

Investment Freedom in Syria

- Analytic Study -



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The Freedom of Investment in Syria

Introduction

During the two and half years of the brutal onslaught launched by the regime on the Syrian people, all efforts in finding an attractive investment environment were dashed, creating the most dangerous investment environment in the world. Syria has indeed become a repulsive environment for the investor and all Syrians.

Thus, Syria descended to the penultimate rank in the index of the investment risks in the world, which is a very abysmal rank, preceded only by Djibouti in the sequence list of dangerous countries in investment environment.

The Freedom of Investment

The freedom of investment is measured under an index developed by The Heritage Foundation, that is examined annually to all countries of the world, and is one of the components of the measurement of economic freedom for any country in the world¹.

The freedom of investment index is one of the important associated metrics that express the ability of a country to attract domestic and foreign investments, and to finance investment projects in all economic, service, and productivity sectors.

The measurement of economic freedom is divided, according to The Heritage Foundation, to ten components, the most important of it is the freedom of investment index, in which the high value of this index in a country drives enterprises and regional and global investors to pump their investments in this country, where the ease and freedom of investment lead to low risks, continuity, and the stability desired by all investors, and it allows an easy entry and exit with no complexity to the capital.

¹ - The Heritage Foundation is known as an educational research center that studies the economic general policies of the countries and publishes the annual results of economic freedoms in the countries of the world.

<http://www.heritage.org/index/country/syria> viewed on 4/12/2012

- The Heritage Foundation usually does not publish details of results, but publishes the total points earned by each country.



Within this economically free country, individuals and companies will be allowed to transfer their resources and their exports in, outside, and across the borders of this country without any restrictions.

Within this ideal freedom of investment, this country becomes in an ideal investment location, and gets the highest value of the measurement of freedom of investment, which is a point of (100).

But it is known that idealism cannot be reached within any field of the economy fields, for most countries have a variety of restrictions on investment, proportionate, or disparate with other countries.

Some countries impose restrictions on foreign exchange, and others impose restrictions on payments, transfers, and capital transactions. Some of the most important issues that affect negatively on the freedom of investment are corruption, labor laws, bureaucracy, poor infrastructure, political and security conditions, and others.

These constraints, which are usually imposed on the investment, are deducted from the ideal point of (100). For all constraints that are in the investment system of this country, and for each constraint and restriction imposed on investment, there is a specific number.

Some countries, that impose all restrictions on investment in maximum, destroy the freedom of investment totally. They also may impose restrictions that are more than 100 points, and drop to the negative, and the point of freedom in this case remains zero.

The Method of Calculating The Freedom of Investment Index

This indicator is calculated depending on seven constraints, and each has three options:

- Constraint exists commonly
- Constraint exists moderately
- Constraint is rare

Investment constraints, used to measure the freedom of the investment index, consist of the following:

1. The Country's Dealing With Foreign Investment:

- A large distinction between the national investor and the foreign investor (25) points



- Less distinction between the foreign and the national investor (15) points
- Dealing with the foreign investor as a national investor with a slight distinction (5) points

The first constraint looks into the laws of the dealing with foreign investors and the extent of their distinction from the dealing with national investors, in which the first option expresses a large discernment between the national investor and the foreign investor, while in the second option the foreign investor is treated nearly as the national investor. The last option expresses the treatment of the foreign investor as the national one without any discrimination.

2. Foreign Investment Law:

- Investment laws are not clear (25) points
- Investment laws are clear and good, with inefficiency in application (10) points
- Investment laws are good and clear, with some unclear details (5) points

The second constraint looks into the investment law in general and its applications and implementation mechanism, in which the first option expresses the lack of transparency in the overall law and the weary bureaucracy to investors in its application and implementation. The second option expresses the existence of a good and clear law, but there is a lack of efficiency in the implementation of this law and the bureaucracy inherent in it. The third option relies on the existence of a clear law and an effective implementation, with some details in the law that are unclear or implemented ineffectively.

3. Constraints on The Ownership of Land:

- All investors are not allowed to own (15) points
- Foreign investors are not allowed to own (10) points
- All investors are allowed to own, with some restrictions (5) points

The third constraint is one of the important constraints in investment, in which the first option indicates the lack of freedom of property ownership in general, and the harassment by the government for both local or foreign investors, while the second option does not allow foreign investors to own properties, and the third option indicates the presence of some of the restrictions imposed by the government on the purchase of real estate.



4. Investment Constraints on Certain Sectors:

- Restriction of investment in a large number of sectors (20) points
- Restriction of investment in a smaller number of sectors (10) points
- Restriction of investment in one or two sectors (5) points

The fourth constraint indicates the sectors that the government prevents investors from investing in, and that is to protect them from exploitation or monopoly. Thus, the government retains its implementation to itself. The first option expresses the constrain of a large number of sectors leading to the clamp down on investors, while the second option reflects fewer restrictions on a small number of sectors, and the third option reduces restrictions on a sector or two.

5. Expropriation of Investments Without Just Compensation:

- Laying hands on and expropriating investment without a legal reason (25) points
- Laying hands on and expropriating investment with some legal etiologies (15) points
- Neither laying hand on nor confiscation of investment except in rare cases (5) points

The fifth constraint in investment freedom is about restriction through seizure and confiscation of investment. The first option refers to the government laying hands on investments without any legal reason nor the existence of any law that refers to a mistake made by investors led to the confiscation of his investment. The second option refers to the confiscation of the investment with the presence of some legal grounds invoked by the government in order to put its hands on the investment, and the third option refers to the non-proliferation of this act, but the possibility of its occurring in some cases.

6. Foreign Exchange Controls:

- There is no freedom of monetary transactions, whether nationals or foreigners (25) points
- The possibility of monetary transactions, but with severe restrictions (15) points



- The possibility of monetary transactions, with few restrictions (5) points

Foreign exchange controls is one of the most important restrictions on economic freedom in general, and freedom of investment in particular, for which the first option measures the lack of freedom for any investor, local or foreign alike, to carry out monetary transactions in any directions, quantity, or quality. The second option refers to the possibility of monetary transactions, but with severe restrictions that lead to a significant tightening and the decrease in the rate of the freedom of investment in general. The third option refers to the possibility of monetary transactions, with few restrictions that give an area of monetary freedom.

7. Capital Control:

- Profits or salaries cannot be transferred to the investor's country, all transactions require the approval of the government (25) points
- Capital movements inside and abroad require approvals, and face some constraints (15) points
- Most transfers are allowed, with some constraints (5) points

The last constraint on investment is about freedom of capital transactions and the ability of foreign investors to transfer profits, salaries, or capitals to his homeland. The first option indicates the lack of the possibility of transfers, and that all transfer requests require the approval of the Government of the country. The second option indicates that capital movements are allowed, but with the consent of the Government of the country and with the presence of some of the restrictions imposed by the government. The third option indicates that most of the capital transfers are possible and allowed, but the government can impose some restrictions for national guarantees.

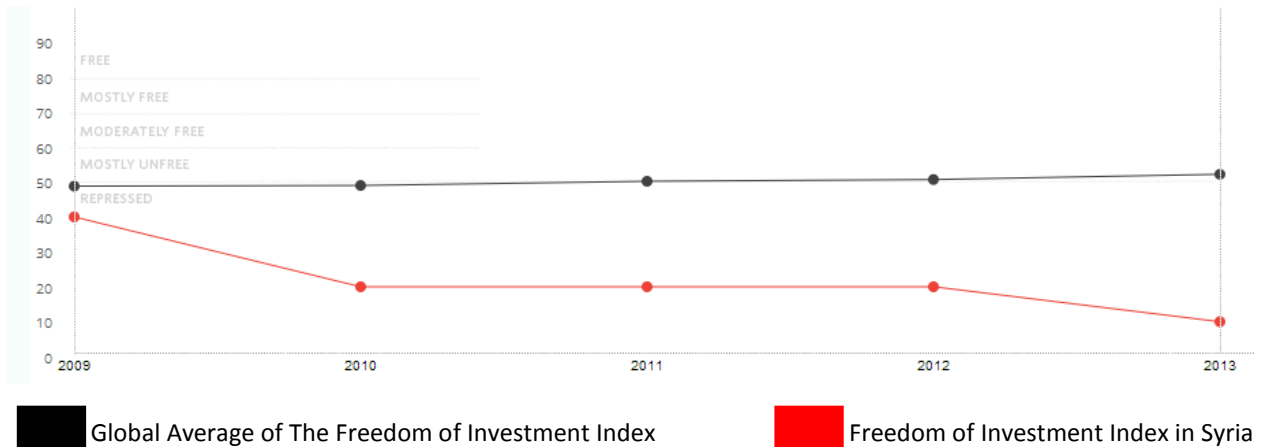
The Freedom of Investment Index in Syria

In the report issued by the Heritage Foundation for the year (2013) about Syria, the value of the freedom of investment index was 10 points, which is a very low value, as shown in Figure (1).



Figure (1)

The Evolution of The Freedom of Investment Index in Syria



We notice from Figure (1) that the value of the freedom of investment index in Syria has dropped from number 40 in 2009 to number 10 in 2013, i.e. an average of an annual decline of 14%, and the most important reasons that led to this decline are the following:

- I. Political and security unrests that Syria is undergoing, which led to the deterioration of the freedom of the economy in general and investment in particular.
- II. The brutal actions of the Syrian regime and its monopolization of the political and economic power, and the link of most of the huge local investments with the ruling family and the group close to it, in which they are obtaining the licenses, exemptions, and priorities in local projects investment.
- III. The blatant interference by the government in investors and the frustrating constraints, such as transferring profits or salaries to the mother country, as well as the poor infrastructure, and many other problems in planning or regulating, that led to this dramatic decline in the freedom of investment index.

Comparing Investment in Syria With Other Countries Through The Freedom of Investment Index

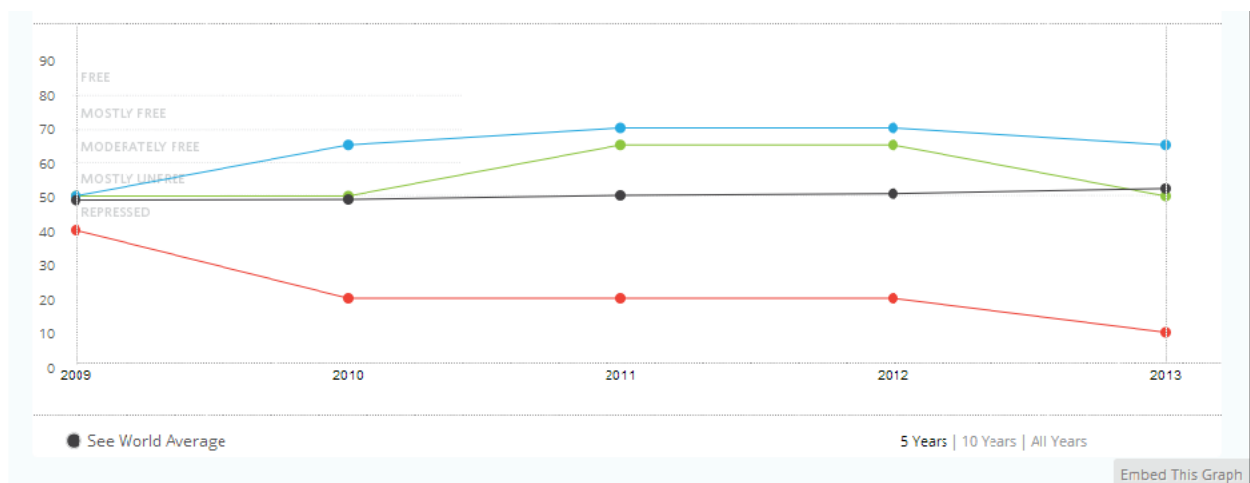


By returning to the Heritage Foundation, and comparing the results of the index of the freedom of investment in another Arab country that has witnessed similar political situations to those in Syria and the lack of security stability, such as the Arab Republic of Egypt, and in view of Figure (2), we note that the freedom of investment index in Egypt has witnessed a remarkable increase during the last four years, in which it rose from (50) points in the year (2009) to (65) points in the year (2012) and then was influenced by the tense situation, and dropped to 50 points in the year (2013). Whereas in Syria, we note a sharp decline in this index from year 2009 to 2013, compared with Egypt.

In a study of the freedom of investment index in a neighboring country to Syria and economically developed during the past five years, which is Turkey, and according to Figure (2), we find that its freedom of investment index has witnessed a great continuous development during the past five years, for it has reached its peak in the year (2012) by (70) points, rising up by 20 points from the year (2009), to be affected afterwards by the surrounding circumstances, and falling slightly to 65 points in the report issued in the year (2013). However, Turkey has the longest bar border with Syria, and has witnessed a huge wave of displacement of Syrians that has led it to be affected by these conditions, yet despite that, the freedom of investment index in Turkey is much greater than that in Syria, as shown in Figure (2).

Figure (2)

Comparison of The Evolution of The Freedom of Investment Index Between Egypt, Turkey, and Syria



 The Freedom of Investment Index in Syria

 The Freedom of Investment Index in Turkey



The Freedom of Investment Index in Egypt

Global Average of The Freedom of Investment Index

Result:

Investment in Syria had fallen sharply from 40 points in 2009 to 10 points in 2013 according to the measurement of the freedom of investment, and that is due to the brutal onslaught waged by the regime on the Syrian people and their public and private properties, in addition to the lack of security for over two and a half years, which led to the suspension of investments in Syria, and the transfer of foreign and national capitals outside Syria.

Recommendations:

To benefit from the experiences of other countries in the development of investment, to avoid the mistakes of the previous Syrian government in restricting freedoms, to try to attract investments and regulate them, and to secure the appropriate investment environment, and that is through the following:

- ✚ Political and security conditions are currently the main determinants of investment in Syria, and the lack of security and stability will not encourage any investor to invest, therefore, a necessary atmosphere of stability and security must be provided in order to attract investments and encourage investors to invest without fear of security changes or political instability in the country.
- ✚ Prepare a study of a comprehensive and sophisticated investment law that keeps pace with global economic changes, and is organized within a clear and transparent mechanism of action, through which any investor can enter the Syrian investment markets with no fear and with complete freedom, and it can give investors the freedom they need to do their investments.
- ✚ Attract foreign investments by facilitating the treatment of foreigners, providing the necessary infrastructure, and giving them the necessary facilities of monetary and capital transactions inside and outside the country.
- ✚ Paying attention to financial laws, foreign exchange, and facilitate payments and transfers in a way that do not interfere with the government's policy governing the investment law.
- ✚ Future Governments must be concerned by the economic freedom and the freedom of investment, in particular, for the advancement of the national economy, and to render



the Syrian markets the focus of attention of local and international investors, in order to reach a free national economy.

Finally, when things settle in Syria, Syrian capitals, which had left amid the crisis, can return to its country to contribute to the movement of construction, reconstruction, and economic and social development in Syria.