

Effects of the Trade and Financial Governmental Policies on the Total Investment in Syria (1980-2010)

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This paper attempts to investigate the effects of several financial and trade policies on the total investment in Syria, over the period 1980-2010 (before the current war). The study employs Johansen co-integration test to check the presence of long-term relationship between explanatory and dependent variables. In addition, Vector Error Correction Model (VECM) further studies the causal relationship from dependent variable to independent variables. The Johansen co-integration test indicates a significant long-term relationship among the variables. Moreover, the Vector Error Correction Model also suggests the long run causality from the imports, exports, capital public expenditures, and subsidies to total investment. The study's result indicates that the imports and the capital public expenditures played a significant role in supporting the total investment in the country before the war, while there was a negative role of exports in the total investment, and there was no impact of subsidies on the total investment. Before the war, foreign investment in Syria was over dominated by European Union. The paper proposes to diversify the target of investment flow to Syria, especially from China and the other BRICS countries that can take advantages from Syria and can support Syria economy after the war by the strategy of "One Road One Belt". These results may assist Syrian policy makers, after the war, to develop an economic plan that takes into account the effects of these policies to improve the total investment which will help Syria in rebuilding the economy.

Keywords: trade policy, financial policy, total investment, investment climate

Introduction

Syria like any other country tried to create an attractive investment environment and increase investment to achieve a higher level of economic growth. Therefore, Syria had many of the measures adopted to encourage investment. In the prior years before the war in Syria, the economic reform programs started in 2005 to achieve financial reforms and called for the need to transition to a social market economy to achieve the social justice and improve economic performance. Syria had also become a signatory to chosen trade agreements.

In the process of restructuring the Syrian economy in 2005, policies for reducing interest rates, allowing for the establishment of private banks, reopening the Damascus Stock Exchange, and reducing government subsidies in the agricultural and industrial sectors were implemented, and tariff and non-tariff barrier decreased. Whilst the global financial crisis of 2008, per capita income has increased by 20 percent during the 2005-2011 period in Syria (Çakmak & Ustaoglu, 2015).

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Figure 1 below presents the GDP in the prior seven years before the war in Syria, Middle East, and North Africa:

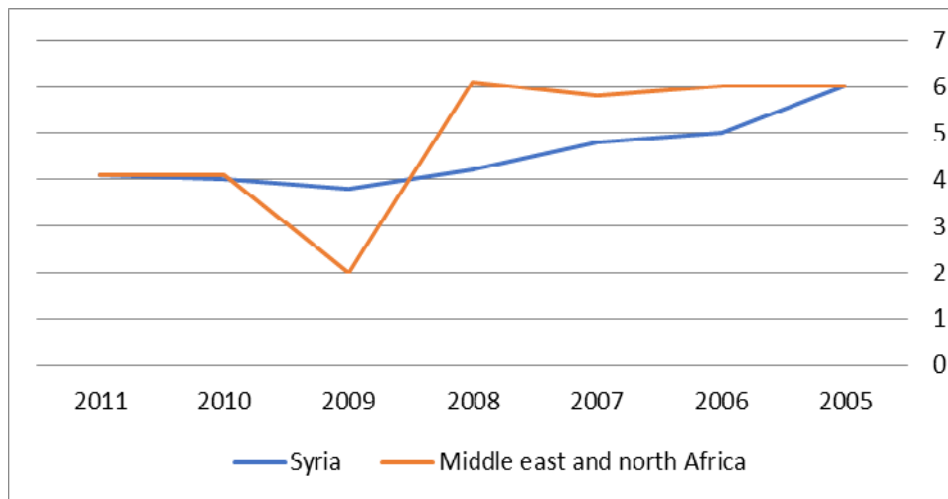


Figure 1. Real GDP growth (% change) in Syria, Middle East, and North Africa (2005-2011). Source: Data from United Nations Conference on Trade and Development.

Despite the high growth rates in the years before the war, there was a decline in the per capita gross domestic product comparing with Middle East and the developing countries. Besides, the Gini index of inequality has increased in Syria between 1997 and 2009 from 0.33 to 0.35 (CBS, 2009). That led to saying the Syrian economic governmental policies did not achieve the golden rule between the economic production and the income distribution.

The World Bank reported in 2011 a significant improvement of productivity in the Syrian macro level of total factor productivity (TFP). Growth trend in TFP has been positive since the early 1990s and also high compared to Syria's competitors. But, almost no employment growth for the economy is as a whole. And the report argued that the TFP should not only lead improvements in the competitiveness of the Syrian economy but also increase in returns to economic activity, which means link to the concept of returns to investment (The World Bank in cooperation with the National Team, Syria, 2011).

In addition, the change in the distribution of investment across sectors had not been promoting to sustained, broad-based growth. The opening up of some sectors such as real estate led to a boom in private construction but the investment in other sectors declined (Syrian National Completion Observatory, 2012)

Besides, an International Monetary Fund report showed that the budget deficit is a main problem for the public finances because of the decline in oil production, which constitutes 25 percent of economic revenues, failure to replace this production, delay in taking measures to regulate public finance, and other factors in Syria (Syrian Arab Republic: Selected Issues, 2006).

Especially in the current war, many infrastructure and oil production fields had been destroyed by the terrorists.

Moreover, the financial indicators related to the competitiveness of the Syrian economy, reflecting a significant decline in the years (2007-2010) such as the effectiveness of fiscal policy, the overall rate of taxes, with the waste of public money indicators, and transparency of government policies (Syrian National Completion Observatory, 2012).

So the research will evaluate whether the financial and the trade policies motivated the investment in Syria or not, when Syria tried to make many trade agreements and fiscal reforms as mentioned above.

The financial and trade policies not only supply the resources, but also, they are important tools to influence macroeconomic variables such as the saving and investment averages, the level of prices and costs, as well as the employment rates. The good financial and commercial policies can stimulate the growth, saving, and investment averages. Through public spending, for example, it can influence the size of the economic activity by increasing or decreasing according to the current situation in the national economy. The study will choose the imports and the exports as the trade indicators and choose important financial indicators from the spending side, the capital public expenditures, and subsidies in Syria between 1980-2010.

It is important to analyze the pre-war period to better understand the economic and investment situation in Syria in which if there are awaiting future financial surpluses that cover the current fiscal deficits. This expectation, in turn, requires the political consensus needed to implement the budget program over time and harmonization of monetary and fiscal policies and respect to achieve this. Besides it requires reasonable amount of political, economic, and social stability.

The structure of this paper is as follows: Section 2 introduces the literature review. Section 3 presents research methods. Section 4 examines research results. The paper finally provides the discussion of Syrian trade and fiscal policies and overview of the investment relations with the other countries, and ends with some concluding remarks.

Literature Review

This section will show important literature reviews related to the capital public expenditures, subsidies as significant indicators of financial policies, besides the imports and the exports as the trade policies which affected the developing countries' economies and focused on these indicators in Syria.

The Related Trade Policies

Abou-Stait (2005) showed exports cause growth, but there is no causal relationship between exports and investment in Egypt.

Hazem, Altaieb, and Alokori (2012) found GDP growth rate, FDI, exports, human capital, domestic credit, and the development level of the financial sector have a positive and significant effect on domestic investment in Jordan.

Asante (2000) studied that real credit to the private sector has a positive effect on private investment in Ghana, and a restrictive trade regime has had a negative effect on private investment, while trade liberalization affects it positively.

Naa-idar, Ayentimi, Frimpong, and Region (2012) showed public investment and high levels of external debt have a negative impact on private investment in Ghana, while inflation, GDP, trade openness, and exchange rate have a positive impact on it.

Mohsen (2015a) indicated that GDP in Syria (over the period 1960-2010) is positively and significantly related to exports and investment, and also, presented unidirectional causal relationship running from exports to GDP, and bidirectional causal relationship between investment and GDP in the short and long run.

Besides, he indicated that capital which is necessary for investment is positively and significantly related to industrial outputs, while trade openness and oil price are negatively and significantly related to industrial outputs in the country (Mohsen, 2015b).

Mohsen, Chua, and Sab (2016) studied the effect of trade liberalization on exports and imports in Syria between 1980-2010, and they showed the effect of openness on imports is more than that on exports.

The Related Financial Policies

Paul stated that fiscal policy is the main instrument of the state to achieve economic, social, and political goals. To achieve overall financial balance, several instruments are divided into direct and indirect tools. The indirect tools are divided into two parts: subsidies and the cash transfers; in addition, the tools used by the state directly are the government spending and the taxes (Paul, 1989).

The research will take the tools from the spending side: the capital government spending as a direct tool, and the subsidies as an indirect one.

Through the foundation of both public capital expenditure (infrastructures) and public services (education) as inputs in the production of final goods, many papers suggested that public investment generates higher growth in the long run through raising the output and the private sector productivity (Futagami, Morita, & Shibata, 1993; Glomm & Ravikumar, 1997).

In many developing countries, capital expenditure, together with associated operating and debt servicing costs, often accounts for a major proportion of total public expenses. This indicates some significant issues in public investment decision making from both the microeconomic and macroeconomic perspectives (Chu & Hemming, 1991).

The governments use the subsidy to attract investment that would not otherwise have been made. The private returns on investment play a role in subsidy policy. In general, the lower the private return on investment, the more effective a subsidy will be. The goal behind subsidization is that the private return is too low (costs too high) to maintain private investment expenditure (Atzeni & Carboni, 2006).

According to Sarel (1996) the government should support investments and exports, using such policy tools as direct subsidies or preferred allocation of credit to promote these activities.

Casares and Sobarzo (2016) stated that by reducing the demand price of specialized capital goods, an ad valorem output subsidy would achieve the same goal. The output subsidy must be of the ad valorem rather than the particular type since the latter installs improper incentives for a larger scale of production. A uniform cost subsidy would be equally effective.

Ghanem (2016) indicated the idea of replacing a social protection system based on targeted cash transfers has been studied in the Arab world for several years and could be quickly implemented. Experience from around the world indicates that such a system is much less expensive, more efficient, and fairer than price subsidies; Arab governments should consider moving ahead to put such a system in place.

In Syria, Gadeer (2008) stated that the public capital spending moved toward specific projects without focusing on the establishment of industrial zones which attract Arab and foreign investments.

Besides, the wealthy accumulated more untaxed wealth in Syria, while the government reduced subsidies after 1994, leaving the middle and working classes to pick up the tab by way of strict tax collection measures and rampant inflation caused by central bank loans that finance deficit spending on administratively hiked prices (Heydemann, 2004).

Although most economists agree that the government should reform its inefficient subsidies system in Syria, any important reduction in subsidies will most certainly lead to an immediate increase in the prices of all major goods and services. Moreover, whether or not the subsidies system is equal, reducing it dramatically

would have devastating effects on the poorer strata of society (Haddad, 2011).

This paper, as the first work, tries to highlight the effects of these important fiscal and the trade policies together on the total investment in Syria.

Research Methods

The representative domain for this study is to evaluate the impact of the capital public expenditures, the subsidies, and the imports and exports as independent variables on the total investment in Syria which is the dependent variable. So, the model is presented as follows:

$$\text{INVEST} = \alpha + \beta_1 \text{IMPORT} + \beta_2 \text{EXPORT} + \beta_3 \text{CAPITAL} + \beta_4 \text{SUBSIDY} + \epsilon_t$$

where,

α is the intercept, β_1 , β_2 , β_3 , and β_4 are the coefficients of the model, and ϵ_t is the error term.

The data set used for the study ranging from the period 1980 to 2010, has been taken from the Syrian Central Bureau of Statistics, which is available as a time series data by the fixed prices (millions of SYP) in the base year 2005.

Because this study involves time series data, it is necessary to begin the analysis with the unit root tests to determine whether the time series data are stationary at levels or first difference. The Augmented Dickey Fuller (ADF) test is used in this study to test for the stationarity of the variables. After determining the order of integration of each of the time series, and if the variables are integrated of the same order, the Johansen cointegration test will be applied to the model to determine whether there is any long-run or equilibrium relationship between the dependent variable and the other independent variables (Engle & Granger, 1987).

If the variables are found to be cointegrated, the Granger causality tests will be conducted based on the Vector Error Correction Model (VECM) to determine the causal relationships among the variables.

Besides, Ordinary Least Squares (OLS) method is used to estimate the coefficient of the variables. Furthermore, it will be subjected to a number of statistical diagnostic tests, namely, the normality, serial correlation, and heteroscedasticity tests to ascertain its statistical adequacy. The research used the E-views online tutorials (basic forecasting) of IHS Global Inc (n.d.).

Research Results

After the time series data were collected, the stationary test was applied by the ADF unit root test. The test showed that all the variables in the model are not stationary at the level but become stationary after first differencing. This means all the variables are integrated of order one, as Table 1 below presents:

Table 1

ADF Unit Root Test

| Variables | ADF at level | ADF at level |
|-----------|--------------|--------------|
| Capital | -4.93* | -2 |
| Import | -6.41* | -2.34 |
| Invest | -4.21** | -1.67 |
| Subsides | -5.01* | -3.29 |
| Export | -6.77 * | -2.7 |

Note. * and ** reject null hypothesis of non-stationary at 1% and 5% of significance, respectively.

Since all the series are integrated of the same order, it is necessary to determine the possible co-integration relationship between them. For that the study used Johansen test to find out the long relationship between the variables.

Table 2

Johansen Co-integration Test: Unrestricted Cointegration Rank Test (Trace)

| Hypothesized No. of CE(s) | Eigenvalue | Trace statistic | Critical value | Prob.** |
|---------------------------|------------|-----------------|----------------|---------|
| None* | 0.874300 | 133.1207 | 69.81889 | 0.0000 |
| At most 1* | 0.740233 | 75.05276 | 47.85613 | 0.0000 |
| At most 2* | 0.591794 | 37.31068 | 29.79707 | 0.0056 |
| At most 3 | 0.335840 | 12.22313 | 15.49471 | 0.1465 |
| At most 4 | 0.026938 | 0.764623 | 3.841466 | 0.3819 |

Notes. Trace test indicates three co-integrating eqn(s) at the 0.05 level; * denotes rejection of the hypothesis at the 0.05 level; ** MacKinnon-Haug-Michelis (1999) *p*-values.

Results of Table 2 demonstrate the existence of three co-integration at 1% significance level. And at least two co-integration at 5% significance level, indicates a significant long-term relationship among total investment, imports, exports, national capital expenditures, and subsidies.

As the long-run relationship between the variables was reached, so now it can estimate the coefficient of the variables using ordinary least square (OLS method), as Table 3 presents.

Table 3

Regression Results of OLS Model (Dependent Variable: Invest)

| Variable | Coefficient | Std. error | T-statistic | Prob. |
|--------------------|-------------|-----------------------|-------------|----------|
| C | -3976.288 | 10180.99 | -0.390560 | 0.6993 |
| Import | 0.600133 | 0.078645 | 7.630919 | 0.0000 |
| Export | -0.139846 | 0.056764 | -2.463615 | 0.0207 |
| Capital | 0.430400 | 0.064472 | 6.675739 | 0.0000 |
| Subsidies | -0.020073 | 0.062002 | -0.323746 | 0.7487 |
| R-squared | 0.969242 | Mean dependent var | | 208609.4 |
| Adjusted R-squared | 0.964511 | S.D. dependent var | | 87320.39 |
| S.E. of regression | 16449.97 | Akaike info criterion | | 22.40073 |
| Sum squared resid | 7.04E+09 | Schwarz criterion | | 22.63201 |
| Log likelihood | -342.2112 | Hannan-Quinn criter. | | 22.47612 |
| F-statistic | 204.8305 | Durbin-Watson stat | | 1.950382 |
| Prob (F-statistic) | 0.000000 | | | |

Results in Table 3 present that imports are significant at 1% significance level and carry a positive sign. The exports are significant at 5% significance level but give a negative sign. That means the exports affected negatively the investment, because raw materials have the highest percentage share of total Syrian exports whereby it contains about 68% of the average Syrian exports from 1980 to 2010 (CBS, 2010). These raw materials did not enter the manufacturing stage, thus depriving the national economy of the benefit of local manufacturing which affected investments negatively. The subsidies have a negative sign but not significant, which means subsidies did not have any impact on the total investment in Syria. That may cause these subsidies which did not reach to those who can improve the investment. But the national capital expenditures are significant at 1% significance level and carry a positive sign.

As for long-run relationship between the variables which was showed in Table 3, it can use Vector Error Correction (VECM model) to test the run causal relationship between them, as the Table 4 presents:

Table 4

VECM Model

| | Coefficient | Std. error | T-statistic | Prob. |
|--------------------|-------------|-----------------------|-------------|----------|
| C(1) | -0.668105 | 0.304418 | -2.194698 | 0.0433 |
| C(2) | -0.366657 | 0.337588 | -1.086108 | 0.2935 |
| C(3) | 0.208824 | 0.290943 | 0.717750 | 0.4833 |
| C(4) | 0.078859 | 0.210714 | 0.374247 | 0.7131 |
| C(5) | 0.274675 | 0.324351 | 0.846845 | 0.4096 |
| C(6) | 0.214549 | 0.324600 | 0.660963 | 0.5180 |
| C(7) | -0.088075 | 0.215349 | -0.408987 | 0.6880 |
| C(8) | -0.261544 | 0.189369 | -1.381134 | 0.1862 |
| C(9) | -0.217665 | 0.208182 | -1.045553 | 0.3113 |
| C(10) | 0.148121 | 0.281735 | 0.525746 | 0.6063 |
| C(11) | 0.350700 | 0.222177 | 1.578473 | 0.1340 |
| C(12) | 8342.924 | 5631.369 | 1.481509 | 0.1579 |
| R-squared | 0.631485 | Mean dependent var | | 8008.214 |
| Adjusted R-squared | 0.378131 | S.D. dependent var | | 28370.92 |
| S.E. of regression | 22372.93 | Akaike info criterion | | 23.16662 |
| Sum squared resid | 8.01E+09 | Schwarz criterion | | 23.73756 |
| Log likelihood | -312.3327 | Hannan-Quinn criter. | | 23.34116 |
| F-statistic | 2.492501 | Durbin-Watson stat | | 1.657338 |
| Prob (F-statistic) | 0.047373 | | | |

Results from Table 4 show the C(1): the error correction term is negative and significant at 5% significance level, which indicates the long run causality from the imports, exports, capital expenditures, and subsidies to total investment, and promotes the importance of these indicators on the total investment.

In order to check model adequacy, the study verifies the diagnostic to check the series free from serial correlation, heteroscedasticity, and normality problem. If the computed *P*-value is greater than 5% significance level, then all of the null hypotheses of not autocorrelation or heteroscedasticity, and normally distributed, will be accepted. Table 5 reports the results of the diagnostic tests:

Table 5

Diagnostic Test

| | |
|--|------------------------------|
| Heteroscedasticity test | Obs R-squared 0.71 (0.7) |
| Normality test | Jarque Bera 0.9 (0.63) |
| Breusch-pagan serial correlation LM test | Obs R-squared 1.66 (0.43) |

Note. *P*-value in parenthesis.

From Table 5, it is evident that the model does not have serial correlation or heteroscedasticity, and the series are normally distributed as well, because the computed *P*-value is greater than 5% significance level.

Next section will debate the Syrian trade and fiscal situation before the war.

Discussion on Syrian Trade Policy in the Years Preceding War

Syria has become a signatory to chosen trade agreements, when the economic reform programs started in 2005 to transition to a social market economy. Together with other 16 Arab countries, Syria joined the Greater Arab Free Trade Area (GAFTA) in 2005. A free trade agreement with Turkey went into force in 2007. Syria also initiated an Association Agreement with the EU in December 2008 (The World Bank in cooperation with the National Team, Syria, 2011).

Figure 2 below shows that the trade balance was negative for merchandise trade and positive for services trade from 2004. It leads to the conclusion that the production sector lacked behind in the total trade compared to service sector.

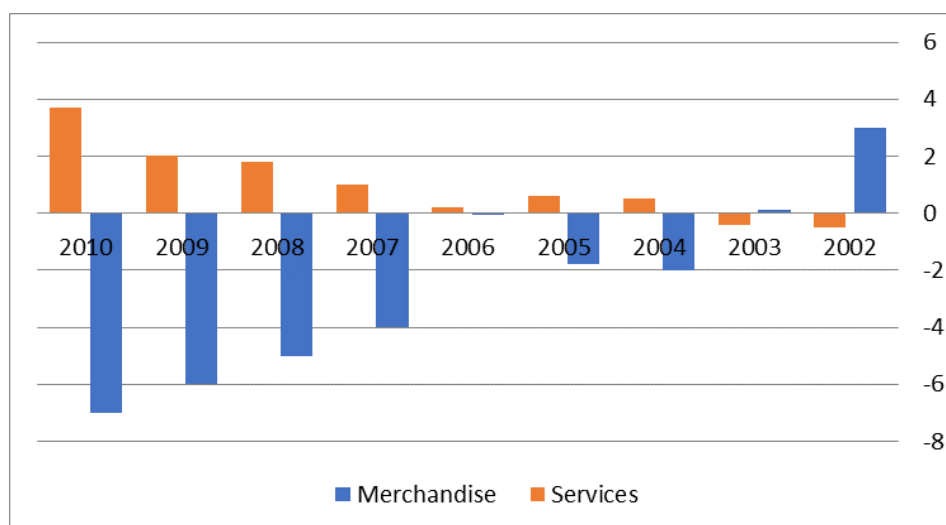


Figure 2. The total merchandise trade and total services by value (Bln US\$ by year). Source: Data from UN Comtrade and UN ServiceTrade.

Table 6 below presents the top 10 export commodities in the last three years before the war.

Table 6

Top 10 Syrian Export Commodities From 2008 to 2010

| Commodities | Value (million US\$) | | |
|--|----------------------|---------|----------|
| | 2008 | 2009 | 2010 |
| All commodities | 14,380.0 | 9,693.8 | 11,352.9 |
| Petroleum oils and oils obtained from bituminous minerals, crude | 4,708.8 | 2,865.5 | 4,325.8 |
| Petroleum oils, other than crude | 836.7 | 715.8 | 1,160.8 |
| Waters with added sugar | 843.5 | 159.0 | 105.5 |
| Cotton yarn (other than sewing thread), containing 85% or more | 608.2 | 137.6 | 191.2 |
| Woven fabrics of synthetic filament yarn | 447.8 | 206.4 | 169.1 |
| Organic surface-active agents (other than soap) | 292.7 | 188.6 | 328.0 |
| Natural calcium phosphates | 388.9 | 139.7 | 202.5 |
| Insulated (including enamelled or anodised) wire, cable | 350.0 | 232.3 | 37.6 |
| Live sheep and goats | 236.2 | 137.4 | 216.1 |
| Birds' eggs, in shell, fresh, preserved or cooked | 72.2 | 316.3 | 131.7 |

Source: Data from United Nations Conference on Trade and Development.

From Table 6 it's clear to see that the largest export commodities were the raw materials as petroleum oils and oils obtained from bituminous minerals, crude took the largest proportion.

Table 7 below presents the top 10 import commodities in the last three years prior to the war in Syria.

Table 7

Top 10 Syrian Import Commodities From 2008 to 2010

| Commodities | Value (million US\$) | | |
|--|----------------------|----------|----------|
| | 2008 | 2009 | 2010 |
| All commodities | 18,104.7 | 15,442.8 | 17,561.6 |
| Petroleum oils, other than crude | 5,363.2 | 1,638.5 | 3,002.9 |
| Petroleum oils, other than crude | 1,128.3 | 855.3 | 552.2 |
| Waters with added sugar | 541.5 | 516.1 | 718.0 |
| Cotton yarn (other than sewing thread), containing 85% or more | 314.6 | 530.0 | 740.6 |
| Woven fabrics of synthetic filament yarn | 258.2 | 360.1 | 420.8 |
| Organic surface-active agents (other than soap) | 343.1 | 323.0 | 353.6 |
| Natural calcium phosphates | 325.3 | 408.8 | 249.6 |
| Insulated (including enamelled or anodised) wire, cable | 322.6 | 265.9 | 339.5 |
| Live sheep and goats | 246.0 | 348.8 | 188.7 |
| Birds' eggs, in shell, fresh, preserved or cooked | 166.9 | 340.0 | 222.5 |

Source: Data from United Nations Conference on Trade and Development.

And it's clear from Table 7 that the largest import commodities were manufactured products as the largest import commodity was petroleum oils, other than crude.

The merchandise trade balance was deficit in Syria with the most countries in 2010 except Western Asia and Sub-Saharan Africa which was surplus, as Figure 3 shows:

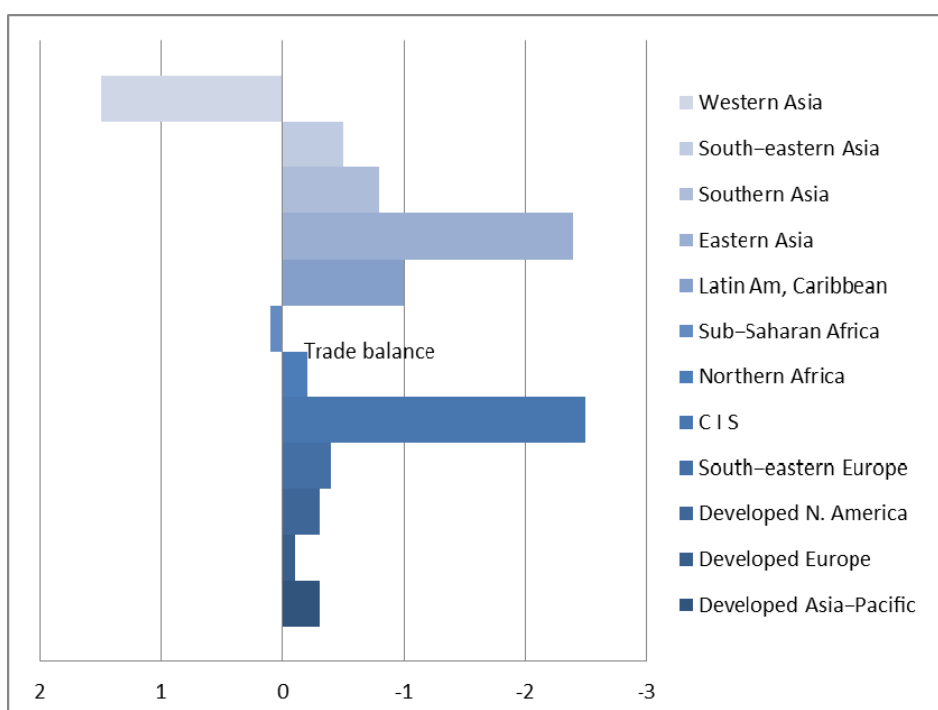


Figure 3. Merchandise trade balance (Bln US\$) between Syria and the world 2010. Source: Data from UN Comtrade and UN ServiceTrade.

After analyzing why just the trade merchandise balance was positive with the Western Asia and Sub-Saharan Africa, the study will take some Arab countries in that area and analyze the Syrian trade situation with them.

The trade between Syria and Arab countries was positive for Syria because the manufactured products exports were not just depending on raw materials, and Syria had more competitive commodity comparing with the Arab countries as Table 8 shows:

Table 8

General Index Competitive Commodity Exports to Arab Countries in 2009

| | | | | | | | | |
|---------|---------|----------|---------|---------|-------|-------|---------|-------|
| Country | Morocco | Algeria | Oman | Kuwait | Saudi | Syria | Tunisia | Sudan |
| Ranking | 4 | 15 | 7 | 13 | 12 | 2 | 1 | 10 |
| Country | Jordan | Emirates | Bahrain | Lebanon | Qatar | Egypt | Yemen | |
| Ranking | 5 | 8 | 9 | 6 | 14 | 3 | 11 | |

Source: The work of Hasan and Ismaeil, 2012.

Discussion on Syrian Fiscal Policy in the Prior Years of the War

By the beginning of 1980s improvement witnessed in Syria income from the foreign exchange—a significant decline due to lower oil prices, with the Syrian government’s commitment to public expenditure vast. That led to the decline of public revenue and faced the Syrian economy during the 1980s especially in the second half. Some economic indicators declined, such as economic growth, high unemployment, inflation rates, increasing deficit, and the deterioration of the balance of payments. The deteriorating situation made the Syrian government think about the implementation of some measures economic reform. By the early 1990s, the government passed the Investment Law No. 10 in 1991 to give producers many advantages and exemptions, which encouraged people to improve and increase investment in the country. The issuance of this law led to the emergence of a new phase in the history of the development of the Syrian economy, and the economic began an open stage, and it had been reduced part of the customs duties to encourage investment (Seifan, 2009).

To stimulate the total demand which contributes to increasing the overall output, the Syrian government’s current and capital expenditures had increased in 1990s. And the government had adopted the slogan of the free services and implemented the public projects of roads and bridges, electricity, water, and communications. But the investment did not go to the industries or manufacture the raw materials. Besides the government spending, increased reliance on indirect taxes led to a decrease incomes of the poor people, and that resulted in the reduction of their demand which reduced the size of total demand and thus lowered the volume of investments among investors, leading to a deflationary pressure on the Syrian economy, which began in 1994 until 2000 (Ghadeer, 2010).

To face the economic recession challenges, the government was forced to increased public spending about GDP regarding 33.2 percent in 2003. Accompanied by a decrease in the proportion of public revenues about GDP 30.1 percent in the same year, which led to an increase in the budget deficit significantly in 2003 and accounted about GDP 3.1 percent (CBS, 2010).

With the growth in the budget deficit, the Syrian fiscal policy since 2004 had taken a new turn by decreasing of public expenditure policy in the reduction of the investment spending to make the private sector sharing in the investment, especially when the economic reform programs started in 2005 to transition to a social market economy.

Table 9 below shows the current and the capital public expenditure from 1981 to 2009:

Table 9

The Current and Capital Public Expenditure in Syria

| Total | The capital public expenditure | | The current public expenditure | | Year |
|---------|--------------------------------|-----------|--------------------------------|-----------|------|
| | Ratio | The value | Ratio | The value | |
| 30,480 | 45% | 13,779 | 55% | 16,701 | 1981 |
| 41,822 | 43% | 17,508 | 57% | 24,314 | 1987 |
| 155,416 | 43.5% | 67,846 | 56.5% | 87,870 | 1995 |
| 275,400 | 47.9% | 132,000 | 52.1% | 143,400 | 2000 |
| 431,400 | 35.7% | 154,300 | 64.3% | 277,000 | 2005 |
| 493,700 | 35.8% | 176,500 | 64.2% | 317,200 | 2006 |
| 585,000 | 43.6% | 258,000 | 56.4% | 330,000 | 2007 |
| 600,000 | 37% | 230,000 | 63% | 37,000 | 2008 |
| 685,000 | 40.5% | 275,000 | 59.5% | 410,000 | 2009 |

Source: Data from Central Bank of Syria.

From Table 9, it is clear to see the general trend of the decreasing capital public expenditure after 2005 to 2008. But in 2009 with the advent of recession again in the Syrian and the whole world economies, the capital public expenditure came back to increase because of the global financial crisis in 2008, and understanding again the importance of the government role in the country to stimulate the economy and encourage the growth economy.

The transition to a social market economy in 2005 beside the political pressure against Syria in the same year, made it face the decrease in the public revenues and rising deficit. That led to applying the economic reform measures which may be inconsistent in some respects with the vision of international institutions like the International Monetary Fund and World Bank in the treatment of budget deficit.

These policies including the decrease of the government subsidies did not contribute in achieving their goal to increase effective domestic demand and purchasing power by reaching to the ultimate beneficiaries, and to increase tax revenues. Besides the time which was adopted in the removal of subsidies on oil prices to increase revenue was not the correct time, despite the adoption of cash transfer to support those who deserve it. The political pressures occurred in 2005 and its impact on the economic situation of the population, in addition to the drought crisis Syria faced from 2006 to 2010, and the global crisis finance in 2008. All of that made the prices increased in oil derivatives by decreasing subsidies and fixing the tax system, and did not replenish the decrease in the public revenues and rising deficit (Shahroor, 2013).

In addition, in the transition to the social market economy, even the private investment doubled as a share of GDP, there was not change in the distribution of investment across sectors to make it sustained, broad-based growth. The opening up of certain sectors such as real estate led to a boom in residential construction but investment in other sectors declined (The World Bank in cooperation with the National Team, Syria, 2011).

When take a look at how the financial policies in Syria tried to motivate the private investment by the transition to the social market economy approach, and which aspects it had invested, FDI flows, for example as a rate of the total formation of the fixed capital GFCF (Expenditure for machines, installations, and construction) in 2010 was 13.2%. Putting aside the contribution of Oil and Gas sector, the further division of

this percentage indicates weak contribution of FDI inflows in rest of the sectors of the economy. For example, amount of FDI in Manufacturing sector was around 3% of total GFCF, as Table 10 below shows:

Table 10

FDI Inflows to Syria in 2010

| Economic sector | FDI inflows 2010 (SYP, million) | FDI inflows (percentage of GFCF) |
|-----------------------|---------------------------------|----------------------------------|
| Agriculture | - | 0.00 |
| Oil & gas | 48,500 | 8.36 |
| Manufacturing | 17,327 | 2.99 |
| Trade | 6 | 0.00 |
| Tourism & real estate | 2,025 | 0.35 |
| Transportation | 1 | 0.00 |
| Communications | -44 | -0.01 |
| Finance | 8,087 | 1.39 |
| Education | 1,069 | 0.18 |
| Total | 76,971 | 13.27 |

Source: Data from Syria's 1st National FDI Report, 2011.

Previous analyses of the financial and trade policies in Syria are important to make those mentioned indicators improve the economy and investment effectively after the war. But in spite of that, Syria was trying to finance the deficit, which was happening in the budget more through domestic sources before the war as Table 11 will show, but the domestic sources will not be enough to replenish the huge deficit to support the investment that the Syrian economy will need to recover and reconstruct, which makes Syria need support from the other countries.

Table 11

The Fund Resources in the Syrian Budget (2000-2010)

| Year | The total deficit | | External fund | | Domestic fund | |
|------|----------------------------|-----------------|--------------------|-----------------|--------------------|-----------------|
| | % of GDP in current prices | value (Bln SYP) | % of total deficit | Value (Bln SYP) | % of total deficit | Value (Bln SYP) |
| 2000 | -2.1 | -19.2 | 71.9 | -13.8 | 28.1 | -5.4 |
| 2001 | 1.8 | 17.1 | -69 | -11.8 | 169 | 28.9 |
| 2002 | -1.2 | -12.4 | 91.1 | -11.3 | 8.9 | -1.1 |
| 2003 | -3.1 | -32.7 | 30.6 | -10 | 69.4 | -22.7 |
| 2004 | -5 | -62.7 | 18.5 | -11.6 | 81.5 | -51.1 |
| 2005 | -5 | -75.1 | 19.7 | -14.8 | 80.3 | -60.3 |
| 2006 | -3.4 | -58.8 | 24 | -14.1 | 76 | -44.7 |
| 2007 | -3.1 | -61.7 | 22.8 | -14.1 | 77.2 | -47.6 |
| 2008 | -2.3 | -57.5 | 23 | -13.2 | 77 | -44.3 |
| 2009 | -2.2 | -53.8 | 21 | -11.3 | 79 | -42.5 |
| 2010 | -2.2 | -61 | 17.4 | -10.6 | 82.6 | -50.4 |

Source: Data from Central Bank of Syria.

BRICS governments are good examples which acknowledge a correlation between development and sustainable peace. Especially numerous governments recently joined the Chinese Silk Road strategy "One Silk One Road". With the involvement of Asian Infrastructure Investment Bank (AIIB), this strategy can support the reconstruction of Syrian economy and can help in creating a positive investment climate after the war.

The following paragraph will debate China and Syria economic relations and investment climate as a good example of how can help Syria after the war by these BRICS governments.

Discussion the Chinese and Syrian Economic Relations in the Prior Years of the War

The Syrian president visited Beijing in 2004 to seek economic cooperation based on the Chinese model of development. Moreover, China was interested in Syria that is of geostrategic significance and lies on the littoral of the four seas: the Caspian, Black, Mediterranean, and Arabian/Persian Gulf. This energy-rich “Region of the Four Seas” lies in the “strategic energy ellipse” which has over 70 percent of the world’s proven energy reserves (Lin, 2016).

After the Syrian president visited Beijing, the improvement in the economic relations was noticed as Table 12 shows, because before this visit there were not many Chinese investments in Syria.

Table 12

Chinese Investments in Syria (2000-2011)

| Year | Numbers of projects |
|------|---------------------|
| 2005 | 3 |
| 2006 | 2 |
| 2008 | 3 |
| 2009 | 5 |
| 2011 | 3 |

Source: The work of He and Lyles, 2008.

In addition, after that China and Syria established the free industrial city in Adra—a suburban area near Damascus, which offers China a great opportunity to reach European and Middle Eastern markets. The investment group comprises 600 factories of 200 Chinese companies that look like a city to produce various industrial goods and distribute them to 17 other countries. Companies and commercial galleries were founded on 500 square meters as a duty-free business. The project planned to cover the needs of neighboring and European countries covering: Iraq, Saudi Arabia, Lebanon, Egypt, Libya, Tunis, Algeria, Morocco, Turkey, Georgia, Ukraine, Moldova, Romania, Bulgaria, Greece, and Cyprus. This area comprises as well as huge warehouses for Chinese goods desired in European markets to provide fast deliveries; goods can be delivered in no more than 10 days. Due to the Syrian important geographic and strategic position on the Mediterranean, and in the Middle East, China has got great chances in selling its products and fostering its industries which in itself provides new jobs and enhances China’s vital and strategic role. Also, Syria and many other Arab countries agreed with China to avail production and distribution centers which are extremely vital for Chinese economic and commercial strategies (The Syrian-Chinese relations history, 2010).

Chinese traders are also using the Adara Free Zone to sell to the broader region, especially, Lebanon, as reconstruction efforts after the 2006 war has driven demand for construction materials. The industrial park is playing a similar role to the open-air squares in the old city of Damascus that once hosted traders arriving along the Silk Road (Ben, 2011).

Several Chinese oil companies have been active in the Syrian oil market in recent years before the war. China National Petroleum Corp. (CNPC) acquired a 35% stake in Syrian Shell Petroleum Development Co. (SSPD). SSPD had interests in three oil production licenses that cover 40 oilfields in Deir-Az-Zor. CNPC was also a 50-50 partner with Oil and Natural Gas Corp. Ltd. (ONGC) of India in the joint venture with Himilaya

Energy Syria, which owned an 18% interest in AL Furat Petroleum Co. CNPC was also planning to build and finance a 100,000-bbl/d capacity oil refinery. China Petroleum and Chemical Corp. (Sinopec) was a joint-venture partner with GPC in Oudeh Petroleum Co. (Mobbs, Taib, Wallace, Wilburn, & Yager, 2012).

In addition, according to UN Comtrade and UN ServiceTrade, the top three partners for merchandise imports to Syria in 2010 were China, Ukraine, and the Russian Federation, accounting for respectively 9.5, 8.9, and 8.6 percent of total imports.

Despite the improvement of China's investment in Syria, the war has halted those investments to reach the expected level. For example, for the accumulated foreign direct investment (FDI) flows to Syria in 2010, as Figure 4 shows, they found that the EU countries share the largest compared with the rest of the world. So Syria must vary the foreign portfolio to minimize the risk of any relations shock.

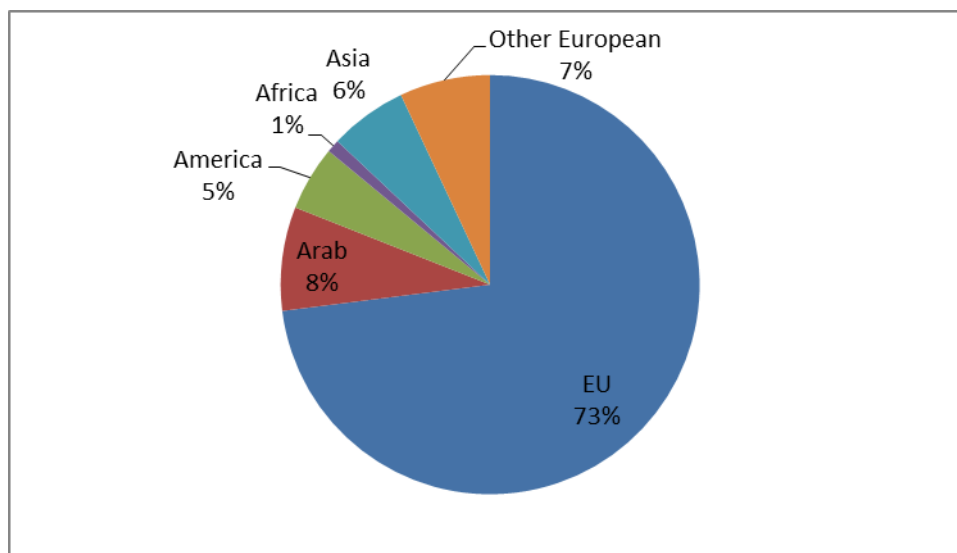


Figure 4. The accumulated FDI flows to Syria in 2010 (%). Source: Data from Syria's first National FDI Report.

Reviewing the relations between Syria and China, the study proposes to improve these relations to take the advantages for both countries as the following presents:

Syria will need supporting fund to reconstruct the economy and investment after the war. And the strategy of the new Silk Road "One Road One Belt" that China and the other Brix countries can support that reconstruction by the Asian Infrastructure Investment Bank. Syria also can learn from the Chinese experience in the manufactory, and get from them the technology transfer and the training of the workers to support investment and the Syrian exports to the world, not just receive the Chinese imports. In addition Syria can use the industrial zones as reconstruction support places after the war by Syrian, Chinese and other companies, as what happen in Adra zone in Syria to reconstruction Lebanon after the war in 2006.

Also, China can take benefits from involving the investment and rebuilding in Syria after the war and yield the advantages from the geographical site of Syria as huge warehouses for Chinese goods desired in European and the Middle East markets to provide fast deliveries. Besides, Iran and China signed a deal to build a rail line from Tehran to Khosravi on the border with Iraq, eventually linking with Syria and Lebanon as part of a Middle Eastern corridor. This line will help Central Asian states access the Iranian port of Chahbahar and give China a vital overland route for transporting goods to Europe and Middle East (Lin, 2011).

Besides, Syria also wanted before the war to build railways from the coastal city of Tartous to Umm Qasr port in southern Iraq, and use its Mediterranean port to build trade routes between Iraq and Europe. This will be good for China's energy holdings in Iraq—where it is building a big presence—as China. Additionally, Syria already held discussions on building a natural gas pipeline from Iraq's western Akhas fields to Syria, which could be an attractive transit point for gas-starved Arab and European markets (Christina, 2010).

Conclusions

Imports and the national capital expenditures have played a major role in supporting the total investment in Syria. Syrian trade policies should ensure value-added products by supporting local manufacturing of raw materials which will positively affect the total investment by improving creation in the manufacturing sector. Moreover, should take measures to encourage foreign direct investment in a way to expand the overall production capacity. The policies can try to attract multinationals to produce key inputs or to bring specific knowledge needed by clusters with the ability to absorb them.

The government subsidies should be up to whom will increase the total investment. Instead of subsidies system in Syria that had applied, it can apply programs to help particular clusters by increasing the supply of skilled workers, supporting technology adoption, and improving regulation and infrastructure. Subsidies system should also help and support the poorer strata of society.

The Syrian economy has been facing that most of Syria's FDI is from Arab and EU countries. And any shock in the relationships with these countries—as what happened—will affect the country's economic performance. To minimize the risk of exposure to such shocks, comprehensive policies should be developed to diversify the target of investment flows to Syria. Particularly to China and the other BRICS countries that can take advantages from Syria and can support Syria economics after the war by the strategy of “One Road One Belt”, through the Asian Infrastructure Investment Bank (AIIB). Especially the Syrian internal finance resources are not enough and need to replenish the huge deficit to support the investment that the Syrian economy will need to reconstruct and rebuild.

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