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Trade Policy Reform In Syria, What Has Been Changed?

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This paper is tended to present briefly the latest development in Syrian general and Agricultural trade policies in addition to the most important developments in general policies that affect in one way or another on general trade system and agricultural trade policies.

Syrian government has set a high priority on economic reform. The pace of reform accelerated in the last few years when a renewed effort in moving from centrally planned to a Social-market economy. As a result, policy changes have been introduced at both macro and agricultural sector levels and the promotion of trade. Some measures have been introduced to promote private enterprise and attract foreign investment. Fiscal policy has focused on an overhaul and simplification of the procedures controlling trading system. The plan of Syrian government embodied a broad range of issues, ranging from financial and fiscal reform to trade liberalization.

At the sector level, reforms have touched price regulations and subsidies, credit, incentives for the private sector development in production and marketing activities. In general, trade reforms have been accompanied by measures aiming at facilitating the adaptation of Syrian economy, including the agricultural sector, to the new environment emerging from the gradual opening to international markets. These reforms can be seen as important steps of a gradual process that needs to be further developed over next years. Trade policy is progressively moving away from an import substitution approach, involving substantial trade protection, toward an export oriented approach.

Economic Context

The average annual inflation rate has been around 1.2% over the past five years. Syrian budget deficiency didn't exceed 6% in the same period. In 1995, Syria started in serious steps to ease its foreign debt and scheduling it. In addition, Syria has made progress in easing its heavy foreign debt of its key creditors in Europe and the former Soviet Union. In 2004, Syria signed an agreement to pay 15% of the total debt to each of Poland, Czech Rep and Slovakia, and Romania. Following the signature of debt arrangement agreement with Russia in May 2005, Syrian foreign debt now accounts for less than 10% of Syrian GDP (according to Chairman of Syrian State Planning Commission). This debt was about US$14 Billion and its service form only 8% of Syrian total exports. Since most of Syrian debts have been charged or deleted, the World Bank stressed that he will cooperate with Syria without any special conditions. Syrian economic growth rate reached 3.2% in 2003 and about 2.8% in 2004. Syrian prime Minister proclaims that the monetary reserves are enough to cover 24 months of imports. This level can be considered high comparing to other developing countries.

Credit and Monetary Policy Affecting Trade:

Syria Government is working to harmonize its monetary policy. This policy, which was characterized by a multiple fixed exchange rate system, rigid interest rates, and a direct government control over the banking system, has witnessed lately some changes moving towards more flexibility and responsiveness to market conditions. The difference in the multiple exchange rates was slightly reduced, as the official “neighboring countries” exchange rate was devalued at the beginning of 2004 to get closer to the market rate. Despite these developments under a relatively closed economy, inflationary pressures remained contained, in line with the modest growth in domestic demand.

The Liberalization of the Banking Sector[1]:

The liberalization of banking activities through a new law in March 2001 –Law n. 28 on Banks[2], put end to the state monopoly on the financial sector. In March 2005, Syrian Cabinet agreed on establishing Syria’s Beblous Bank. Starting from 2003, Syrian Government authorized five privet banks: International Bank for Trade and Finance, French-Saudi Bemo Bank, Aoudi Bank (Lebanon), Arabian Bank (Jordan), , In Mawsy 2005, the seventh bank “Aoudi Bank (Syria” has been authorized. In addition, 8 banks are completing authorization and the needed procedures to start operation soon. Economists do not expect the new banks to have an adverse impact on the activity of specialized industrial and agricultural public banks in Syria. They stressed that the Syrian specialized banks will continue to play their key role especially in the areas of industrial financing and services. Moreover, specialized banks are involved in financing long-term loans.

The Credit and Monetary Council (CMC) realized some important decisions aiming to improve the banking sector performance. CMC raised the interest rates on consignments for more than a year from 6% to 7%, and reduce it on current accounts from 2% to 1.5%. In March 2005, Commercial Bank of Syria raised the interest rates on foreign currencies consignments. Interest rate on consignments for one year will be 2% for Dollar, 4.2% for Euro and Sterling. Different rates will be applied for 1, 3, 6, and 12 months for each currency. These rates will be 1.5% for the three currencies in the case of current accounts under request.

Other facilitates were allowing banks (public and private) to present loans including foreign currencies, the loan shouldn’t be more than 25% of the bank capital. Moreover, CMC agreed for public banks to get loan from each other in Syrian Pounds. In the same context, Central Bank of Syria decided to finance public and private enterprises if they presented enough guaranties.

Commercial Bank of Syria (CoBS) decided to reduce commission on money transferring internally to be the lowest between the bodies working in this field. This will not be applied for Money transferring outside Syria. Moreover, CoBS will provide all economic enterprises and investments by long term loans. Previously, Loans were presented only for financing special trade operations like exports.

General Regulations

Competition Rules: Recently, Ministry of Economy and Trade prepared the draft of the law related to the protection of the competition and monopoly prohibition. This law aims to control or abolishes agreement or arrangements, or executive process between corporations, or consolidations and purchasing process, or usefulness of dominant market conditions in a bad way which could lead to less market access or bound competition resulting in a negative effects on domestic and foreign trade or on economic development. According to this draft, commodities and services prices will be determined depending on market regulations and free competition principles except for main services and commodities that its prices will be identified by the Cabinet.

[1] Law No. 23 Relevant to the Formation of Credit & Monetary Council , 12/12/2001; Law No. 29 on Confidentiality of the Profession, 18/03/2001.
[2] Law No. 28 on Banks (March 2001), regulated by Licensing & Registration Procedures of Banks Establishment.

Bilateral Agreements: Recently, Syria and Turkey signed an agreement to establish a free trade area, this agreement enter in to force after presidential decree (37) May, 4, 2005. Turkey considered one of the main partners for Syrian products. In the same context, Syria will start negotiations in the near future with each of Iran and Russia for signing a free trade agreement.

Free Trade Zones: Free trade zones, also called free trade areas or export processing zones, designate either parts of a country or groups of countries that have agreed to eliminate tariffs, quotas and preferences on most goods between them. Unlike a customs union, members of a free trade area do not have the same policies with respect to non-members.

In this context, the Cabinet agreed recently on establishing three new free trade zones. In 2004, Ministry of Economy Trade authorized Lebanese company (Franco Arab Union) which is specialized in insurance and reinsurance to start working in Syrian market including Free Trade zones.

Import Policies*:* Import policy in Syria is tightly regulated based on minimizing the importation of commodities whose substitutes are available locally and permitting imports of capital goods and inputs required for agricultural and industrial productions as well as for scientific and medical equipments. Import operations are subject to prior licenses granted after the commercial registration in the Syrian chambers of commerce or industry and the Syrian Embassy in the country of origin. Luxury commodities for importation are rationalized and, when imported, are subject to higher custom duties. Import-duties range between 1% for raw materials and 255% for certain luxury goods. Syria has undertaken a gradual path of reforms introducing a number of policy changes in areas such as the simplification of tariff schedule and custom procedures. In the latter months of 2002, several trade reform measures were introduced involving reducing restrictions on imports: tariffs on imported raw materials were reduced to 1%, and the ban on car importation removed. In addition, recently tariffs on cars imports were reduced substantially by 40%. Recently, the CMC allows approved banks to provide public and private importers with foreign currencies to finance imports (after presenting enough guaranties).

In April 2005, Ministry of Economy and Trade authorized national banks (public and private) to present loans to finance imports operations including raw materials, inputs and equipments, and machineries (decree n. 865/2005). Commercial Bank of Syria director expected that US$ 500 million will be loaned in 2005. Loans will be available for private and public sectors. This decision will affect Syrian Pound positively after applying facilitations and delayed paying. With the full implementation of GAFTA agreement at the beginning of 2005, a lot commodities from Arab countries flowed to Syrian market from many Arabian countries.

Tariff Simplification*:* Transparency of import regulations was further backed by the tariff simplification undertaken in 2002 (Decree nº 336, September 28). Notwithstanding the significant reform of the tariff system, it should be noted that there is still space for further simplification of import charges, given the remaining fees or taxes linked to import operations. In addition, following the Decree nº 61, September 2004, many imported commodities are subjected to a consumption tax. It was noted that applying the consumption tax on many imported commodities raised the prices of these products in the domestic market. The government collects it from the importers (on the imported unit) rather than from the consumer through the buyer. These taxes were modified for some commodities like cars, vegetarian oils and ghee (legislative decree 41, May, 6, 2005). In addition, some commodities were added to this list like tobacco and segregate. The new tax for vegetarian oils has been declined from 33 to 15%, while it increased for ghee and hydrogenated oils from 10 to 15%.

Recently, the General Department of Custom starts working on a further simplification of the Syrian tariff system. Syria is currently applying 23 tariff levels and this number will be reduced to only five or six levels.

Export Policies*:* Export policy in Syria is based on encouraging and supporting whatever exportable of local products and commodities since export licenses are needed only for certain materials. Exporters should also fill in a declaration to be presented to the general customs administration and a bank guarantee along with the documents which show the Syrian origin of goods[3]. The exporter must be registered with a Syrian Chamber of Commerce and must provide an invoice certified by a local chamber. Export revenues can be endorsed in favor of other importers to finance imports.

In consideration of the importance of the simplification of export regulations, a variety of actions have been taken over the last years. The obligations to surrender export proceeds have been abolished and exporters are now allowed to retain their earnings in hard currency to sell them to the Commercial Bank of Syria at the free foreign currency exchange rate or consign it as hard currencies. A number of exemptions to the export documentation have been introduced. Noticeably, exports to high-paying markets are still hampered by the small size of most Syrian companies and the lack of awareness on quality requirements.

Agricultural Trade Policies

Import Policies*:* Syria has been progressively removing non-tariff import constraints on agricultural commodities. The import licenses required from the former Ministry of Economy and Foreign Trade were cancelled for all goods. In the last quarter of 2002, the Government authorized private companies to import cereals with particular provisions, effectively breaking a decades-old state monopoly. In 2002, the Ministry of Supply and Internal Trade issued the regulations for private companies to import cereals and lentils. In 2004, the possibility for private agents to import was extended, under certain conditions, to wheat flour.

In 2005, GAFTA members fully liberalized trade, easing trade restrictions through tariff elimination and abolishment of the list of agricultural goods subject to import bans. Recent examples in this direction are imports of honey (Decree nº 353/2004), fish (Decree nº 1342/2003), and mollusk (Decree nº 309/2004).

Other areas of trade reform are imports of agricultural processed products and inputs for agriculture and the processing industry that the Government is gradually liberalizing. Examples are the possibility of importing certain tropical fruit concentrates that were formerly prohibited (Decree nº 7207/2003 of the Ministry of Economy and Trade).

In terms of sanitary and phyto-sainatory measures, Ministry of Agriculture and Agrarian Reform permitted ,in April 2005, for Egyptian fresh citrus to enter Syrian market with some technical procedures[4]. In the same time, Ministry of Agriculture and Agrarian Reform didn’t allow Sudanian mango to enter before checking sanitary case in Sudan.

In order to simplify the procedures on fodders imports in Tartous port, Ministry of Economy and Trade agreed on perform the Custom procedures depending on the photocopy of the origin documents if the importer presented a commitment in presenting the origin document in a period of 30 days.

A significant step is the liberalization of fertilizers’ trade which has been for long monopolized by the Ministry of Economy and Trade. Since March 2004, it is open to private importers (except super-phosphates, for which Syria is self-sufficient). As for capital goods, a recent move has been the Decree nº 8/2004 that allows imports of used industrial machines for small and

[3] Exported textiles are exempted from the requirement to indicate name and address of the manufacturer and the wording "industrialized to export".

[4] It should be exposed to a temperature of 1.7 degree for 15 days, and the only entrance for it is Daraa governorate.

medium enterprises under certain conditions[5]. In addition, following the Decree nº 61, September 2004, many agricultural commodities are subjected to a consumption tax, which ranges between 2% for all kinds of mate and for tea and 35% for alcohol beverages.

Export Policies*:* Since the beginning of the decade, the Syrian Government has undertaken some reforms aiming at facilitating export. Thus, with Legislative Decree nº 15/2001 the Government eliminated the fees applied on the conversion in SP of hard currency earnings from exports of fruit and vegetables[6]. In the olive oil sector, local income taxes and fees levied on olive oil firms with a productivity of less than two tons of olive oil per day were also eliminated. At the beginning of 2005, the Prime Minister agreed on the recommendation of the Economic Commission that suggested exempting the exports of olive oil (for few named companies) from controlling provision on exports by the External Trade Center. These companies are requested to export olive oil according to international qualifications with selective control from this center. Substantial public regulations remain on agricultural export, including restrictions on animals' export (Awas sheep which should be exported according to specific conditions and compensated with double imported quantity), aiming to provide enough quantity for domestic consumption[7].

Conclusions

The new facilities and reform and the significant economic reform measures, including trade, monetary policies, exchange rate liberalization, and licensing of private banks together with the ones still existing will contribute to intensify trade. We have to stress the importance of the new decision related to imports financing and its effects on trading system. In addition, the recent developments and reforms in the banking system will help traders to get hard currencies and facilitate imports coverage. However, the performance of the economy remains weak in large part due to major distortions. These distortions include price controls and large areas restricted to public sector participation; agricultural subsidies; an inefficient state-owned financial system in urgent need for modernization; and dominance of state-owned enterprises.

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[5] Decree (no. 323 of February 28, 1999 issued by the Ministry of Economy and Foreign Trade) allowed import of used packing and waxing lines (age not exceeding 4 years) being paid with hard currency earnings from exports of vegetable and fruits.

[6] The tax for selling proceedings deriving from exports of vegetable and fruit originally established at 0.50 SP per 1 $US was reduced to 0.1SP per $US and recently eliminated.

[7] Legislative Decree no. 18/ 2004 of MAAR established a fee of 100 SP/head on exported sheep. The Cabinet issued the Decision no 20/ 2004 establishing a starting date for exporting male sheep (from 1/6/2004) and the condition that their weight should not be less than 38 Kg.