

# Foreign direct investment essay

[Finance](#), [Investment](#)



## About Syria

The Syria Arab Republic lies to the extreme east end of the Mediterranean Sea and in the south west of continent Asia. This country also included in the Middle East countries is essentially a land of fertile river valley with rich cultural heritage of the ancient civilization which once flourished in the vast region of which present Syria was only a part. The renowned scholars and artists of Syria immensely influenced not only the culture of the later Muslim empires but also the cultures of ancient Rome and Greece.

Most of Syria's land comprises of a vast stretch of rolling plains and desolate desert. From its two thickly populated countries i. e. Aleppo and Damascus, the latter is its capital.

### Image-2 (The Map of Syria)

The central location of Syria lying within trade routes and connecting Asia Africa and Europe gave her a strategic importance. In the olden days camel caravans often followed these routes carrying goods and commodities from Asia to Mediterranean cities. It is because of their location alongside the trade routes that the old cities of Syria like Aleppo, Latakia and Damascus grew up rapidly and were established along these routes and became great centers of the international trade ever since 2000 B. C.

(As'ad A., n. p. n. d.)

## The Background Conflict

Border skirmishes between Israel and Syria had been occurring too often during the period of 1960s and finally the war between them erupted on 5,

June 1967 with Jordan and Egypt joining hands with Syria. After the famous 6-day Arab-Israel war of June 1967, most of Arab land including the Golan Heights in the south west was lost to Israel. Tens of thousand Arabs fled from the then Israel-occupied territory and were forced to take refuge in the neighboring Arab lands.

But fighting between Syria and Israel continued around the Golan Heights even after the war had ended. The exodus of the Palestinian Arabs in great numbers to Syria added a fuel to the fire, and a genuine cause for Syria to be on the offensive. Then again Syria, hand in hand with Egypt, went to war against Israel in October 1974 but through an immediate cease-fire this fight too ended in the next month of November the same year.

Despite most of the fighting ended through the Cease-fire, the troops on both sides of Israel and Syria continued to fight until up to 1974 May. When Israel had claimed legal occupation of the Arab-occupied land of Golan Heights through a *Political Authority* , many Arab nations led by Syria condemned this action of Israel with zeal and fervor. (As'ad A., n. p. n. d.)

### Syria's Strategic Position

Adjoining the Mediterranean Sea between Lebanon and Turkey Syria is a country whose political and economic standing is greatly attributed to its central location especially at the crossroads of three continents. Due to its important strategic position and geographic location, Syria continues to enjoy its middleman role between many countries of the Middle East carrying transit trade, being an important factor in *Arab-Israeli hostilities* and in Arab politics. However, the recent American involvement in the area gave Syria a

direct link with USA through its control on Iraq from the East. This greatly affected Syria politically and economically. (As'ad A., n. p. n. d.)

### Syrian Economy ; International Trade

The economy of Syria is controlled by her government except for the farms, small businesses, which are owned privately. During 1990's, Syrian government adopted a more liberal economic policy encouraging more privatization and the banking sector. Raw cotton; textiles; woolens; petroleum; foodproducts; phosphates, and tobacco. are the chief exports, whereas, grain, machinery, metal, fuel and automobile vehicles constitute for the chief imports of Syria. The major countries with which Syria has trade relations include: *China, France, Germany, Italy, Lebanon, Saudi Arabia, South Korea, Turkey, and Ukraine.* (As'ad A., n. p. n. d.)

### Introduction to Foreign Direct Investment (FDI)

#### FDI - Meaning of

Foreign Direct Investment for short *FDI* is an important factor for determining the national financial accounts of a country. The *foreign direct investment* , in simple words, has been explained as the investment of foreign assets into domestic organizations, structures, and even equipment. But FDI does not mean the inclusion of foreign investment into the stock markets. The FDI, therefore, is considered more useful to a country than the equity investments of its companies for a simple reason that the investments in equity are possibly the " hotmoney" that may disappear at the first sight of problem. But the FDI on comparison is relatively more sustainable and usually useful if other things remaining same or normal.

## Introduction to FDI

In order to record statistical data for economic analysis and policy making with regard to a country, its FDI (Foreign Direct Investment) is a must. In the globalization of economic activities, the need for complete, equivalent and current data is increasing as FDI has assumed a vital role. To meet internationally approved standards, the explanation of the FDI by the *Organization For Economic Co-Operation And Development* (OECD) offers operational assistance on how FDI data should be accumulated. The latest revision of this definition of the FDI by the OECD has been encouraged by the recently issued IMF *Balance of Payments Manual*, Ed. 5, 1993, making it appear completely reliable.

The three main objectives of the FDI as understood through the OECD definition include:

1. For individual countries It provides comprehensible direction as they develop or modify their statistical system for recording FDI.
2. It develops the basis for economic assessment of FDI, particularly in worldwide comparison, to the level that progress is made in decreasing national deviations from the standard.
3. It recommends an objective standard for evaluating remaining methodological diversity between national FDI data that require to be taken into account for cross-country study of FDI.

In order to provide operational assistance to statisticians, the *OECD Definition* discovers special approaches and a definition implemented in member countries to assess FDI and suggests practical solution in every

case; authentic examples are used wherever feasible. The OECD Benchmark Definition in this approach covers the key statistical perception and definitions of FDI, aspects of estimation of FDI flows and stocks and a wide series of concerns related to particular transactions and entities. (OECD 1999, p7).

### Valuation of Flows and Stocks

Market worth as the conceptual basis for evaluation is recommended by the OECD Benchmark Definition. Market evaluation places all assets at recent prices rather than when obtained or final revalued, and permits comparability of assets of exceptional periods. It allows for regularity among flows and stocks of assets of different industries, enterprises and countries, plus over time. However OECD declares the rule of market value like the basis for evaluation, it knows that in practice book standards through the balance sheets of direct investment enterprises or investors normally are used to decide the value of the stocks of direct investment. (OECD 1999, p12)

### Capital Flows

The direct investment flows as recommended by OECD is described below:

#### *For associated companies and subsidiary*

1. Reduce the company's buy reduce sales of the direct investors' shares, loans and debt securities.

1. Moreover the direct investor's buy less sales of the company's shares, loans and debt securities.

- Furthermore the increase, net of decreases, including debt securities in trade and other credit offered by the direct investor to the company, generally calculated as the net balance of business and new credit outstanding at the end of the time owing to the direct investor, less the balance remaining at the starting of the period, and less the net increase between the starting and ending balances which is because of revaluations and switch rate movements. (OECD 1999, p16-17).

### Stock Components

Recommended by the OECD the stock of direct investment is measured as:

For subsidiary and associate companies the market value or wherever market value is not exist for statistical reasons, the book value, taken from the balance sheets, which is expected to be utilized by a lot of countries for useful functions of their share assets and reserves remarkable to the direct investor. Reserves contain incomes.

1. For subsidiary and associate companies plus trade credit, loans and debt securities bonds, money notes, financial derivatives, markets instruments etc. due from the subsidiaries and links to the direct investor, together with dividends declared but not yet paid to the direct investor;
2. For subsidiary and associate companies the small trade credit, loans and other dues including debt securities and equity because of subsidiaries and links from the direct investor.
3. The market worth or, wherever market price is not on hand, marking-down book value - taken from balance sheets of the concern's

permanent assets, and the market value or, where market value is not present, the book value of its reserves and existing assets, not including amounts due from the direct investor;

Reduce the concern's responsibilities to third parties. 12

OECD suggests that short-term loans and trade credit be taken in as there is repeatedly no clear difference between short-term investment for example loan repayable on claim but never repaid and long-term finance. From subsidiaries to close relative companies increase of inter-company debt and of loans might result in a few cases in negative principles of direct investment stocks. Various countries may not include inter-company debt and loans offered by subsidiaries to their parents as a matter of practice. Although, OECD suggests that countries give information on gross amounts outstanding which is, claims on direct investor and liabilities to associated enterprises to assist global comparability of direct investment stock data.

(OECD1999, p12-13)

Syrian Economy - A Sound Reason for US FDI in Syria

Social Market Economy

The underlying factors determining the sectors in the social market economy of Syria include:

1. At some stage in the congress of the *Baath party* in June 2004, the Syrian government has declared the opening of a *social market economy*



2. Social market economy looks for seeks a middle path between among capitalism and socialism.
3. During the cold war, social market economy was the main economic form adopted in western and northern Europe.
4. The social market economy was the vital economic model in mainland Western Europe from the 1960s.
5. Social market economy intends at sustaining a balance in a great amount of economic development, low inflation, low scales of unemployment, excellent working situation, social benefit, and public service, by contributing state interference.

#### The Media

- Which have an effect on its development Syria is still facing restrictions. There are still constraints on media like newspapers, television programs, ads etc. Several may be detained for violation the Syria press rule, others had to erase some satirical pictures on T. V that condemned official.

#### The Health Sector

One of the most important sectors in Syria is perhaps the health sector that needs adjustments

1. In Syria There is no insurance system.
2. There is a enormous gap among the high quality unaffordable *private - sector medication* and the low quality unreliable *public free medication*.

#### Education

- In Syria education goes through from a similar condition.

It is correct that the government delivers the resolution *NO. 36* relating to making new private universities but still a gap is there among the public education and private education even in terms of basic, elementary and high schools. (Dr. Schwab L., n. p. n. d.)

From 1960's to 1980's, Syrian economy had been marked by a policy of high-degree protection to the public sector while at the same time limiting the role of private sector. During 1970s Syria relied mainly on the economic aid from the former Soviet Union and other countries of Eastern Bloc. After experiencing acute shortage of foreign currency in 1985, and essentially after losing its Eastern Bloc markets, Syria took a quick downturn and began the second phase of its economy which advocated liberalism and increased involvement of the private sector.

Various steps were taken during the 1990's to extend private investment and especially to attract *Foreign Direct Investment* , so as to develop the *export-based economy* . These efforts and measures, which resulted into the improved trade relations with the United States and the European Union, helped settle Syrian debt arrears with the creditors especially the World Bank.

Since because of apprehension of the Syrian oil reserves getting depleted, she is making more efforts towards targeting the better functioning of the private sector and public institutions, taking full advantage of Syria's most strategic and geographic location. The motive behind these measures is to procure free trade agreements in order to position Syria as a leading

investment country. This is evident from the fact that the sum total increase in the FDI in Syria during the years from 2003 to 2006 was to the tune of US\$16.7 billion.

(Syria- Increasing the Role of the Private Sector, n. p. n. d.)

#### Recent FDI Inflows in Syria

The data for recent FDI Inflows in Syria account for the below salient features:

- According to WIR (World Investment Report), the FDI in Syria reached \$ 600 million in 2006, which was published by the UNCTAD ( *United Nations Conference on Trade and Development*).
- The FDI inflows grew 20 % on yearly basis in 2006 from \$500m in 2005. The 2005 saw the fourth consecutive annual growth in FDI reaching \$180m in 2003, \$275m in 2004 and \$127m on average during the years 1990-2000.
- Syria shows relatively poor results in the FDI as compared to neighboring countries. For instance, Lebanon received \$2.794bn in inward FDI (+1.5% annual increase), Jordan +100% = \$3.121bn; Egypt +87% = \$10bn, and Turkey +105% = \$20bn.
- The *FDI* in Syria represented 10.6 % of gross fixed capital formation last year, from 9.3 % in 2005 which was equal to twice of 2004 (5.6 %).
- The World Investment Report 2007, speaking on Syria for the first time, accounts for the outward *FDI*, including data for past years. *FDI* outflows reached \$55 million in 2006. Outflows have been

comparatively sound for the last recent years. Meanwhile, *FDI* stocks reached \$9. 039bn at the end of last year.

In addition to this, sales via cross-border mergers and acquisitions reached \$1. 158 billion last year while the purchases were at \$ 577 billion. It is unclear what operations these 2 figures include, though 2006 witnessed among other large operations, the sale by Petro-Canada of its stake in Al Furat Petroleum Company for an amount of \$578 m as well as Petro-Canada's purchase of Marathon's stake in gas fields in the region of Palmyra for an amount of \$ 46 m. and no other big operations besides M&A are yet known.

The biggest process that engaged a change of rights is the purchase by *MTN*, a South African cell phone process, of *Invest-COM*, the parent company of Areeba, one of Syria's 2 GSM operators. Though, *Invest-COM* is not listed in Syria and as such this operation was perhaps not included in the data of *M; A*.

Data on *FDI* in Syria must normally be taken with care because there is scarcity of main *data-gathering-institution* for investment.

#### Table showing FDI inflows in Syria

##### Foreign Direct Investment inflows in Syria

FDI inflows	2003	2004	2005	World rank (*) 2005
FDI inflows (USD million)	180	275	500	101/141

#### Foreign Direct Investment Inflows in Syria

## The Investment Regulations in Syria

According to Regulation # 10 Amendments: Decree 7 amended Law 10 of 1991 to make investment more attractive by:

- The Extension of periods in tax holiday.
- The Increase in the flexibility of hard currency
- The income tax reduction of the shareholding companies
- The Offering sector and the regional incentive.

Note: Also the 5-year tax holiday is extended to 7 years for those corporations which export more than 51% of their output. (Dr. Schwab L., n. p. n. d.)

By virtue of new Syrian investment law of January 2007, the foreigners are allowed to own the land under their investment and allows them sending of the profits to their home countries. This regulation opened all sectors to foreign direct investment, except for projects as:

1. Power generation and distribution
2. Air transport
3. Port operation
4. Water bottling
5. Telephony
6. Oil refining, and
7. Gas production

But a very weak government; capricious legal systems, and uncertain political and regional environments are strong deterrents that pose discouragement to FDI. In Syria, most of the capital transactions are subject

to formal checks and balances and all foreign trade transactions require approval of the government.

(Index of Economic Freedom 2008, n. p. n. d.)

#### Tax System Reform Objective

- Starting the economic development instead of sheer accumulating taxes, by decreasing taxes on resources *raw materials* of income in order to motivate production and investment.
- Diminishing customs tax on raw materials to lesser production prices and enhance the rivalry.
- Struggling for the evasion of tax and assisting in applying tax equity.
- Implementing A 5 years plan for the tax reform, that looks forward to introduce the value added tax *VAT by 2008* . This will hold monetary deficit less than 5% of GDP.

(Dr. Schwab L., n. p. n. d.)

#### Impact of FDI on Syrian Economy

Having FDI (foreign direct investment) has become a core issue in the national development of many countries today. These developing countries see the FDI as strengthening their domestic capital, employment and productivity, which are all very important for the growth of economy especially of a developing country to take a jump-start. Although the impacts of the FDI depend on many conditions, yet the well implemented and prudent policies can help maximize its beneficial effects.

The impacts of FDI focusing on areas including:

1. The economic growth.
2. The trade.
3. The employment and skill levels.
4. The technology diffusion and knowledge transfer.
5. The spillovers and linkages to domestic firms.

(World Bank –Financial ; Private Sector Development , n. p. n. d.)

### The FDI impact in Syria

The unending wars in the region for the last decades and the stand Syria adopted in these wars and in other international issues led US government to impose a series of sanctions against Syria on 12<sup>th</sup> May 2004, resulting into her isolation in the region (Dr. Schwab L.). The FDI in Syria had been fairly low as compared to other countries of the region. For instance Syria could attract US\$180m only in the year 2004 which proved highly unfavorable to Syrian economy as well as to its regulatory environment. The impact of US Sanctions proved most fatal to Syrian economy. The tensions arising from this situation had a far reaching effect on Syrian economy, but the immediate setback and its effects included:

1. Many International Trade Agreements were cancelled.
2. There was a total 5.9% of GDP (\$ 858 million ) military expenditures on defense.

Note: The government statistics accounts for the 161 long-term FDI joint venture projects, excluding the petroleum sector, worth a total of SVP62.6bn (US\$1.2bn) are ongoing in Syria.

The biggest investors (FDI), which are in the petroleum sector include:

<https://assignbuster.com/foreign-direct-investment-essay/>

1. Shell (UK/Dutch),
2. Total (France),
3. INA Nafta (Croatia)
4. Dublin (Canada)
5. DOV (Norway), and
6. Gulfsands Petroleum (UK).

But after the imposition of US economic sanctions of 12 May 2004, several corporations that pulled out from Syria were:

1. ExxonMobil
2. Devon Energy
3. 3M
4. IPR
5. Conoco Philips and
6. Veritas (Overview Syria, n. p. n. d.)

#### Future of the FDI in Syria

According to the latest agreement between Iran and Syria and Iran, the latter will invest in Syria, and the bilateral trade will be activated and greatly expanded.

The Domestic Context and the Government Policy Pertains to:

1. The transition to the social market economy
2. The Media
3. The Health Sector
4. The Education Sector
5. The Taxation Sector



6. The infra structure
7. The FDI ( *Foreign Direct Investment* )
8. The Syrian Fiscal ; Monetary Sector
9. The Business and financial markets.

It is highly deplorable for Syria to be left alone and outside of the comity of nations for global trade and its involvement in International economic uplift programs. Hence the Syrian government should improve its policies like that of taxation and in the improvement and the well-being of its people.

(Dr. Schwab L., n. p. n. d.)

Chart showing FDI Inflows:

The relative low performance of the Middle East Nations

FDI inflows showing relative low performance of the MENA

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#### Illustrations:

Image-1. *Flag of Syria* . Retrieved on February 9, 2008; from: <http://www.worldbookonline.com/wb/extmedia?id=ar543520&st=syria&em=lr003022>

Image-2. *Map of Syria* . Retrieved on February 8, 2008; from: <http://www.worldbookonline.com/wb/extmedia?id=ar543520&st=syria&em=mp000224>

Image-3. *Syrian Arab Republic* . Retrieved on February 9, 2008; from: [http://www.fdi.net/country/sub\\_index.cfm?countrynum=188](http://www.fdi.net/country/sub_index.cfm?countrynum=188)