carpets	1705	1982	2211	2458
Blankets	429	425	438	460
Bed sheets	1599	1808	1785	1817
Towels	8897	7818	7950	8133

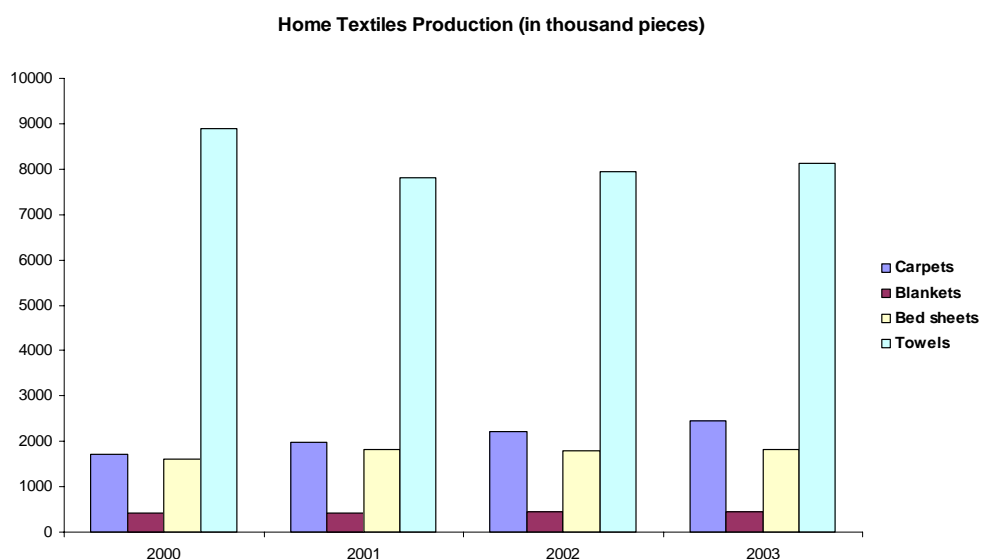


Figure 4 Home Textiles Production

4.2.1.2.3 Exports by Destination Market

According to the data of the Central Bureau of Statistics, home textiles exports are mainly destined to neighbouring markets. Exports of linen are making only modest inroads into EU countries while exports of carpets are almost exclusively directed at Arab markets. However, data from CBS differ from other sources such as those of the European Commission's Market Access Database, which show more important Syrian exports to the EU.

Exports of home textiles products to the European Union remain modest. In 2005 they reached around 3.5 million Euros. This is, for instance, the equivalent of only 4 percent of Syrian garment exports to the EU. The main export item is linen, which makes up around 75 percent of total home textiles sales to the European Union.

Table 11 Export of Home Textiles Articles to EU

Export of Home Textiles Articles to EU (in thousand €)				
	2002	2003	2004	2005
Carpets	28	71	118	100
Blankets	27	1211	390	21
All Linen	2416	2538	3029	2667
Furnishings	427	380	299	417
Curtains	291	334	294	433
Total	3189	4154	4130	3638

Comparative Exports to EU

Syrian exports to the European Union are dwarfed by all its main Mediterranean competitors. Tunisia exports 23 times as much as Syria, Egypt 50 times and Turkey 333 times. Linen and carpets represent the two most important export items for most of these countries, except for Tunisia which exports a lot of curtains. Carpets, which take a very small share of Syria's home textiles exports to the EU, represent almost half of Morocco's exports and almost 40 percent of Egypt's. Syria's carpet exports are directed at Arab markets. Only in blanket sales can Syria compete with other countries, although blanket exports fell significantly in 2005.

4.2.1.3 Pharmaceuticals companies

Pharmaceuticals in Syria

The pharmaceutical industry is relatively young in Syria. Only 15 years ago Syria had to import over 82 percent of its drug needs and there were only two state-owned factories supplying the country. However, since that period tens of companies have been established and local production is estimated to cover around 90 percent of demand. Capacity is estimated to be twice market demand, which in turn is estimated at around USD 300 million per year. Exports of Pharmaceuticals represent only a negligible share of total exports although they have grown exponentially in the last three years.

The number of physicians has grown in the last few years while the number of patients per doctor has been falling. Half of all physicians are based in the three largest cities. The number of hospitals is growing rapidly in Syria and as a result the average number of persons per bed is falling. Hospitals and clinics managed by the private sector are much more numerous but also much smaller in capacity. While they represent 82 percent of the total number of hospitals, they host only 30 percent of beds. The production of pharmaceutical products has been on the rise in Syria. The number of drugs produced by local manufacturers has increased by 60 percent in four years. The number of factories, at 52, is the highest in the Arab world.

Employment

There are no detailed figures on employment in the pharmaceutical sector. Industry estimates put the total number of people working in the sector at around 2000. A relatively important segment of the workforce of the pharmaceutical sector (around 25 percent) is estimated to have a university degree. The industrial sector as a whole employs 600,000 people while the active population stands at around 4.5 million people or 25 percent of the total population.

4.2.1.3.1 Industry Structure

Inputs

Syria produces only little active material and 85 percent of total input value is estimated to be of foreign content. While the import of drugs that are manufactured in Syria is banned, items not produced in the country can be brought in. The main import items are serums, vaccines, cancer treatment medicines, insulin, etc. Saydataya a state-owned organization, has

the monopoly of imports of manufactured drugs although the Government is expected to open this market to the private sector. There is almost no research and development due to the lack of patent protection.

Control and regulatory authority

Strict control is exercised by the Ministry of Health (MoH) over the industry. The MoH which established a Good Manufacturing Practice guideline in conjunction with the World Health Organisation, enforces strong quality controls and has the capacity to close outright any plant that does not abide by its standards. The MoH also sets the price of any drug that is produced and sold in Syria with the aim of making medicines available to all segments of society.

Production

There are 52 firms producing pharmaceutical products. Syria has the largest number of pharmaceutical companies compared with any other Arab market, even though its domestic market size is smaller than many others. Private capital inflows have increased significantly in the last decade thanks to the involvement of several major industrial and trading groups in the drug industry. The two largest cities in the country, Aleppo and Damascus, host the largest industrial firms. Alpha. Assia, Oubari and Amrit are among the leading firms based in Aleppo, while MPI, Avenzor, Thameco and Unipharma are located in the Syrian capital. Businesses operating in the industry can be divided in three large groupings: (1) 8 or 9 large firms that have adopted modern production and marketing techniques and produce both their own generic products as well as licensed ones. These companies have a broad range of products and are starting to export. Among them is Thameco, one of the two state-owned companies active in the industry; (2) around 25 mid-sized companies producing mainly generic products and selling to the domestic market with only limited exports; (3) around 25 smaller companies that have limited product ranges and often operate intermittently.

Distribution

The estimated size of the Syrian pharmaceutical market is between USD 250 and 350 million at wholesale prices. Local manufacturers, including the two state-owned plants, cover around 90 percent of market demand while imports, making up the balance, stand at between USD 30 and 50 million according to official statistics. Distribution is via 8,000 pharmacies spread throughout the country. On average there are around 2,125 inhabitants per pharmacy. The MoH sets prices according to a formula that includes all production and marketing costs, plus a 20 percent profit margin for the manufacturer. Prices of licensed products are usually set at around a 50 percent premium. Foreign firms cannot open subsidiaries but are allowed to open scientific offices, which can conduct marketing activities for their products, whether they are imported or produced under license. The strong price controls exercised by the Ministry have two negative consequences: one of these is psychological as many patients are often reluctant to buy cheap medicines that they associate with poor quality; the other is that the downward pressure on prices is forcing some manufacturers to limit costs and research and development.

Exports

Syrian firms lack experience in international trading and marketing and the relatively small size of most firms operating in the industry does not help to improve matters. The sector as a whole lacks any joint marketing efforts or a trade association. However, the Syrian European Business Centre has provided support to boost exports. A key issue for access to world markets is the absence of patents and the difficulty in implementing and enforcing intellectual property rights in Syria.

4.2.1.3.2 Export/Import

According to official statistics, Syria exports only to ten countries, eight of them being in the Arab world, the others being Russia and Armenia. Iraq alone is the destination of almost half of the country's exports. 88 percent of drug exports go to the top four destination markets, which are all in the Arab world. There is a contradiction between these figures and those of the Department of Trade of the European Commission, which reports that Syrian exports to the EU reached €1.5 million in 2004.

Table 12 Exports of Pharmaceuticals companies by Destination

Exports by Destination (2004)	
Country	USD
Iraq	5 350 060
Yemen	2 492 120
Sudan	1 413 500
Algeria	869 100
Saudi Arabia	522 860
Libya	415080
Fed Russia	214 540
UAE	103 740
Armenia	55 400
Lebanon	53 160
Total	11 489 560

Although at a low level, exports have surged in the last few years. In the period 2001-2004 they increased 18 times.

According to official Syrian statistics, total imports of pharmaceutical products were between USD 40 and 43 million in 2004, depending on the basis of calculation. Antibiotics alone represent over half this figure. In terms of countries of origin, Syria has a very diversified import base. The European Union, India and the United States of America are among the country's main suppliers. The top ten supply 80 percent of ail drugs imported into Syria. Syrian statistics do not match with the EU's figures. According to DG Trade of the

SME in Syria

European Commission, the EU exported 52 million euros worth of drugs to Syria in 2004, roughly twice as high as the Syrian figure.

Table 13 Imports of Pharmaceuticals companies by Country

Imports by Country (2004)	
Country	USD
France	4 820 980
India	3 944 320
Belgium	3 559 B40
Other EU countries	3 433 780
Switzerland	3 268 220
United Kingdom	3 028 920
USA	2 845 380
Germany	2 729 660
Italy	2 711 100
Netherlands	2 054 960
Others	7 722 580
Total	40 119 840

The size of the European Union's bilateral trade in Pharmaceuticals with Syria is much smaller than with other countries in the Levant. Bilateral trade stood at 60 million euros in 2005, largely dominated by EU exports. Syrian exports are almost insignificant at 1.6 million euros, although they have been increasing over the last two years and grew by 20 percent between 2003 and 2005. By comparison, exports of pharmaceutical products by Egypt to the EU grew by almost 60 percent in 2005 compared to the previous year. Jordan has a strong pharmaceutical industry but its export base is more diversified and its exporters benefit from a free trade agreement with the USA. In 2005, Syria was the 44th supplier of pharmaceutical products to the European Union.

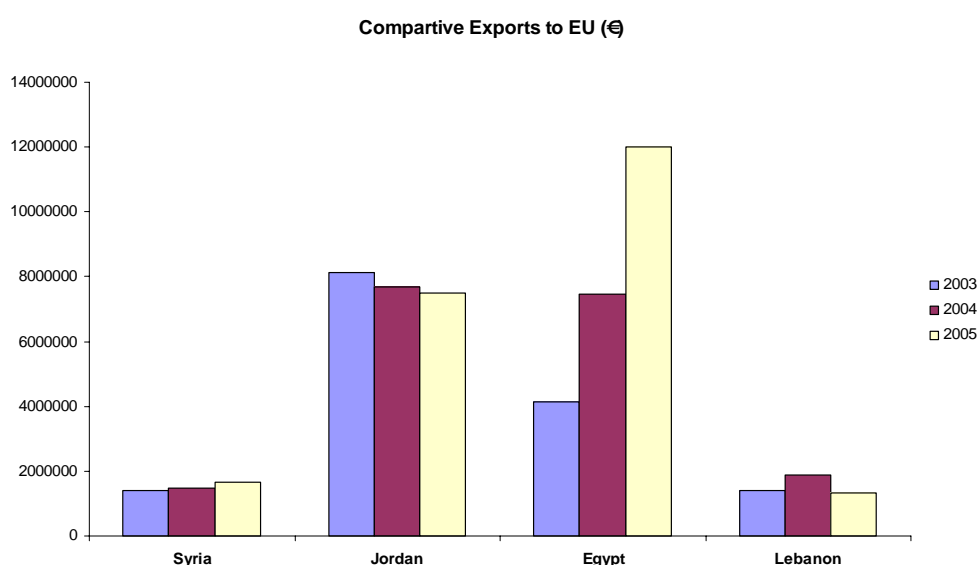


Figure 5 Comparative Exports of EU

Imports from the European Union stood at 58 million euros in 2005, an annual rise of 12 percent. Compared to its neighbors, Syria imports relatively little from the EU. Lebanon imports four times as much and Jordan two and a half time. In volume terms imports fell meaning Syria is buying products that are more expensive or that come with a higher added value. In 2005, Syria was the 57th client of the European Union.

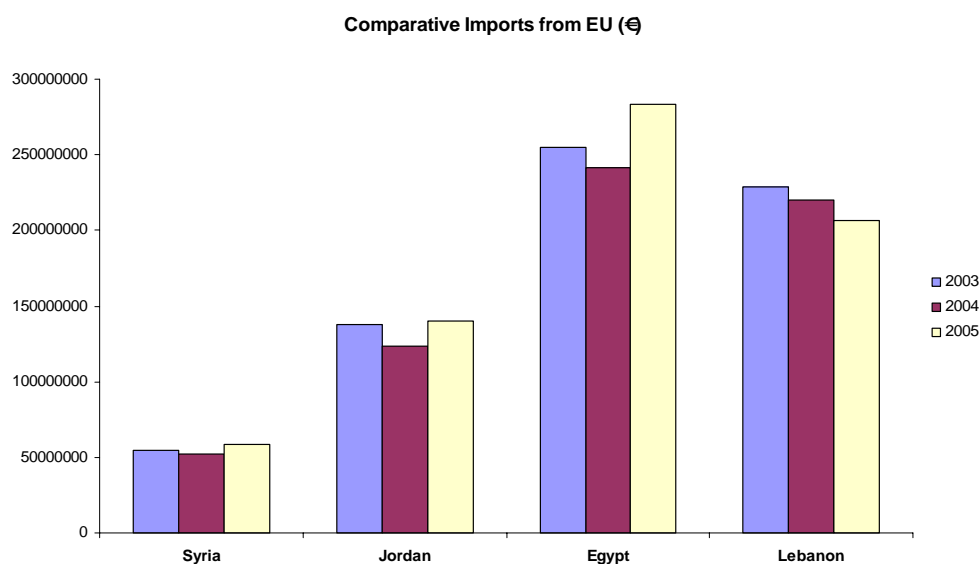


Figure 6 Comparative Imports from EU

4.2.1.4 Food companies

Food Industry in Syria

Syria's food industry benefits from the significant share of the agricultural sector in the Syrian economy, which represented 25 percent of GDP and over 10 percent of total exports in 2004. Along with other industries, the food sector grew exponentially after a law passed in 1991 gave major incentives to private investment. The food industry was protected from foreign competition until 2005 when the Greater Arab Free Trade Area led to significant inflows of Arab products. GAFTA, however, has also created a much larger market for Syrian food manufacturers.

The gross output of food industries in Syria represents a quarter of the output of the manufacturing sector. The food industry is the second largest industrial sector, after the chemical industry which includes oil refining.

Employment

There are no recent data on employment in the private industrial sector and the latest data available are not detailed. Statistics from public sector enterprises show that employment in food industries remained stable between 2002-2004 while overall employment in state enterprises fell by around 3 percent during the same period.

4.2.1.4.1 Sector Overview

Canned food is a growing industry in Syria, thanks to rising urbanisation and the new eating habits that come with it as well as a surge in private sector investment since the early nineties. Tens of new factories have opened, mainly around the city of Damascus. The lack of data makes it impossible to calculate the value of the industry's production or the number of people working in it. The market size is estimated at 150.000 tons annually, dominated by tomato-based products. Exports, at USD 26 million, represent around 0.5 percent of the country's total exports. The canned food industry is marked by the involvement of several high profile players such as the MAS and Rabbath groups and this is a reflection of the growth potential of the sector. Self sufficiency in food is a key priority of the Syrian government and this has led to an abundant supply of raw materials, which in turn has helped the development of the food industry over the last fifteen years.

4.2.1.4.2 Industry Structure

Inputs

Almost all the raw materials of the canned food industry are sourced locally. Packaging materials and raw materials are estimated to be the two main elements of final production costs. Labour is the third main cost component.

Production

Private companies manufacture a very comprehensive range of products (jams, pickles, vegetables and fruit conserves, tomato paste, soups and ketchup) without specialisation. In spite of that extensive portfolio, just a few products contribute to a high percentage (over 70 percent) of total production: tomato paste, apricot jam and green peas. Quality, even for one line of product, is inconsistent and may change from batch to batch. Most factories are established in the countryside around Damascus which has a population of close to 3.5 million and is the largest market in Syria. The main canned food products, besides tomato paste, apricot jam and green peas, are ketchup, hommoss, fava beans, mushrooms and other types of jam. There is no accurate statistical information on the number of factories operating in Syria but they are estimated to be between twenty five and thirty. There are no large factories but each of around five medium-sized plants produces a few thousand tons of finished products per year. Six companies in the public sector nominally produce canned food but in practice their operations are almost at standstill. These factories have been recording regular losses and the government is seeking to lease them out. Afia, one of the largest companies in the private sector, was closed down early 2006 by the government. There are no estimates of market shares but according to a report by Agrotec Spa in 1998, four companies control 90 percent of the market.

Marketing

With the new living trends in the country and the growing urban population, the numbers and types of canned food produced are increasing. Families are now more and more used to purchase in canned form the products that they previously made at home (examples:

jams, pickles, etc.). Glass jars are extensively used for jams, fruits in syrup, artichokes, and mushrooms. All sizes are used and, generally speaking, are bigger than those current in Europe due to larger families. Canned products usually suffer from poor and old-fashioned presentation and sometimes from can defects like rust stain and dents. Products in printed cans look much better and more modern. It is worth noting that tomato paste is sold in 70g and 180g printed cans and is said to be in good demand in spite of the high price. Hommos and fava beans are currently also found in printed cans. Green peas are almost always packed in cans although their labels are generally dull, not appealing and designed for a traditional mass-consumed product. Tin cans and glass jars are produced in Syria although many canned food factories still import them. The market size for canned food is estimated at an annual level of 150,000 tons, with almost half going to tomato-based products. Marketing skills are generally weak. There is a lack of well-trained managers, while most Syrian traders lack marketing information and experience in international trading.

Distribution

Distribution of goods is generally through wholesalers. Factories have regional agents through whom wholesalers are supplied for distribution to retailers. Wholesalers deliver regularly (or on demand) to top up stock in shops. Some shopkeepers visit the wholesalers to collect supplies. Some factories are adopting their own distribution system and allocating resources (personnel, trucks, depots) because they are becoming aware of the importance of a distribution network to their marketing strategy. In export markets, Syrian manufacturers rely on the very large Syrian and Lebanese expatriate communities based in Europe, North and South America, West Africa and the Gulf countries.

Production

The only production figure available is the global tonnage of the canned food industry, which is grossly underestimated. Exports of canned food in 2004, for instance, stood at 42,000 tons, twice the average annual production figure of the last few years as reported by the Central Bureau of Statistics. However, official statistics show a trend of stable production over the period 2000-2003 with an unexplained dramatic one-year drop in 2001.

Table 14 Production of Canned Food

Production of Canned Food (Tons)				
	2000	2001	2002	2003
Private sector	11465	7564	12029	12570
Public sector	9328	3871	10295	8017
Total	20793	11435	22324	20587

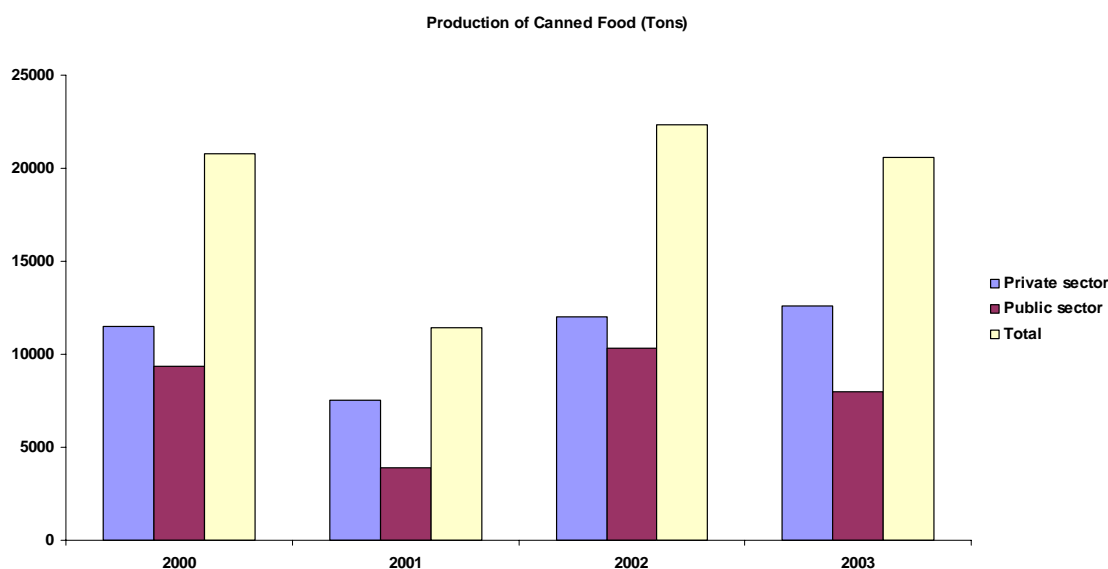


Figure 7 Production of Canned Food

4.2.1.4.3 Export/Import

Syria exports a wide variety of canned food products. Total exports stood at USD 26 million in 2004. The figure slightly differs from the total compiled by totaling exports on the basis of country of destination, where the figure stands at USD 22 million. Fruit jams alone represent a third of exports.

The top six foreign destinations for Syria's canned food production are all in the Arab World and represent 85 percent of all Syria's canned food exports. According to industry analysts, there is significant smuggling to Lebanon for re-export.

These exports target the large Lebanese expatriate communities living in Europe, North America and West Africa.

Trade with the European Union is one-sided. Exports averaged 9-10 million Euros in the period 2003-2005.

Table 15 Imports of Canned Food from EU

Imports from EU			
	2003	2004	2005
Imports (in thousand €)	9052	10419	9350
Imports (Tons)	3469	4421	3766

Exports to the European Union remain limited. They ranged between 1 and 1.5 million Euros in the period 2003-2005.

Table 16 Export of Canned Food to EU

Exports to EU			
	2003	2004	2005
Exports (in thousand €)	1225	1093	1547
Exports (Tons)	2250	2088	2556

4.2.1.5 Olive oil companies

Olive oil is a key sector of the Syrian economy. According to the FAO, over 377,000 Syrian families are involved in olive tree cultivation and olive oil production and selling, i.e. close to 15 percent of the country's total labour force. The sector also represents an increasing share of the country's economic wealth. Its share of the country's Gross Domestic Product varies from 1.5 to 3.5 percent depending on the years. Deregulation and liberalization coupled with government support have led to a surge in planting, production and export figures in the last few years. The sector is entirely in the hands of the private sector. The number of trees planted throughout the country is now estimated to be around 74 million, including 53 million that already bear fruit. Syrians are themselves important consumers of olive oil. Foreign investment remains limited although a growing number of companies are showing interest. The main clients for Syrian olive oil are other large producing countries, such as Spain and Italy.

4.2.1.4.1 Industry Structure

Support

The Department of Olive Research, which is affiliated to the Ministry of Agriculture, plays counseling and advising role. It also sets standards according to those of the International Olive Oil Council. It has been instrumental in raising awareness among the Olive Oil community on the measures and steps to take along the production and supply chain to improve quality.

Production

Most olive production (56%) is located close to the olive orchards of northern and northwestern Syria, between the cities of Aleppo and Idlib. The other main area of cultivation and milling is the coastal area (42%). Most areas planted with olive trees are not irrigated. Due to positive yield development and increased number of producing trees, production has grown much faster than area planted (+82%). A large number of farms (63%) follow a programme of pest and disease control. Olive seedlings are sold to farmers at a subsidized cost.

Processing

The Syrian olive oil industry is made up of hundreds of small mills, 20 to 30 mills of medium size and only 6 or 7 large companies. There is a shortage of mills, which causes overcrowding during harvest time (the ratio in Syria is 77,500 trees/mill while Europe has only 23,000 trees/mill) and most equipment is outdated. Present mill technology comprises 15 percent old presses, 66 percent hydraulic presses, and 19 percent continuous systems. They process, respectively, 2 percent, 42 percent and 56 percent of total national production. Unlike other industries, the olive oil sector is almost entirely in the hands of the private sector. Of the 2000/01 crop 59 percent of the olive oil produced was classified as "extra virgin olive oil" and 32 percent was classified as "fine virgin olive oil".

Marketing

Most olive oil is sold in the domestic market in 16 liter tins. The market for small-capacity bottles is mostly limited to the city of Damascus. Syria has a bazaar shopping culture and the supermarket concept has been introduced only recently. Quality concept is weak among Syrian manufacturers and no brand names are known domestically or internationally. Packaging and labeling remain poor, although they have been improving. The larger Syrian companies sell both in the domestic and export markets. Most export is made in bulk. Syrian traders lack experience in international trading and marketing information.

4.2.1.4.2 Production

The table below provides comparative production figures for Syria and five other leading world producers. Syria regularly ranks fourth, fifth or sixth among the largest producers of olive oil in the world. All major producers of olive oil in the world are located on the shores of the Mediterranean Sea.

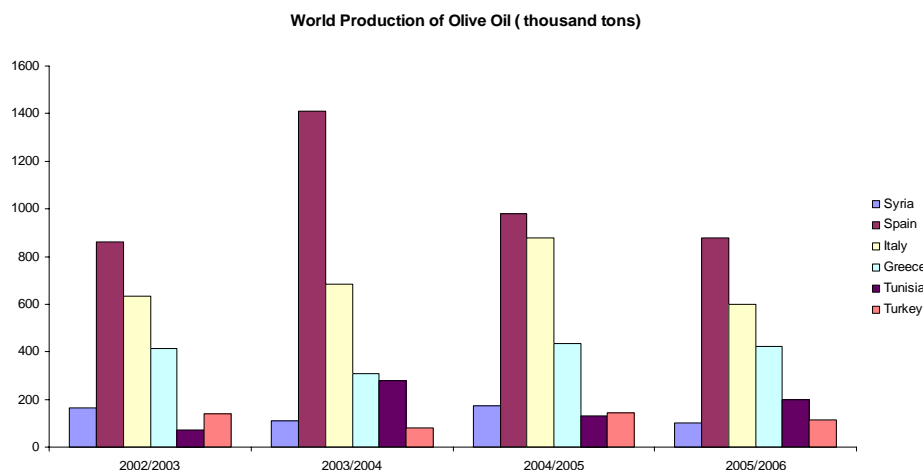


Figure 8 World Production of Olive Oil

Table 17 Syria's Olive Oil Trade

Syria's Olive Oil Trade (thousand tons)				
	2002/2003	2003/2004	2004/2005	2005/2006
Export	30	28	35	20
Import	0	0	0	0

Syria is expected to be the world's sixth largest consumer of olive oil in the world in 2006 and the first on the southern shore of the Mediterranean. On a per capita basis, Syria is the fourth largest consumer of olive oil in the world behind Greece, Spain and Italy.

Table 18 World Production of Olive Oil

World Production of Olive Oil (thousand tons)				
	2002/2003	2003/2004	2004/2005	2005/2006
Syria	165	110	175	100
Spain	861.1	1412	980.3	880
Italy	634	685	879	600
Greece	414	308	435	424
Tunisia	72	280	130	200
Turkey	140	79	145	112

4.2.1.4.3 Import-Export

Except for the 2005/2006 season, which witnessed a poor harvest of olives, Syria's exports of olive oil have remained close to an average of 30,000 tons a year.

The table below provides comparative export figures for Syria and five other leading world producers. Syria is the fifth largest exporter of olive oil but its sales volume in world markets remains well below its four main competitors.

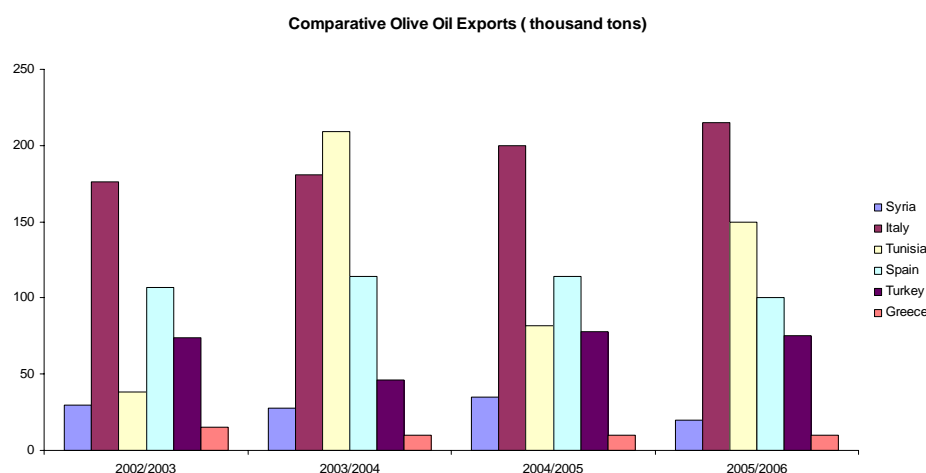


Figure 9 Comparative Olive Oil Exports

Table 19 Comparative Olive Oil Exports

Comparative Olive Oil Exports (thousand tons)				
	2002/2003	2003/2004	2004/2005	2005/2006
Syria	30	28	35	20
Italy	176	181	200	215
Tunisia	38	209	82	150
Spain	107	114	114	100
Turkey	74	46	78	75
Greece	15	10	10	10

4.2.2 Interviews

An interview is a purposeful discussion between two or more people. The use of interviews can help to gather valid and reliable data that are relevant to my research questions and objectives. Where I have not yet formulated such a research question and objectives, an interview or interviews will to achieve this. In reality, the research interview is a general term for several types of interview. This fact is significant since the nature of any interview should be consistent with my research questions and objectives, the purpose of my research and the research strategy that you have adopted.

The progress of preparation for interviews was as follow:

- Choose the setting for the interview with the least distraction.
- Explain the purpose of the interview.
- Address terms of confidentiality.
- Explain the format of the interview.
- Indicate how long the interview usually takes.
- Provide contact information of the interviewer.
- Allow interviewee to clarify any doubts about the interview.
- Prepare a method for recording data: notes.

The interviews were focused mainly on the companies trying to export but mainly import from Czech Republic, the list of companies I have obtained mainly from the well-known web site of the Czech embassy in Damascus [55] and the related links of export-import at www.export.cz.

The stages of interview investigation were as follow:

- Determine the object of the interview: investigation the factors of cooperation between Syrian and Czech SMEs.
- Designing and preparation of the interview:
 - Collecting information: as a first step I had to collect the information about those companies
 - Contacting the managers of the companies by phone and emails to have an appointment to do the interviews
- Interviewing and conducting the interview based on a guide: during my repeatedly visits to Syria I have realized 30 telephone interviews and 20 personal interviews with the obliging companies to do this interview
- Transcribing: prepare the interview material for analysis.
- Analyzing: decide on the purpose, the topic, the nature and methods of analysis that are appropriate.

- Reporting and results evaluation of the interviews: the result of this section are

The ninety percent of the companies were not successes to obtain there own requested form the Czech companies, and they transfer their requests to the western country of EU or China, the main reasons were:

1. Entire lack of communication skills

The lack of communication skills were mainly from Syrian companies side; they are not so familiar with using internet and searching through it, this cause late delivery of information.

A lot of the Czech and mainly of the Syrian companies' web pages are written in the native languages, which make a big trouble to search for the requested goods.

2. Indefinite of the Syrian business conditions for the Czech companies

The Syrian legislation seems to be a great challenge for the international trade. It's so old and not reacting for the changes of the international market.

The poor cooperation between Syrian ministries and the high taxation level makes a big gap for the Czech companies to enter the Syrian market.

3. Strong competition from western EU countries and Asia

The western big companies are able to make a frequently market research of the Syrian market, that let them to be the leader of the import- export to Syria, those companies long time ago realize that the money paid for such type of research pay off soon.

4. Lack of information from both markets and countries

Both markets seem to the other as a small and it could be easy replaced by bigger market such as EU, USA and China.

A lot of people in Syria still remember the name of Czech Slovakia instead of Czech Republic, and vice versa; a lot of people from Czech Republic don't know the basic information about Syria or even its location.

5. Summary of research results and their discussion

The aim of my dissertation thesis is to increase the international competitiveness and the effectiveness of the export-import of Syrian SME to launch the Syrian international trade sector into the competitive global arena thereby facilitating progressive transition to a market economy, and the successful entry of Syria into the Europe and other international trade agreements.

The strategic objectives of this thesis are:

- To make Syrian private sector businesses competitive in home and international markets
- To assist Syrian private sector businesses to access and develop international markets
- To strengthen the business community by increasing the number of, and providing support to, innovative, high growth new-start businesses
- To encourage the positive evolution of the Syrian regulatory, fiscal and administrative framework in favor of private sector business development
- To facilitate the development of a framework of effective business support organisation

In relation with the strategic objective of my dissertation thesis, the first step I did was analysing a big sector of the Syrian market, this step is a basic step to understand the dynamic movement and the opportunists of this market, collecting information from Syrian market is a difficult task, and there are no actual reference sources for different types of information such as statistical which is very important for market research and other important studies.

The results and summary of the research are obtained in the previous sections of Analysing, Case studies and Interviews. I could summarize the result:

Syria is opening up toward a free market economy. Investment promotion and especially Foreign Direct Investment FDI are an integral part of its reform program. Foreign investments have had a real presence in Syria since the beginning of the 1990s after the introduction of Investment Law No. 10, but mainly after 1995. So far, according to the numbers of the World Bank, the net flow of Foreign Direct Investment to Syria has increased from \$ 80 million in 1997 to \$111 million in 2001.

Large European companies and global groups have shown interest in the Syrian markets and have set up very successful projects. Syria provides many opportunities for other similar projects on its territory. Also Syrian producers realise that more advanced processing, packaging, and labeling are necessary to sell their products in the International market place, as well as supplying a product mix that meets market expectations and specifications. They have moved to meet the demands of the global market place by introducing technology and quality control, such as International Standards Organization (ISO) and Food Safety Certifications (HACCP), which makes Syrian exports even more competitive. The Syrian

manufacturers are contemplating, much alike most other developing countries in the world, the prospect of a surge in Chinese exports, following the end of the Multi-Fiber-Agreement (MFA) on January 2005. The MFA had been established by the World Trade Organization in the seventies as a mean to protect industrialized countries from the flow of textile imports from low labor-cost countries. In practice it put quota restrictions on international textile trade. The investment opportunities of all sectors are now open to private shareholding, after several decades of public monopoly that controlled whole blocks of the economy. All business statuses – from private limited companies to holdings – are authorized. Electrical power production and cement mills are among the sectors most recently made accessible to private investors. Air and rail transport, telephone systems, oil refineries, mineral water, the commercialization of cereals are some of the few sectors still under public control.

For the poor cooperation between Syrian and Czech SMEs I could conclude that the main future of International trade lies with the greater use of technology and using the internet in international trade and management of e-commerce sales. Import export transactions handled totally by technology is here now. Those companies that are not spending time, money, and resources on automating import export operations will not be in global trade for long. The efficiencies gained in import export supply chain technology automation will make one company substantially more competitive than another.

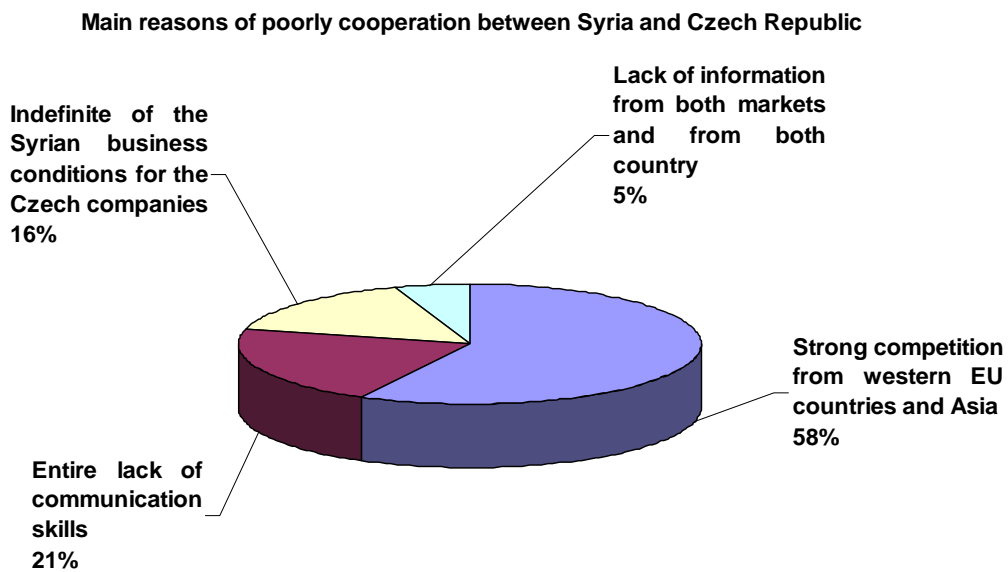


Figure 10 Main reasons of poorly cooperation between Syria and Czech Republic

6. Recommendation

Based on the results of my research I could recommend the following steps to increase the international competitiveness and its effectiveness of the export-import of Syrian SMEs:

6.1 Business Development

With the aim of developing the business enterprises to meet the challenges of an open market environment. Being a demand-led direct assistance to companies, this service encourages private enterprises to focus on the realities of the marketplace as a basis for improved performance.

6.2 Management Training

With the aim of offering a broad range of business training in the areas of management and marketing. Innovate and develop new training programmes. Provides support to chambers' management training centers, Company-specific training programmes and targeted training for local business consultants.

6.3 Financial Facilitation

With the aim of providing medium or long-term access to finance to Syrian SMEs with the objective of financing business growth. Assists Syrian SMEs in the preparation of 'bankable' proposals.

6.4 Trade Facilitation

With the aim of assisting Syrian business enterprises in developing skills to achieve export readiness and linking exporting companies with regional and international markets. Identifies and develops new markets, organizes Trade fairs and study missions and issues specialized technical booklets related to export development.

6.5 Institutional Development & Policy Formulation

With the aim of assisting Syrian business support institutions with their operational and service development, as well as, in areas of industrial policy formulation.

7. Benefits of the dissertation thesis

This dissertation thesis is devoted to “Small and Medium Sized Enterprises (SME) in Syria: Analysing - Management - Import Export”. On the based of descriptions and analyses of the small and medium sized Syrian Enterprises for international trade and the Syrian market as well. The benefits of this dissertation could be summarized as follow:

7.1 Benefits from theory point of view

The benefits of this dissertation from theory point of view are:

- Investigation of the international trade mainly in Syria
- Analysing of the Syrian market and Syrian SMEs
- Local consultancy business development services enhanced
- Gaps detection in the Syrian market for international trade
- Methodology of increasing the competitive of international trade
- Overview of investment opportunities in Syria
- Opportunity for future cooperation of SMEs in international trade

7.2 Benefits from practical point of view

The benefits of this dissertation from practical point of view are:

- Improvement of the efficiency and competitiveness of SMEs international trade.
- Access to information on export import market opportunities facilitated
- Strengthened SME support institutions.
- Assist the Syrian SMEs to access and develop international markets
- Elimination of the gaps in the Syrian market
- Information and analyses facilitate for international trade SMEs

7.3 Benefits from educational point of view

The benefits of this dissertation from educational point of view are:

- Methodology of research construction from international point of view
- Conclude the benefits from international trade
- Acquaint with the Syrians and Arabic markets
- Extend the view of international trade to other countries

8. Conclusion

This dissertation thesis is devoted to “Small and Medium Sized Enterprises (SME) in Syria: Analysing - Management - Import Export” and it contains eight sections. The first section discusses the problem formulation and objectives of the dissertation as follow:

- Introducing the state of the art of business in Syria: Economy, Trade, Investments and Banks
- SME financing in Syria
- The EU-Syrian economic and business relationship
- The Czech-Syrian economic and business relationship
- Case studies of selected SME companies in Syria
- Interviews with selected Syrian SMEs
- Evaluation of the obtained data

The second section starts explaining the research methodology of the dissertation thesis, the secondary and primary research, case studies and interviews have been used to cover a big part of my dissertation topic.

Third section presents the terminology and theory of export import, reassuming the importance, determination and volume of international trade to the global economy. Last subsection introduces the important development in export import.

Fourth section describes and analyses the collected secondary data for my research and shows the investment opportunities and how to do business in Syria, Economy, Trade, Investment, Banks and last subsection is about the EU/Czech-Syrian economic and business relationship. The section outlines the work related to the case studies about the selected companies of:

- Essential oil companies
- Textiles companies
- Pharmaceutical companies
- Food companies
- Olive oil companies

Last subsections is about progress of preparation for interviews and stages of interview investigation, the main reasons of poorly cooperation between Syria and Czech Republic have been addressed there.

Fifth section concludes the report with a summary of research results and their discussion, the strategic objectives of this thesis are mentioned too.

The recommendation and benefits of the dissertation thesis are mentioned in the sixth and seventh section and finally the summary of the dissertation is in the eighth section

The recommendation and benefits of the dissertation thesis are mentioned in the sixth and seventh section and finally the summary of the dissertation is in the eighth section

Finally, I could say that Syria is quite open to international trade. Free-trade agreements have been signed with Lebanon, Jordan, Morocco and Iraq. Syria also signed an Association Agreement with the EU in October 2004. The share of foreign trade in country's GDP is nearly 70%. Its top three export partners are: Italy, France and Iraq. Syria mainly exports mineral fuels & oils, cotton, livestock, and cereals. The top three import partners are: Ukraine, China and Turkey. The country mainly imports iron & steel, boilers, machinery, vehicles, mineral fuels & oils and plastics. The Syrian market, as I mentioned, is open for opportunities with foreign partners offering a wide scope of cooperation deals: investment ventures, licensing agreements, transfer of know-how and trade deals.

With respect to above mentioned discussions it is declared that objectives of this thesis were fulfilled.

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10. Appendix

8.1 Investment Law No.10 - Syria

Investment Law No.10 of May 4, 1991 (as amended May13, 2000) - Syria

The Investment Law aims to encourage Syrians (residents and expatriates), Arab and foreign investors to contribute to the development process through funding projects within the framework of socio-economic development plans in Syria.

Article four lists criteria for project approval, states that among the factors taken into consideration while deciding whether to approve a project or not, is the extent to which it relies on national resources and it is capable of creating job opportunities.

Law No.7 issued to promulgate Law No.10, specifies the following to be beneficiaries from the Investment Law:

- a. Syrian Arab nationals residing in the Syrian Republic and those treated as such.
- b. Syrian Arab nationals residing abroad, whether or not they have obtained the nationality of the host Syria.
- c. Nationals of Arab and foreign states.
- d. Juristic persons (corporations), which are authorized by the Supreme Investment Council to establish projects under provisions of the Investment Law.

