

---

**COUNTRY REPORT**

**Syria**

**1st quarter 1996**

The Economist Intelligence Unit  
15 Regent Street, London SW1Y 4LR  
United Kingdom

---

## The Economist Intelligence Unit

The Economist Intelligence Unit is a specialist publisher serving companies establishing and managing operations across national borders. For over 40 years it has been a source of information on business developments, economic and political trends, government regulations and corporate practice worldwide.

The EIU delivers its information in four ways: through subscription products ranging from newsletters to annual reference works; through specific research reports, whether for general release or for particular clients; through electronic publishing; and by organising conferences and roundtables. The firm is a member of The Economist Group.

London The Economist Intelligence Unit 15 Regent Street London SW1Y 4LR United Kingdom Tel: (44.171) 830 1000 Fax: (44.171) 499 9767	New York The Economist Intelligence Unit The Economist Building 111 West 57th Street New York NY 10019, USA Tel: (1.212) 554 0600 Fax: (1.212) 586 1181/2	Hong Kong The Economist Intelligence Unit 25/F, Dah Sing Financial Centre 108 Gloucester Road Wanchai Hong Kong Tel: (852) 2802 7288 Fax: (852) 2802 7638
---	--	--

### Electronic delivery

#### EIU Electronic Publishing

New York: Lou Celi or Lisa Hennessey Tel: (1.212) 554 0600 Fax: (1.212) 586 0248

London: Moya Veitch Tel: (44.171) 830 1007 Fax: (44.171) 830 1023

This publication is available on the following electronic and other media:

#### Online databases

FT Profile (UK)  
Tel: (44.171) 825 8000

DIALOG (USA)  
Tel: (1.415) 254 7000

LEXIS-NEXIS (USA)  
Tel: (1.800) 227 4908

M.A.I.D./Profound (UK)  
Tel: (44.171) 930 6900

#### CD-ROM

Knight-Ridder Information  
Inc (USA)

SilverPlatter (USA)

#### Microfilm

World Microfilms Publications (UK)  
Tel: (44.171) 266 2202

### Copyright

© 1996 The Economist Intelligence Unit Limited. All rights reserved. Neither this publication nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of The Economist Intelligence Unit Limited.

All information in this report is verified to the best of the author's and the publisher's ability. However, the EIU does not accept responsibility for any loss arising from reliance on it.

ISSN 0269-7211

### Symbols for tables

"n/a" means not available; "-" means not applicable

# Summary

## Syria 1st quarter 1996

*January 13, 1996*

Political and economic structures

**Pages 2-3**

Outlook: The chances of a peace agreement have improved as the new Israeli prime minister looks for an electoral boost, but time constraints are prohibitive and an interim deal is unacceptable to Damascus. Syria's stance is not likely to change. The regime remains secure domestically and will pursue its economic liberalisation programme, although intermittently. GDP growth will continue strong in 1996 and 1997, but inflation will remain high. The trade deficit will expand sharply, leading to a growing current-account deficit. **Pages 4-8**

The political scene: Peace talks with Israel have resumed and Shimon Peres has made positive statements which are welcomed by Syria, but very important divisions remain. The two sides clashed at the Euro-Mediterranean conference in November. Relations with Iran have suffered because of Syria's backing of the UAE. The Syrian foreign minister has sought to distance Syria from Islamic Jihad. Ties with Turkey are under pressure over the water issue and Kurdish rebel activity. Syria is trying to set up an axis of power with Iran and Iraq. Hafez al-Assad has confirmed his political dominance with the release of 1,200 political prisoners. **Pages 8-16**

Economic policy and the economy: New private investment has reached \$6bn and the Syrian press is promoting the six free-trade zones. Some 300,000 prisoners convicted on economic charges have been granted an amnesty. **Pages 16-18**

Agriculture, industry and infrastructure: Syria plans to grow tea and to export more barley. Foreign companies have tendered for a new government-owned cotton-ginning plant. MAS is planning the country's first private sugar factory. Power-generation capacity has continued to expand and the grid is to be linked with neighbouring states to satisfy demand forecast to grow at 9% per year through the rest of the decade. Further Japanese finance has been made available for power expansion and the establishment of private electricity plants has moved a step closer. **Pages 18-20**

Oil and gas: Gas production is to double by 2000, with the bulk to be used in power generation. Oil prices have been raised. **Page 21**

Foreign trade and payments: 1994 figures show a smaller than expected current-account deficit, despite very high import growth. Both France and the Czech Republic have raised the issue of debt arrears. **Pages 21-22**

Statistical appendices

**Pages 23-24**

Editorial queries: Crispin Hawes Tel: (44.171) 830 1000 Fax: (44.171) 499 9767  
Subscription queries: Jan Frost Tel: (44.171) 830 1007 Fax: (44.1708) 371 850

## Political structure

Official name: Syrian Arab Republic

Form of state: socialist republic

Legal system: based on the constitution of 1973

Legislature: 250-member Majlis al-Shaab (People's Assembly) directly elected for a four-year term

Head of state: president, directly elected for a seven-year term. The president appoints and dismisses the vice-presidents, the prime minister and the Council of Ministers. Hafez al-Assad, who was elected president in March 1971, re-elected in 1978, 1985 and 1991, holds the posts of commander-in-chief of the armed forces and secretary-general of the Baath Party. Vice-presidents: Abdel-Halim Khaddam, Rifaat al-Assad, Zuheir Masharka

Executive: Council of Ministers headed by the prime minister. Its members are drawn from the Baath Party and its partners; last reshuffle in June 1992

Main political parties: seven parties form the ruling National Progressive Front (NPF):

Arab Socialist Baath Party; Arab Socialist Party; Arab Socialist Unionist Party; Communist Party of Syria; Syrian Arab Socialist Union Party; Unionist Socialist Democratic Party; Union Socialist Party

Prime minister	Mahmoud al-Zubi
Deputy prime minister	Major-General Mustafa Tlas
Deputy prime minister for economic affairs	Dr Salim Yasin
Deputy prime minister for social services	Rashid Akhtariani
Key ministers	
agriculture & agrarian reform	Assad Mustafa
communications	Ridwan Martini
construction	Majid Uzzu al-Ruhaibani
culture	Dr Najah al-Attar
defence	Major-General Mustafa Tlas
economy & foreign trade	Dr Mohammed al-Imadi
education	Mohammed Ghassan Halabi
electricity	Munib al-Assaad Saim al-Daher
finance	Dr Khalid al-Mahayni
foreign affairs	Farouq al-Shara
health	Dr Mohammed Iyad al-Shatti
higher education	Dr Salha Sankar
housing & utilities	Husam Safady
industry	Dr Ahmed Nizameddine
information	Dr Mohammed Salman
interior	Dr Mohammed Harba
irrigation	Abdel-Rahman Madani
oil & mineral resources	Nadir Nabulsi
planning	Dr Abdel-Rahim Sabiay
social affairs & labour	Ali Khalil
supply & internal trade	Nadim Akaash
tourism	Danhu Daoud
transport	Dr Mufid Abdel-Karim
Central Bank governor	Bashar Kabbara

## Economic structure

### Latest available figures

Economic indicators	1991	1992	1993	1994	1995 <sup>a</sup>
GDP at market prices S£ bn	316.2	371.0	434.9	550.6	699.0
Real GDP growth %	11.6	9.6	5.0	5.2	5.8
Consumer price inflation %	7.7	9.5	11.8	20.0	22.0
Population m	12.53	12.96	13.39	13.85	14.32
Merchandise exports fob \$ m	3,438	3,100	3,153	3,555	4,000
Merchandise imports fob \$ m	2,354	2,941	3,475	4,570	5,000
Current account \$ m	699	55	-607	-637	-863
Total external debt \$ bn (Dec)	19.6	19.9	21.1	21.8	22.1
Total debt service \$ m	476	306	286	465	630
Exchange rate (year-end) <sup>b</sup> S£:\$	11.225	11.225	11.225	23.000 <sup>c</sup>	23.000 <sup>c</sup>

January 12, 1996 S£41.9:\$1<sup>d</sup>

Origins of gross domestic product 1993	% of total	Components of gross domestic product 1993	% of total
Agriculture	20.6	Private consumption	73.9
Mining & manufacturing	28.1	Public consumption	14.4
Building & construction	2.6	Gross fixed capital formation	25.8
Trade (wholesale & retail)	19.1	Exports of goods & services	28.6
Transport & communications	10.7	Imports of goods & services	-42.7
Finance & insurance	4.4	GDP at market prices	100.0
Government services	12.8		
Social & personal services	0.1		
GDP at market prices incl others	100.0		

Principal exports 1993	% of total	Principal imports cif 1992	% of total
Petroleum & petroleum products	66.7	Machinery & equipment	17.8
Textiles & raw cotton	13.4	Metal & metal products	14.7
Agricultural produce	11.4	Foodstuffs	10.3
Total incl others	100.0	Textiles	7.5
		Total incl others	100.0

Main destinations of exports 1994	% of total	Main origins of imports 1994	% of total
Germany	18.2	Italy	10.8
Italy	13.8	Germany	10.5
Lebanon	13.0	Japan	9.4
France	10.8	France	5.3
Saudi Arabia	3.8	USA	4.1
Spain	3.6	Turkey	3.7
EU	53.8	EU	37.1

<sup>a</sup> EIU estimates. <sup>b</sup> Official rate. <sup>c</sup> Intermediate official rate. <sup>d</sup> Commercial rate.

## Outlook

- The chances of a peace agreement have improved—
- The chances of Israel and Syria reaching an agreement in 1996 have improved with the resumption in December of peace talks in the USA after a six-month hiatus. However, the issues facing the two sides have not changed and for Israel the question of security over the Golan remains paramount.
- and Mr Peres is looking for an electoral boost—
- The new Israeli prime minister, Shimon Peres, is keen to negotiate some kind of deal with the Syrians which he can then present to the Israeli public in time for upcoming elections which are due in October at the latest. However, time is probably too short for a full peace treaty to be negotiated within this period. An instructive comparison can be drawn with the Israeli-Jordanian talks in 1993-94 during which the final details of the peace treaty were agreed. Despite much better relations between the two states and a much more cordial atmosphere at the talks, the negotiators still required over a year between the signing of an agreed agenda in September 1993 and the conclusion of a treaty in October 1994. In addition, the issues to be settled were considerably less controversial and the question of security was not involved.
- but time constraints are prohibitive—
- In the case of the Syrian-Israeli talks, the negotiations are much more tentative and the overall questions of security and the return of a large area of territory to Syrian control represent a greater challenge. In this environment, time is against the Israeli prime minister. With the elections due in October, the election campaign will get underway in July-August at the latest; six or seven months is not likely to be sufficient for the two sides to overcome their remaining deep differences over Israeli military withdrawal, sovereignty and future political and economic ties.
- and an interim deal is unlikely
- In the light of the constraints on time, the Israeli government will probably try to push for an interim agreement which Mr Peres can present to the electorate, but the Syrian regime has repeatedly said it will not sign up to a Declaration of Principles, but will put its name only to a full agreement. The Syrian president will stick to the letter of this policy but he may allow enough to be agreed for the Israeli government to claim to the electorate that a peace agreement is within its grasp.
- Syria has maintained that it has no interest in playing a role in Israeli internal politics, but the assassination of Yitzhak Rabin in November has clearly demonstrated the depth of divisions in Israeli society. The decision to renew talks indicates the Syrian president's awareness of the fragility of the current Israeli government's hold on power. Although Hafez al-Assad has accepted the strategic necessity of peace with Israel reluctantly, he has made the decision to end hostilities and is well aware that the return of the Golan Heights to Syria will be much more difficult, if not impossible, to secure in talks with a right-wing Israeli administration.
- Syria's demands will not change—
- Nevertheless, Mr Assad's demands of Israel have not changed. He remains steadfast in his demand that Israel must return all erstwhile Syrian territory on the Golan Heights before a deal is possible. The negotiations will focus on

delineation of the border, and on the size of the forces and types of materiel which both sides are permitted to deploy within designated distances of the border. Mr Assad will not surrender to Israeli demands for an early warning system on the Golan Heights. On this point the USA has an important role to play, and the presence at the recent talks of the US secretary of state, Warren Christopher, indicates that the USA, which also faces an election year in 1996, will continue to try to bridge differences. In January the US defence secretary, William Perry, said that Washington was willing to contribute troops to a monitoring force and a further deal could be arranged involving US guarantees of Israeli access to satellite information on Syrian troop movements.

—and the regime still views Israel as an enemy

The clearest division between the two sides and one that is unlikely to be bridged fully by the details of negotiations concerns the attitude to peace. For Israel, a political end to the state of war is also important. The Camp David accords agreed with Egypt are often cited in Israel as typifying the sort of peaceful relationship which the Israeli government does not want to develop with other Arab states. Israeli officials frequently express frustration with the “cold peace” which exists with Egypt, a peace that is characterised by limited trade relations and very little cultural or political exchange.

The Israeli government has repeatedly called on a reluctant Syrian regime to declare a commitment to full peaceful relations involving commercial and cultural links. However, whatever the wording of the peace treaty, the present Syrian regime regards Israel’s existence as anathema and its willingness to make peace with it reflects not acceptance of Israel’s presence in the region, but resignation to it. Without a major international backer since the collapse of the Soviet Union, Syria can realistically no longer present a long-term threat to Israel, but the regime still regards Israeli interests as threatening to the Arab world (see The political scene).

Syrian attention will also focus on Iraq

Syria will continue to monitor developments in Iraq with concern. The regime in Damascus is engaged in a rivalry for influence in Iraq with Jordan, the USA and, to some extent, Israel. Mr Assad is opposed to a dissolution of Iraq into Kurdish, Sunni and Shia mini-states which he believes is possible if and when the present Iraqi regime collapses. The king of Jordan’s decision to adopt a position on Iraq more in line with that taken by Washington, and to host opponents of the Iraqi regime, has annoyed the Syrian government. Syria will work hard to ensure that Jordan does not set up a viable alternative to Iraqi opposition groups based in Damascus. As a result, Syrian-Jordanian relations, already strained over Jordan’s separate peace deal with Israel, will remain poor.

Problems with Iran will be shortlived

Relations with Iran, traditionally warm, have suffered from Syria’s support for the United Arab Emirates (UAE) in a territorial dispute with Iran (see The political scene). Iran cancelled a planned visit to Damascus by the vice-president, Hassan Habibi, and the foreign minister, Ali Akbar Velayati, but the two states’ interests are likely to ensure that close contacts resume quickly. The Iranian government is ultimately sympathetic to the Syrian need to develop relations with the Gulf, but will request the regime in Damascus not to make such a high-profile declaration of support for the UAE in future. Iran itself

retains good trade relations with the UAE despite the dispute and will not sacrifice ties with such a valued ally as Syria on this issue.

The regime remains secure domestically

Internally, the regime's primacy remains unchallenged. In a clear demonstration of confidence, the government has recently released large numbers of political prisoners, many of them members of the outlawed Muslim Brotherhood movement, and granted amnesty to 300,000 criminals. However, Mr Assad's failure to appear at some celebrations raised speculation that his health had deteriorated. Questions over the president's health have regularly been raised since his first heart attack in 1984 but the issue of succession remains as shrouded in mystery as ever. Speculation that he is grooming his son, Bashar, is still purely speculation and Mr Assad is ultimately likely to manoeuvre to ensure that the reins of power remain within the minority Alawi sect and that his family's position stays secure.

The reform programme will stumble on—

The Syrian government remains committed to its economic liberalisation programme but within limitations. Privatisation of public-sector companies in 1996 and 1997 is not expected. Recent official figures, which show that income from public-sector companies in the first half of 1995 rose almost 14% compared with the same period in 1994, to \$392m, will encourage the regime to believe that the public sector needs to be reformed rather than dismantled, and that the private sector should be encouraged to work alongside state companies.

As a result, the Higher Investment Council (HIC), which is charged with vetting private-sector proposals, will continue to receive applications in areas such as textiles, cement and sugar. Crucially, the government has taken initial steps towards opening up the power industry, which is currently reserved to the public sector, by giving tentative approval to a joint Syrian-Belgian company to build Syria's first private-sector power station. While power generation will remain almost entirely in government hands, rapid growth in demand has encouraged the regime to allow private companies to begin operations alongside, but not instead of, the public companies.

—with a new technocrat elite leading the way

One of the main driving forces for opening up the economy to the private sector is represented by the sons of leaders of the regime and well-connected families, many of whom now shun a traditional career in the military for the business world. One such example is Firas Tlas, son of the defence minister, Mustafa Tlas, who plans to open Syria's first private-sector sugar factory. However, the advantages of breaking up public-sector monopolies will be lost if it is not accompanied by further liberalising legislation, for there is increasing evidence to suggest that public-sector monopolies are being replaced by private-sector monopolies uncontrolled by regulatory authorities.

The dismissal in the last quarter of the tourism minister, Amin Abu Shamat, with no official reason, suggests powerful private-sector businessmen with enough influence in government were able to engineer his removal because he was trying to open up the sector to further unwelcome competition. Furthermore, the state bureaucracy remains a significant impediment to the private sector. Only businessmen like Mr Tlas, with access to senior figures in the

regime, appear able to break through the bureaucratic hindrances which obstruct so much private-sector activity.

Some restrictive economic laws may be dropped

Nevertheless, there may yet be hope for further reform of economic legislation. December's decision to grant amnesty to 300,000 convicts, many of whom were serving sentences for economic crimes, may be a prelude to the abolition of the 1986 foreign currency laws which prevent unauthorised Syrians handling foreign currency. The government has been promising to do this for two years. Greater access to foreign currency would fuel import demand which, according to new figures, grew in 1994 by 31.5% compared with 1993, largely due to private business and consumer demand.

GDP growth will remain strong—

Increased wealth generation in 1996 and 1997 will keep growth in private consumption strong. Public-sector demand will also rise but at more moderate levels. There will be substantial growth in gross fixed investment with government resources being sunk into electricity works, gas production and distribution facilities, and other infrastructural projects, particularly in the free-trade zones. The private sector will also build plants, including the heavy industries such as cement production and power generation.

Export revenue will expand more slowly in 1996 with a fall in oil prices. The EIU expects International Energy Agency (IEA) landed prices to fall from \$17.1/barrel in 1995 to \$16/b in 1996 and to remain at that level in 1997. The fall in the value of oil exports in 1996 and their stagnation in 1997 will be offset in part by rising cotton exports, which are benefiting from expanded domestic production and higher international prices. The value of imports will continue to grow rapidly in 1996 and 1997, and may be boosted further if the government abolishes restrictive exchange rate laws.

Sectorally, the value of agriculture, the second largest component of GDP, will increase over the forecast period as the government gives over more irrigated land to crops such as cotton and barley. Growth in mining and manufacturing, the leading sector with 28% of GDP in 1993, will remain slow as oil prices fall, although the manufacturing sector is expected to expand. Wholesale and retail trade will show strong growth as more goods of greater variety are produced and imported for an increasingly wealthy population. Reflecting the revised forecast for oil prices in 1996 and 1997, real growth in GDP will be lower than we previously projected but will remain strong, at 4.8% and 5.3%. Relaxation of exchange rate laws in 1997 may also boost private consumption but the exact effect will be impossible to assess until the nature of the reforms is clear.

—but inflation will stay high—

Inflation is currently running at around 22% and is likely to remain in this area over the forecast period. Import prices are unlikely to go up as world prices for non-oil commodities fall in 1996, but any fall in inflation will probably be offset at the end of 1996 or early 1997 when it is expected that the official exchange rate will change from S£11.225:\$1 to the top band of S£43:\$1. Prices will not rise to the same extent, however, because foreign currency transactions are already subject to three levels of exchange rates that include the top band. The tiered system has allowed higher import prices to be fed gradually into the

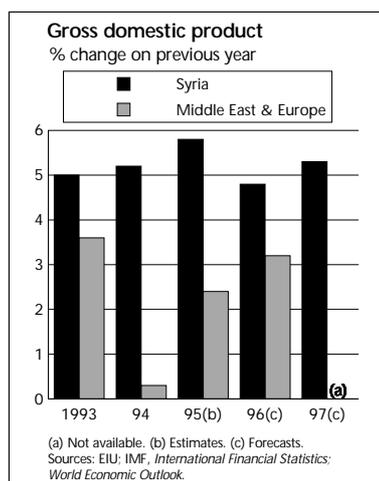
—and the trade deficit  
will expand—

economic system, and the final change to the S£43:\$1 rate will come about only when most goods are already being purchased at that rate.

—leading to a growing  
current-account deficit

Actual figures released in late 1995 show that the merchandise trade deficit reached a record \$1.02bn in 1994 after an 31.5% increase in imports during that year. This pattern of rising imports and slower growth in exports is likely to be repeated in 1996 and 1997, particularly if restrictive foreign currency dealing laws are abolished, as may happen at the end of 1996 or in early 1997. Lower oil prices in 1996 will ensure that that the value of oil exports, which account for over 60% of total exports, will fall, but the slack will be taken up by growth in other merchandise exports, particularly agricultural produce such as cotton. Merchandise exports are expected to reach only \$4.1bn in 1996, virtually unchanged compared with 1995, and, with oil prices stagnant, to grow only slightly to \$4.2bn in 1997. In contrast, we are expecting merchandise imports to maintain strong growth, reaching \$5.5bn in 1996 and \$6.1bn in 1997, driven by strong private-sector and consumer demand. As a result, the trade deficit will rise to \$1.4bn in 1996 and \$1.9bn in 1997.

Our estimate for the current-account deficit for 1995 has been revised downwards from \$1,140m to \$863m after higher than expected receipts from tourism and lower services outflows led to a surplus in the services balance where a deficit had been forecast. This pattern is likely to continue over the forecast period, particularly as the improving political climate in the Middle East boosts tourism, which is proving to be a vital source of foreign currency earnings. Nevertheless, the current-account deficit will continue to widen and in 1996 is expected to reach almost \$1bn before expanding to \$1.3bn in 1997.



#### Forecast summary

(\$ m unless otherwise indicated)

	1994 <sup>a</sup>	1995 <sup>b</sup>	1996 <sup>c</sup>	1997 <sup>c</sup>
Real GDP growth (%)	5.2	5.8	4.8	5.3
Crude oil production ('000 b/d)	590	600	600	590
Merchandise exports fob	3,555	4,000	4,070	4,200
Crude oil exports	2,190	2,400	2,220	2,200
Non-oil exports	1,365	1,600	1,850	2,000
Merchandise imports fob	4,570	5,000	5,450	6,100
Trade balance	-1,015	-1,000	-1,380	-1,900
Current account	-637	-863	-960	-1,300

<sup>a</sup> Actual. <sup>b</sup> EIU estimates. <sup>c</sup> EIU forecasts.

## Review

### The political scene

Syria resumes talks with  
Israel—

Syria and Israel have resumed peace talks after a six-month hiatus. The US government, which is hosting talks in the state of Maryland, is predicting an agreement before the summer but many remain sceptical. The first round ended on December 29, with the second beginning on January 3. The second

round covered procedural matters, with talks on substance scheduled for later in the month. The US secretary of state, Warren Christopher, attended a third round before travelling to the Middle East in mid-January.

The new talks, which Syrian state-run newspapers have described as an “opportunity not to be missed”, have a wider remit than previous meetings. The accession of Shimon Peres to the Israeli premiership following Yitzhak Rabin’s assassination in November has invigorated the Israeli negotiating team. Whereas Mr Rabin was content to let the Syrian talks stall while he focused on talks with the Palestinians, Mr Peres is keen to promote the Syrian track. However, he will face a struggle to convince the Israeli electorate that Israel should withdraw from the Golan Heights.

—and the scope of negotiations is expanded

In the new talks, Mr Peres has called for the scope of negotiations to be widened from dealing largely with military issues to cover a broad range of political issues, including the nature of relations in the event of peace. In reality, political considerations have always been on the negotiating table but military issues have taken precedence. It was as a result of the differences over military questions that talks broke down.

Press coverage of the talks, particularly in the USA, has been optimistic but ignores the fact that while both sides, to a lesser or greater extent, are interested in finding a solution to military issues, only Israel is really interested in the political implications. Syria’s sole aim is the recovery of the Golan, while Israel is seeking a political rapprochement to put an end to the Arab-Israeli conflict. Israel, therefore, places greater emphasis than Syria on political and economic points but they both attach great importance to military issues, and it is in these that crucial differences lie. Speculation that Mr Peres will recognise Syrian sovereignty over the Golan, annexed by Israel in 1981, gives grounds for optimism, but Mr Peres has also been giving out conflicting signals on this issue. Perhaps for the benefit of a hostile Israeli public, Mr Peres says he will adhere to his predecessor’s policy that the depth of withdrawal will mirror the depth of peace.

Mr Peres makes positive noises—

In his November speech to the Israeli Knesset (parliament), Mr Peres said he would make peace negotiations with Syria a top priority. The “logic of war” was over, he said. Mr Peres has expanded the Israeli negotiating team dealing with Syria to include Major-General Dani Yatom to take over responsibility for military and security issues. Under General Yatom is a team of officers from the Israeli army’s planning and intelligence branch headed by Major-General Uzi Dayan. Mr Peres has also replaced the ambassador to the USA, Itamar Rabinovich, as overall head of the negotiating team with Uri Savir, the director-general of the foreign ministry and a long-term associate of the new prime minister, who has played an important role in negotiations with the Palestinians.

—which are welcomed by Syria—

At the time, the Syrian regime welcomed Mr Peres’s remarks, saying all that he needed to do now was translate his words into action. The regime is waiting to receive an Israeli commitment to full withdrawal from the Golan before making a commitment as to the nature of its future relationship with the Jewish state. However, Mr Peres’s new initiative represents an electoral gamble in

Israel; he has always been regarded as more flexible than Mr Rabin in terms of negotiations but he lacks Mr Rabin's domestic political weight. An acceleration in the pace of negotiations with Syria is not guaranteed a positive reception in Israel, particularly while the Interim Agreement with the Palestinians is still being implemented.

—despite criticism in the official media—

Whatever the criticism that has been levelled at Israel by the Syrian government in recent years over the pace of peace talks, the president, Hafez al-Assad, has no illusions about Mr Peres's room for manoeuvre. But this has not stopped the official media from criticising Israel further. The official newspaper, *Tishreen*, welcomed Israeli statements but condemned the new foreign minister, Ehud Barak, for saying he was opposed to a full withdrawal from the Golan. The paper described Mr Barak's statement that Israel would not return to the 1967 frontiers as "disappointing".

Mr Barak, a former chief-of-staff, is seen as a hardliner whose presence as foreign minister will help to reassure the Israeli electorate, which is perhaps nervous that Mr Peres will adopt too conciliatory an attitude in talks. Mr Barak negotiated with the Syrian chief-of-staff, Hikmat Shehabi, in Washington in June 1995 but is said to have left a bad impression on the Syrians.

—but deep divisions remain

A number of issues still divide Israel and Syria. One is the level at which negotiations should take place. Israel would like the foreign ministers to meet, and if, possible, Mr Peres and Mr Assad. The Americans are said to be working hard to achieve such a meeting but Mr Assad will resist pressure as long as possible and is unlikely to appear on a platform with an Israeli leader until a signing ceremony. A meeting between the Syrian foreign minister, Farouq al-Shara, and his Israeli counterpart is more likely. Although they exchanged remarks through a committee chairman at a European Union (EU) conference in Barcelona in November, they did not speak to each other directly, nor did they meet in private as many Arab and Israeli ministers have done during international gatherings.

So far, the highest level meetings have been the two between the chiefs-of-staff in Washington in June, but no progress was made and a third meeting which had been agreed upon did not take place.

Syria has also said that Israel has not yet defined its position on a full withdrawal, nor on "even and equitable" security arrangements. It has also refused to allow its own army officers to attend the talks but has raised no objections to Israeli military men being present.

A leading intellectual warns of war

Even as Israel and Syria were talking peace in Washington in December, the head of Syria's writers' union, Ali Okla Orsan, said "war" with Israel would continue in the event of peace. Mr Orsan's statement, which will have had official backing, reflects the belief of the Syrian leadership that the expansion of Israeli influence in the Middle East through overt military means is now consigned to history but the expansion will continue through political and economic means. Mr Orsan's comments may also have been a move on the part of the regime to temper what appeared to be a sudden change of heart,

with the new talks with Israel, by shifting the public's focus from the military struggle with Israel to a new, economic and political one.

The regime's attitude is typified by the position taken by one of Syria's vice-presidents, Abdel-Halim Khaddam. He maintains that Arab states seeking better relations with Israel in the hope that they will attract Western, especially American, aid and business are deluding themselves. He says that any funds that enter the region as a result will benefit Israel, to the detriment of the Arab world.

Canada offers troops for the Golan

In addition to the US offer in January of troops for a monitoring force, Canada has expressed a readiness to send forces to police the Golan border should the two states decide to make peace. The offer was made in November during a visit to the region by the Canadian foreign minister, Andre Oullet. Canada already provides troops for the 1,300-strong UN Disengagement Observer Force (UNDOF) formed in 1974 after the October 1973 war. The issue of who will police the border is a vital one. Syria has accepted in principle the US offer to send troops, and would also regard Canadian troops, with whom it has developed a relationship over the last 20 years through the UNDOF, as reliable.

Syria clashes with Israel at the Euro-Mediterranean conference—

Outside the arena of the talks in the USA, Israeli-Syrian relations have remained less cordial. The two sides clashed at the EU-sponsored Euro-Mediterranean conference in Barcelona in November over Israel's nuclear weapons capability. Media attention on the exchange in Barcelona reflected the lack of progress in negotiations between the two, but Mr Shara welcomed an appeal for peace from Mr Barak. This was in stark contrast to the last time representatives from the two countries met in Spain at the opening of the Middle East peace process in Madrid in 1991. Then Mr Shara had brandished a British "wanted" poster for the then Israeli prime minister, Yitzhak Shamir, who had headed the group that assassinated a senior UN negotiator in Rhodes in 1948.

Syria and Egypt have continued to insist that Israel sign the nuclear Non-Proliferation Treaty (NPT). This issue had dropped out of the limelight in the second half of 1995 after a majority of signatories agreed to extend the treaty at a meeting in New York. Egypt had highlighted what it regarded as the incongruity of the situation in which Israel's refusal to sign the treaty is accepted while other states, such as Iran, which are signatories, are accused of harbouring nuclear weapons despite having passed international inspections. The re-emergence of the issue at Barcelona indicated that Egypt, backed by Syria, will continue its campaign to force Israel to destroy its nuclear weapons.

At the Barcelona summit, the two sides also clashed over definitions. Israel maintains that its enemies in South Lebanon, led by the Iranian-backed group, Hizbullah, are terrorists. Syria describes them as guerrillas fighting to rid their country of the Israeli presence.

—but the meeting was a breakthrough

Despite the arguments, the Barcelona conference marked the first international forum which both Syria and Israel had attended since Syria boycotted multi-lateral talks linked to the peace process in 1993. Syria shunned the economic summit in Amman in November and its precursor, the Casablanca summit, in 1994 but attended in Barcelona, albeit less because it had dropped its objection to Israel's presence than to see what funds were on offer from the EU.

<p>Syria will quietly drop out of an EU agreement</p>	<p>Syria was one of the 12 non-EU Mediterranean countries which signed up to a declaration which will pave the way for \$6bn in EU aid for education and infrastructure projects over the next five years. In return for the assistance, the 12 have pledged to work towards free trade, setting 2010 as a deadline for the removal of all barriers on industrial goods. They have also committed themselves to the principle of mutual non-aggression and the rejection of terrorism. Syria is highly unlikely to satisfy such requirements, especially with the present style of regime, and if the latter continues, it will probably drop out of the group. The EU and Syria are already embroiled in a disagreement over debt service, and most EU export credit agencies are currently refusing to extend cover to Syria until it adheres to an acceptable schedule for debt repayment (see Foreign trade and payments).</p>
<p>Relations with Iran suffer—</p>	<p>Relations between Syria and Iran, which have been good since the outbreak of the Iran-Iraq war in 1980, have cooled over the last quarter. The deterioration in relations may be due in part to Syria's decision to renew peace talks with Israel, which the Iranian government opposes, but Syria's decision to back the United Arab Emirates (UAE) in its territorial dispute with Iran is more likely to have been at the root of recent difficulties.</p>
<p>—because of Syria's backing of the UAE—</p>	<p>In December the Syrian government hosted a summit for the signatories of the Damascus Declaration: Egypt and the six members of the Gulf Cooperation Council (GCC), namely Saudi Arabia, Kuwait, the UAE, Oman, Qatar and Bahrain. During the summit the Syrian regime expressed its support for the UAE in its dispute with Iran concerning sovereignty over the Gulf islands, Abu Musa and the Greater and Lesser Tunbs.</p> <p>A visit to Damascus by an Iranian vice-president, Hassan Habibi, and the Iranian foreign minister, Ali Akbar Velayati, was cancelled in protest at Syria's support for the UAE. The Syrian regime reacted quickly to the cancellation and attacks on its policies in the Iranian press, assuring the regime in Tehran that it was still committed to a strategic alliance with Iran. However, Syria's developing relations with the GCC since Iraq's invasion of Kuwait in 1990 have inevitably led to some distancing between the two allies.</p>
<p>—and not due to divergence on talks with Israel</p>	<p>There is some speculation that the problems in Iranian-Syrian relations also stem from the peace process with Israel, and in particular the attitude towards the Lebanese pro-Iranian Shia organisation, Hizbullah. Some 3,000 Hizbullah militiamen operate in South Lebanon, although as few as 300 play a full combat role, to oppose the Israeli occupation of the strip of territory termed by Israel its "security zone". However, Iran has long been aware of the Syrian position on the peace talks and appears to have reconciled itself to the fact that Syria will ultimately sign a peace deal with Israel. Furthermore, Iranian support for Hizbullah has been dwindling over recent years. From a high of \$150m a year in the 1980s, Iranian support for Hizbullah is estimated to have fallen to \$65m in 1995, only a portion of which is used for military operations.</p>
<p>Mr Shara distances Syria from Islamic Jihad bombings</p>	<p>The Syrian regime condemned the killing in Malta in November of Fathi al-Shqaqi, the head of the radical Palestinian Islamic Jihad movement's military wing. Mr Shqaqi, who had been based in Damascus, was assassinated by</p>

what is assumed to have been an Israeli team. Mr Shara described Mr Shqaqi as a “political struggler” rather than a terrorist, and said that he had not necessarily been responsible for Islamic Jihad’s military operations in Israel and the Occupied Territories, claiming that the organisation in Gaza operates independently of its offices in Damascus. (In the months before Mr Shqaqi’s assassination, Islamic Jihad had killed dozens of Israelis in a series of suicide bus-bomb attacks in Israel.)

Mr Shara’s comments were clearly designed to counter accusations that Syria sponsors terrorism. The country remains on the US State Department list of states allegedly sponsoring terrorism, and Mr Shara was underlining the fact that Mr Shqaqi was viewed in Syria as a resistance fighter rather than a terrorist. Mr Shqaqi’s funeral in Damascus was attended by a senior Iranian representative, demonstrating Iran’s continued support for radical Islamist Palestinian groups.

Ties with Turkey suffer  
over water—

Turkey has complained to Syria about its decision to limit to 10% the cross-border supply of water from the river Orontes, the source of which is in Syria. The Orontes enters Turkey’s Hatay province around the town of Iskanderun on the Mediterranean coast. This province was awarded to Turkey in the 1920s by France, in its position as the mandated power, but, with a largely Arab population, is claimed by Syria. The Syrian decision follows complaints to Turkey over alleged increased pollution in the Euphrates river, as a result of increased upstream irrigation in Turkey’s south-east Anatolia. Syria is also concerned that a new dam to be built at Birecik in Turkey will reduce the flow of water to the Euphrates.

The Turkish authorities have countered Syrian complaints by arguing that the dam projects in Turkey have stopped flooding in Syria in the winter and increased water flow in the summer. Charges of increased pollution have been dismissed. The Turkish government has added that it will still negotiate on the proposal it put forward three years ago to regulate the flow of water. Syria and Turkey already have a provisional water-sharing accord allowing for the flow of 500 cu metres/second into Syria. At the summit in December, the Damascus Declaration group called on the two countries to sign a permanent accord, but Syria is unhappy with Turkey’s negotiating terms and appears satisfied, in private at least, with its current quota.

Syria’s decision to limit water supply to Turkey’s end of the Orontes will have little effect on Hatay province as the latter stages of the river are also fed by sources that originate in Turkey. Syria claims that it needs the extra water for irrigation plans in the Orontes valley but it is also making a political point. The issue of crossborder water flow has plagued relations between Syria and Turkey ever since the Turks decided to go ahead with the Great Anatolia Project which involves a network of dams affecting rivers which flow into Syria. No matter what practical effect the Syrian decision has, the flurry of diplomatic exchanges it has caused between the two countries reflects the continued sensitivity of the issue.

—and Kurdish rebels

Bilateral relations are also complicated by other issues. Kurdish rebels crossed into Turkey from Syria in November and attacked Turkish troops in Hatay,

injuring two soldiers. Kurdish attacks on Turks in Hatay have increased during the quarter and the November incursion is only the latest in a series of skirmishes which has led to a marked deterioration in relations between the two countries. Turkey has accused Syria of harbouring the head of the Kurdistan Workers' Party (PKK), Abdullah Ocalan. This rebel group also has at least one military base in Lebanon's Syrian-controlled Bekaa valley. With the government in Ankara controlling the flow of water to the Euphrates, which feeds a hydroelectric power station on Lake Assad, the Assad government feels the need for a bargaining chip in negotiations with Turkey.

Saddam's opponents  
consult Syria—

Close associates of Hussein Kamel Hassan, (the son-in-law of the Iraqi president, Saddam Hussein,) who defected to Jordan in July, visited Damascus in October to discuss Syrian reactions to the setting up of a "higher council for the salvation of Iraq". One of the men, Mish'an al-Juburi, told Radio Monte Carlo that he and another colleague had visited Damascus twice in October to discuss the proposed council with the Syrian leadership. The council is to be made up of Iraqi opponents to the regime in Baghdad from within the country and abroad, and aims to overthrow the regime by "peaceful means". Mr Juburi said a committee had been set up to prepare a political programme and if the council came to power in Iraq, it would put the emphasis on freedom for political parties and an elected parliament. The council was due to have been formed before the end of 1995.

—but Damascus is giving  
Iraq some support

Damascus is already a major base for opponents of the Iraqi president. However, recently Syria has been alarmed by Iraq's isolation, even with Saddam Hussein at the helm, and has supported it diplomatically. Syria's concerns are twofold; first, that Iraq does not break up, and second, that Saddam Hussein should not be replaced by a pro-Western, pro-US regime. Syria feels increasingly isolated in a Middle East dominated by the USA, and hence, it contends, Israel. Should Iraq break up into a Kurdish north, a Sunni centre and a Shia south, this would also set a dangerous precedent for Syria's minorities, especially the Kurds. In November Mr Khaddam said Israel is actively working to destroy Iraq as a state, manoeuvring to have it split into three separate regions.

Syria also sees a threat to its interests emerging from the new relationships between Israel, Jordan and the Palestinians in which, it contends, Israel dominates. In response the regime in Damascus has sought to create a rival axis around Iraq and Iran. Baghdad disapproved of initial meetings between Syria, Iran and Turkey held to discuss the Iraqi situation, despite the fact that their aim was to preserve Iraq's unity. However, over the last quarter, Iraq has begun to look upon them more favourably and appears to be considering joining them. In December, a Jordanian newspaper reported that a delegation of top officials from Iraq's Ministry of the Interior had visited Damascus for talks about their common border. The paper, *al-Majd*, said the delegation received a welcome that far outweighed the status of the visitors.

For decades, Iraq and Syria's rival Baathist regimes have traded insults, and, on occasion, have come close to military confrontation. Relations reached a particular low during the Iran-Iraq war when Syria sided with the Iranian regime. Syria then sided with the USA in 1990 and sent troops to join the multinational

coalition against Iraq. Syria is now struggling to maintain Iraq's unity in the belief that, should Iraq break up, Israel would be one of the main beneficiaries. Although Syria and Iraq have traditionally been hostile to each other, for Mr Assad the greater enemy is Israel. On the principle that his enemy's enemy is his friend, Mr Assad appears willing to support Iraq in the interests of restraining Israeli influence in the region.

Hikmat Shehabi visits  
China

The Syrian chief-of-staff, Hikmat Shehabi, visited China in October at the invitation of the Chinese army. He headed the first high-level Syrian military delegation to visit China since 1969, suggesting a warming of military relations between the two countries. Syria is a customer for Chinese and North Korean materiel, and has been looking to these two countries to fill the gap left by the collapse of the Soviet Union. Surface-to-surface missiles supplied by North Korea have been of particular concern to Israel which fears that all its cities are now within range of Syrian missile attack.

Mr Assad celebrates  
25 years in power—

On November 15 Mr Assad celebrated 25 years in power. Hundreds of thousands attended rallies across the country to mark the coup which installed the then defence minister in power, first as prime minister and then as president. To mark the occasion, the government released around 1,200 political prisoners, many of them members of the outlawed Muslim Brotherhood, in a move seen as a demonstration of the regime's confidence.

The amnesty, welcomed by international human rights groups, still leaves some 20 senior members of the Brotherhood and political figures in jail, and is not seen as part of a government move to relax its tight grip on power. Many of the Brotherhood prisoners were arrested in the years up to and immediately after 1982 when the government attacked the northern town of Hama where the Brotherhood had challenged the regime's authority. Over the last few months, the government has taken a more lenient approach to the Muslim organisation, issuing presidential pardons to exiles and allowing them to return home. Amongst the returnees was Abel-Fattah Abu Ghuddah, formerly the secretary-general of the Brotherhood. The organisation, which was broken following the 1982 attack, poses little threat to the regime, although it enjoys some backing in the more conservative merchant cities of the north, notably Hama and Aleppo.

—while his grip on  
Lebanon tightens

Lebanon's president, Elias Hrawi, visited Damascus for a summit with Mr Assad on November 2. Little in the way of hard information emerged from the meeting but the Syrian media hailed it as another sign of Syria's support for Lebanon's "unity, independence and freedom"; around 30,000 Syrian soldiers are stationed in Lebanon. The official media said Syria would do all it could to support Lebanese stability, reconstruction and national unity. Lebanon, they said, also had a right to resist Israel's occupation of the south.

Mr Hrawi's visit came very soon after his term as president was extended for another three years, in October. As the main power broker in Lebanon, Syrian support for the extension was crucial but the regime was determined to keep the incumbent *in situ* in order to avoid the instability an election might have caused. Mr Hrawi's visit to Damascus also followed hard on the heels of a visit

by Mr Christopher, who failed at the time to bring Israel and Syria closer together. The Lebanese president came to be briefed on the situation.

The tourism minister is replaced

The tourism minister, Amin Abu al-Shamat, was replaced in November by the minister of state for cabinet affairs, Danhu Daoud. No official reason was given for the move but it is suspected that a small group of influential figures in the private sector engineered his dismissal because he wanted to break up their near-monopoly in tourism. This is one of the fastest growing sectors of the economy, largely because the Syrian government has traditionally had little interest in it. Tourism has led the way in attracting private investment following the launch of liberalisation policies in 1991, but nevertheless the relationship between the private sector and the government has remained close. Little tourism development can take place without good connections with the regime, which—by definition—can only involve a limited number of players. Mr Shamat may have been trying to change this.

## Economic policy and the economy

Gradual liberalisation will continue

The regime remains committed to its policy of extremely gradual liberalisation of the command economy. Official statements and media reports focus on the success of attempts to attract foreign and private investment to Syria, but little is said of the need for further reform of the legislation. Anomalies between legislation which has been in force since the 1980s and the new supposedly entrepreneur-friendly attitude of the regime are numerous, and despite the occasional statement of intent the government has made no visible moves towards resolving them. Exchange regulations which run contrary both to current government practice and the spirit of the 1991 Law No 10 for the encouragement of productive investment remain in force and, perhaps most crucially, interest rates continue negative in real terms.

The government is expected to unify the exchange rate system in late 1996 or early 1997 and this may prove a trigger for further steps in the reform process. However, the business community is already extremely impatient with the contradiction between government statements over recent years and the steps which the regime has actually taken.

New private investment reaches \$6bn—

Nevertheless, private investment continues to grow. The Higher Investment Council (HIC), which is charged with vetting private-sector investment proposals, has approved 23 new industrial projects worth around \$500m, it was announced in December. These included schemes to build cement and glass plants, iron and steel mills, and to manufacture electric cables. However, it did not say over what period these proposals had been approved.

Since 1991 the HIC has approved almost 600 new private industrial projects valued at \$4.14bn, under the government's reform programme. Along with 750 other private-sector projects, total investment of \$6.07bn has been recorded, according to official reports. Over the same period the administration has invested \$831m in the public sector, income from which rose to \$392m in the first six months of 1995 compared with \$345m in the same period of 1994. The industry minister, Ahmed Nizameddine, said that while textiles, cement

and sugar were open to private-sector investment the role of the public sector would be maintained.

—as the Syrian press advertises local free zones

The Syrian press has taken an unusual interest in reporting economic news over the last quarter. In December the state-run newspaper, *al-Thawra*, ran a piece on Syria's six free-trade zones. It quoted the head of the zone authority as saying that companies had invested a total of \$300m in the zones by the end of 1994, compared with \$5m in 1990. Industrial investment in clothing, shoes and detergents accounted for just over 30% of the total, with investment in building materials, cars, iron and fabrics accounting for the remainder. Altogether, 471 companies, including a US firm, had invested in the six zones (the two at Damascus and those at Aleppo, Latakia, Tartous and Adra). The zones exempt companies from taxes, duties and Syria's convoluted foreign exchange system.

One of the latest firms to locate in a zone is the Syrian-Chinese Car Assembly Company in Tartous. This will initially assemble up to 2,000 minibuses and other vehicles per year. With help from the Japanese firm, Mitsubishi, it is due later to start manufacturing some 60% of each car, with the rest being assembled from imported parts. The cost of construction of the plant is put at \$16.5m, with the Chinese contributing 31% of investment and Syrians the rest.

However, despite the sharp increase in investment in the free zones since 1990, few foreign companies dealing with the Middle East consider setting up there, as infrastructural facilities in the zones are rudimentary in comparison to similar zones in the Gulf where the market is much larger and wealthier.

The prime minister attacks Israel's Middle East market proposals

In a speech to Arab businessmen in Aleppo in November, the prime minister, Mahmoud al-Zubi, called for an Arab rather than a Middle Eastern economic common market. He described Syria as the well from which ideas to unify the Arabs flowed, condemning the overall concept of a Middle East market as a Western notion. Although Israel was not mentioned, the Syrian leadership has regularly accused Israel of working to dominate the Middle East, if not militarily, then politically and economically. Whether or not Syria is serious about trying to keep Israel out of a peaceful Middle East economic community is not yet clear. Comments like Mr Zubi's may also be a negotiating tactic aimed at squeezing Israel for concessions at the peace talks.

Mr Zubi's remarks also highlight a rather outdated Baathist belief that Syria is the cement that holds the Arabs together. Whether it likes it or not, Syria does not dominate the core of the Arab world. It is true to say that full peace in the Middle East cannot emerge without Syrian consent, but Israel and other Arab states, particularly in the Gulf, appear quite happy to establish close economic and, in some cases, political ties even without a comprehensive peace agreement.

Economic criminals are freed

The Syrian government has granted amnesty to just under 300,000 convicts, largely serving sentences for infringements of economic legislation, particularly of the exchange laws. The move in December follows heavy pressure on the regime from the private sector, and Arab and other foreign investors, who want the government to complement the economic reforms of the last four years. The amnesty also covers dealings in hard currency which attract jail

sentences and up to 25 years hard labour, and which forbid unauthorised Syrians from handling foreign currency. The move is seen as a possible prelude to the fulfilment of government promises over the last two years to abolish the 1986 law restricting foreign currency transactions. It also follows an amnesty for political prisoners opposed to the regime (see The political scene).

## Agriculture, industry and infrastructure

- Syria plans to grow tea— Import substitution policies may have been abandoned in most countries but in Syria they live on. The Ministry of Agriculture, in cooperation with Iran, is planning to grow tea for the first time to stem imports of up to 30,000 tons a year. Four state-run farms on the Mediterranean coast are due to sow the crop early this year with help from Iran, which has been growing tea on the Caspian sea coast.
- and export more barley Syria plans to export around 750,000 tons of barley from a 1995 harvest of 1.6m tons. Local consumption, mainly for fodder, currently stands at around 250,000 tons/year (t/y). The country has been self-sufficient in barley for years but began exporting in 1988. The area of irrigated land used for growing barley almost trebled from 1971 to 1990 from 12,500 ha to almost 32,000 ha. Syria plans to keep barley production at least at current levels to boost exports.
- Cotton exports are targeted for expansion— The government also plans to export 150,000 tons of ginned cotton out of a 1995 harvest of 553,000 tons, in line with a long-term policy of increasing overall cotton exports. Spinning plants, all owned by the government, aim to produce a total of 195,000 tons of ginned cotton by the end of 1996, and a further two plants are to be opened by May of this year (see below) with plans to increase ginning capacity to 245,000 tons in the year 2000. By then, the government hopes the country will be producing around 700,000 t/y of raw cotton.
- In 1995 the authorities had expected a harvest of some 630,000 tons and increased spinning capacity to meet a supply of 700,000 tons. However, poor weather kept the harvest below expected figures despite the fact that the area under cotton cultivation increased to 204,000 ha in 1995 compared with 196,000 ha in 1994. Nevertheless, the outturn represented an improvement compared with 1994 when Syria produced 175,000 tons of ginned cotton, of which it exported 130,000 tons.
- and bids are in for a new ginning plant Bids for one of the new plants, at Jebbla in the north-west, closed in November. Some ten foreign companies are believed to have submitted proposals for the \$200m project that is planned to develop a ginning capacity of 24,000 t/y. The project is being supported by the Abu Dhabi Development Fund, which is also financing the doubling of capacity (to 24,000 t/y) at an existing plant at the port of Latakia.
- MAS due to decide on contractor for the first private sugar factory The son of the defence minister and head of Syria's MAS industrial and business group, Firas Tlas, is due to make a decision in January on which foreign company will build the country's first privately run sugar factory, at Tartous. Mr Tlas has said that he plans to double the plant's initial planned capacity to

200,000 t/y. Syria imported some 420,000 tons of refined sugar in 1995 and is expected to import 455,000 tons in 1996. State-run factories produce around 200,000 t/y, half from locally produced beet, the other from imported raw sugar. Mr Tlas, whose MAS group owns the largest single private sugar-trading company, says he plans to install a higher capacity than originally planned to meet rising demand but the International Sugar Organisation estimates total Syrian consumption at around 450,000 t/y; less than is currently being produced and imported. Average world consumption per head is some 20kg to Syria's 34.4kg. The new plant will use both locally produced beet and imported raw sugar. Half the shares in the \$33m plant are due to be sold to the public.

Expansion of generating capacity continues—

Syria's Electricity Authority is planning an international tender for the construction of a \$350m power plant. The project is part of a programme of seven projects, estimated to cost \$2.14bn, which aims to more than double generating capacity (3,140 mw at mid-1995) to 6,770 mw by the end of 1998. The construction and commissioning phase of the planned plant, the last of the seven projects, should last just over two years. Work is scheduled to begin in mid-1996. The new plant is being financed by the Japanese government which has already committed \$450m in finance for a 600-mw plant in Zahra (see below), construction of which was due to be completed at the end of 1995.

One of the first projects to be commissioned in the early 1990s was the 600-mw Jandar combined-cycle power station near Aleppo. Four of the gas turbines, each of 100 mw, have already been commissioned and the remaining two were due to have gone into operation at the end of 1995.

—and the grid is to be linked with neighbouring states—

Power supply in the future will also include 500 mw made available through linking Syria's grid to those of Egypt, Iraq, Jordan and Turkey. The aim of a regional grid is to enable countries to take advantage of spare capacity in the region, thus reducing pressure on domestic supply (4th quarter 1995, page 17).

Power companies have been given a deadline of February 10 to submit proposals to start linking the electricity grids of Syria and Jordan. Work will begin on the Jordanian side first, linking Amman with a station at Jandar, near Homs in Syria, in a project estimated to cost \$95m and financed by the Arab Fund for Economic and Social Development (AFESD). The two countries are currently linked by an unused 66-kv line and another 230-kv line with a capacity of 100 mw. Jordan expects to install a new 400-kv line to link its grid with that of Syria.

Meanwhile, the European Investment Bank (EIB) has lent a Turkish electricity company \$17.7m to help build a link between Syria and Turkey's grids. The money will go towards installing a 185-km transmission line from Aleppo to the Ataturk dam in south-eastern Turkey. The loan is significant in that it provides a method for the EIB to lend money to Syria indirectly; it refuses to furnish direct loans until Syria resolves debt problems with individual European Union (EU) member states.

—to satisfy demand forecast to grow at 9% per year

Syrian demand for power, already outstripping capacity in the 1980s, has rocketed since 1991 when Law No 10 prompted the setting up of new industrial plants and the expansion of existing ones. Strong economic growth in recent years has also fuelled the demand for white goods. In 1991 the authorities

introduced electricity rationing for four hours a day, although this was lifted in 1993 as new plants came on stream. The Electricity Authority claims that the seven new projects will meet local electricity demand until the year 2003, based on a calculation that demand will rise by 9% per year from 1996 to the year 2000, before easing off to 6% annual growth thereafter.

Mitsubishi is to complete a thermal plant at Aleppo in 1997—

The Japanese company, Mitsubishi Heavy Industries, is scheduled to complete a 1,000-mw steam-powered station in Aleppo to run on oil or gas by the end of 1997. The first of five power units in a total deal worth \$530m is due to be finished by the first half of 1997 with the remaining four commissioned by the end of that year.

—when a hydroelectric plant is to commence operations

The Chinese Sichuan Machinery Company is supervising construction of a 630-mw hydroelectric station at Manbij on the Euphrates river, north-east of Aleppo. Construction is said to be well-advanced and the plant is likely to become operational by 1997. The power station is sited at the Tishreen dam which regulates water flow into Lake Assad, in order to maintain adequate water levels to power a hydroelectric station at the Tabaqah dam behind which the lake is formed. Although the Tabaqah station has a generating capacity of 800 mw, it has never managed to produce more than 150 mw due to low water levels and silting.

Further Japanese finance for power expansion

Syria signed an agreement with Japan in December to borrow \$462m to build a power plant at Zahra, 20 km north of the city of Homs (4th quarter 1995, page 19). The loan, granted by the government-financed Overseas Economic Cooperation Fund (OECF), is repayable in 30 years and includes a 10-year grace period. The money will be used to equip the plant with three steam-powered turbines, each with a capacity of 200 mw, as well as constructing transmission lines and worker homes. The loan, the first the OECF has made to Syria since 1991, brings total OECF credit to Syria to \$1.36bn.

Private power plants move a step closer

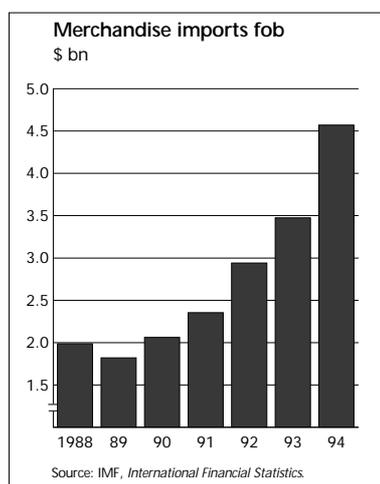
The increasing importance of the private sector in Syrian industry has been underlined by the decision of the Higher Investment Council (HIC) to approve a joint Syrian-Belgian venture to build an oil-fired station of up to 500-mw capacity. Under existing laws, the project must be 25% owned by the government with the plant set up on a build-operate-transfer (BOT) or build-operate-own (BOO) basis. Although the government has yet to give final approval to the venture, the fact that it is entertaining the idea is encouraging for the private sector. However, until the venture is able to go ahead, government policies aimed at increasing private-sector involvement in strategic industries must be treated with caution and government bureaucracy will remain a sizeable obstruction. Nevertheless, the fact that Syria is planning to export electricity for the first time—to Lebanon—augurs well for the industry (4th quarter 1995, page 17).

## Oil and gas

- Gas production is set to double—  
—with the bulk to be used in power generation
- Syria is planning to double gas production from 8.05m cu metres/day in 1995 to 16.05m cu metres/day in 2000, according to a study released by the Ministry of Oil and Mineral Resources. The increase will be largely based on four projects in central and north-eastern Syria, including one at the Gbeseh field in the north-east where production will be increased from 1.7m cu metres/day to 2.5m cu metres/day. The three other projects, which are near the ancient city of Palmyra, 250 km north-east of Damascus, will add 3m cu metres/day in 1996 and a further 3m cu metres/day in 1997. Development at fields run by a US company, Marathon, will add another 1.1m cu metres/day by 2000.
- According to the ministry study, electricity production will consume 12.85m cu metres/day of gas by 2000, while some 3m cu metres/day will be used for industrial projects, including fertiliser plants, oil refineries and iron plants. Pipelines to link the projects to power plants were due to have been completed by the end of 1995. The first pipeline runs from fields in the north-east to plants in the west and south of the country, and a refinery at Homs. The second runs from the same area, passes through Palmyra and ends at an iron and power plant at the town of Zara in the west. The third will run from Palmyra to the west of the country and the fourth from the Suweidiyeh field, transporting gas for domestic rather than industrial use in the region.
- Oil prices are raised
- Syria's state-run oil company, Sytrol, has raised the price of January's Syrian Light crude by 26 cents to four cents below Dated Brent. It also raised its prices on Heavy by 20 cents to \$2.80 below Dated Brent. Syrian heavy oil had sold at \$3 below Dated Brent in December, five cents up compared with its November price. Syrian Light had been fixed at \$0.30 below dated Brent in December and \$0.43 below in November.

## Foreign trade and payments

- 1994 figures show a smaller than expected current-account deficit—  
—despite high import growth
- Official figures now available for 1994 show that although the merchandise trade deficit continued to grow, higher income from services enabled the country to register a smaller than expected current-account deficit. The bulk of the rise in services exports has come from the tourism sector where investment has begun to bear fruit more quickly than expected.
- Merchandise imports rose by a record 31.5% in 1994, from \$3.48bn to \$4.57bn, on the back of strong private-sector demand. This increase resulted in a trebling of the merchandise trade deficit to around \$1bn, since exports rose by only 12.7% to \$3.56bn, mainly due to increased oil revenue. The merchandise trade deficit is likely to continue to expand (see Outlook) as Syrian industry struggles to cope with domestic demand rather than focusing on export trade and while the scope for increased oil revenue is restricted.



### Creditors raise issue of debt repayments

In December the French finance minister, Jean Arthuis, told a Syrian vice-president, Abdel-Halim Khaddam, that the main impediment to investment in Syria by European Union (EU) states was his country's refusal to negotiate a settlement of its debt arrears. Syria is estimated now to have built up some \$1.1bn in arrears on a total debt of around \$22bn. Of this total, some \$12bn is owed to the former Soviet Union and the majority of the remainder to the EU and Japan.

The French share of an estimated \$3bn debt owed to the Paris Club is \$285m, of which \$115m is in arrears. Syria has so far refused either to repay its debts or negotiate a compromise with its creditors (4th quarter 1995, page 18). The French foreign minister, Hervé de Charette, who also met Mr Khaddam during his trip to Paris was, however, quoted as saying that "strides" were "being taken towards a solution". Mr Khaddam made no comment on the debt issue.

The Czech prime minister, Vaclav Klaus, also raised the issue of Syrian debt after returning from a visit to the Middle East. He acknowledged that the Czech Republic had had varying levels of success in arranging debt repayment by a number of Middle Eastern states, but suggested that the issue of Syrian debt could be resolved in a wider-ranging agreement related to the Middle East peace process. This suggestion mirrors a widely held assumption concerning Syria's debt to the former Soviet Union, which it is unlikely to pay. The regime in Damascus is thought to be waiting for a regional deal under which the whole debt will be forgiven. Syria has argued that it owes the debt to a country that no longer exists, a position it is also likely to take towards the Czech Republic. The level of Syrian debt to the former Czechoslovakia is unknown, and, as is the case with Soviet debt, is likely to have been built up through a complicated arrangement of trade and military credits, calculated at unrealistic exchange rates over a period of twenty years. Whatever figure the Czech government presents to Syria in the form of a debt claim is likely to be challenged in Damascus.

# Appendix 1

## Quarterly indicators of economic activity in Syria

		1993				1994				1995	
		1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Mining production	Prodn/day										
Crude petroleum	m barrels	0.54	0.57	0.58	0.59	0.57	0.57	0.57	0.60	0.60	0.61 <sup>a</sup>
Prices	Monthly av										
Consumer prices:	1990=100	128.5	133.4	131.2	133.9	139.4	143.8	142.8	149.5	n/a	n/a
change year on year	%	10.0	10.5	14.2	14.4	8.5	7.8	8.8	11.7	n/a	n/a
Money	End-Qtr										
M1, seasonally adj:	SE bn	180.18 <sup>b</sup>	n/a								
change year on year	%	24.5 <sup>b</sup>	n/a								
Foreign trade	Qtrly totals										
Exports fob	SE m	7,797	9,772	9,670	8,080	7,610	9,680	10,600	11,930	12,500	n/a
Imports cif	"	10,008	10,910	12,620	12,930	10,180	16,780	16,120	18,290	13,470	n/a
Exchange holdings	End-Qtr										
Central Bank:											
gold <sup>c</sup>	\$ m	206	225	234	234	240	238	241	240	237	242
foreign exchange	"	126 <sup>d</sup>	n/a								
Commercial banks:											
assets	"	2,391	2,567	n/a	2,667	2,673	2,707	2,867	n/a	n/a	n/a
Exchange rate											
Market rate	SE:\$	11.23	11.23	11.23	11.23	11.23	11.23	11.23	11.23	11.23	11.23

Note. Annual figures of most of the series shown above will be found in the Country Profile.

<sup>a</sup> Figure for 3 Qtr 1995, 0.62; estimate for 4 Qtr 1995, 0.62. <sup>b</sup> End-4 Qtr 1992. <sup>c</sup> End-quarter holdings at quarter's average of London daily price less 25%. <sup>d</sup> End-2 Qtr 1989.

## Appendix 2

### Trade of Syria with major partners<sup>a</sup>

(\$'000; monthly averages)

	Germany		Italy		France		Spain		UK	
	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Sep 1994	Jan-Sep 1995
Imports from Syria cif										
Fruit, vegetables & products	328	255	109	50	26	13	0	1	9	1
Tobacco & manufactures	2	13	0	0	0	1	18	12	0	0
Hides & skins, undressed	7	7	1,544	2,083	0	7	0	23	0	0
Textile fibres	558	485	3,856	4,710	446	403	815	1,940	428	568
Crude petroleum	54,863	47,223	31,248	31,449	24,611	27,791	23,910	13,776	13,836	6,625
Petroleum products	0	0	631	743	0	242	727	86	606	343
Textile yarn, cloth & manufactures	324	379	105	227	35	47	5	22	5	7
Total incl others	59,729	52,522	31,879	40,071	26,681	30,547	25,868	16,108	15,978	9,683
% share in Syria's exports Jan-Dec 1991 & 1992 <sup>b</sup>	3	2	22	35	18	19	1	4	2	2

	Italy		Germany		Japan <sup>c</sup>		France		USA <sup>d</sup>	
	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994
Exports to Syria fob										
Cereals & products	1,378	1,074	18	174	1	1	5,418	2,994	1,050	727
Sugar & products	1,759	560	106	63	0	0	804	1,035	0	0
Chemicals	3,114	3,256	4,358	4,844	325	297	2,330	2,796	547	802
Rubber manufactures	147	104	314	340	1,194	1,020	236	136	26	29
Paper & manufactures	602	557	393	374	92	121	105	93	25	151
Textile yarn, cloth & manufactures	2,493	1,759	1,183	1,398	1,185	1,367	688	631	920	833
Iron & steel	1,544	2,808	1,299	1,705	2,026	1,086	3,428	1,744	421	79
Non-ferrous metals	525	480	695	219	5	4	77	54	15	28
Metal manufactures	1,217	2,666	648	704	539	1,236	554	453	285	497
Machinery incl electric	8,839	25,318	19,451	26,552	6,606	24,504	5,039	8,303	8,506	7,110
Transport equipment	867	593	3,662	3,158	9,713	6,757	3,144	1,631	623	565
Total incl others	33,267	44,162	34,638	42,639	22,878	38,454	24,287	22,041	15,414	16,439
% share in Syria's imports Jan-Dec 1991 & 1992 <sup>b</sup>	7	8	10	10	5	10	7	6	9	6

Note. Commodity totals are the sum of items shown in the trade accounts and may be incomplete.

<sup>a</sup> Figures from partners' trade accounts. <sup>b</sup> Figures from Syrian statistics; exports fob; imports cif. <sup>c</sup> Japan's exports to Syria averaged \$41.6m and \$13.4m per month for the period January-September 1994 and 1995. <sup>d</sup> US exports to Syria averaged \$14.7m and \$20.7m per month for the period January-September 1994 and 1995.