

Closed economy pays dividends with healthy growth

Much of Syria's banking sector is still in state hands, which has worked to the country's advantage, says **Suzy Jagger**

One of the few advantages of being an effectively closed economy is that Syria escaped the ravages of the global recession and the banking crisis.

Unlike a number of Western economies, the International Monetary Fund expects the Syrian economy to grow by 3 per cent this year, with a number of City forecasts projecting a similar performance in 2010. Economies within the G8 can only dream of such growth levels as they struggle to consolidate a very fragile recovery.

While part of the Syrian banking sector is privately owned — such as Bank Audi — much of it is still in state hands, with foreign lenders such as HSBC kept away from Damascus because of onerous rules which restrict overseas players from holding more than a minority stake.

Foreign banks that have substantial businesses in America are also anxious that an interest in sanctioned Syria would offend Washington, so keep away.

However, the Damascene Government is building on earlier reforms to the banking sector. It has already raised the threshold of the amount of local currency that can be moved out of the country and begun to overhaul mortgage policy.

Banks such as HSBC — already active in the Middle East — privately believe that should there be an easing of US sanctions, there would be room for negotiation over foreign ownership rules.

There is already some movement on banking regulations. Last month, an amendment went to the Syrian parliament to raise foreign ownership

thresholds of a lender from 49 per cent to 61 per cent.

The Government is also hoping that once it issues a tranche of Syrian treasury bonds in December next year, banks will be encouraged to free up their own lending books to help nurture businesses.

While Syria is not immune from the impact of reduced trade and fall in remittances triggered by the global recession, tourism is still buoyant.

According to statistics published by Bank Audi, the number of tourists visiting Syria in the first half of 2009 rose 9 per cent compared with the first six months of 2008.

In a note to clients, Bank Audi's Syrian economic report, said: "Syria counts on low to middle-income Arab tourists that have been relatively less affected by the crisis, while Western tourists seem to be increasingly interested in taking Syria's direction following the political opening up."

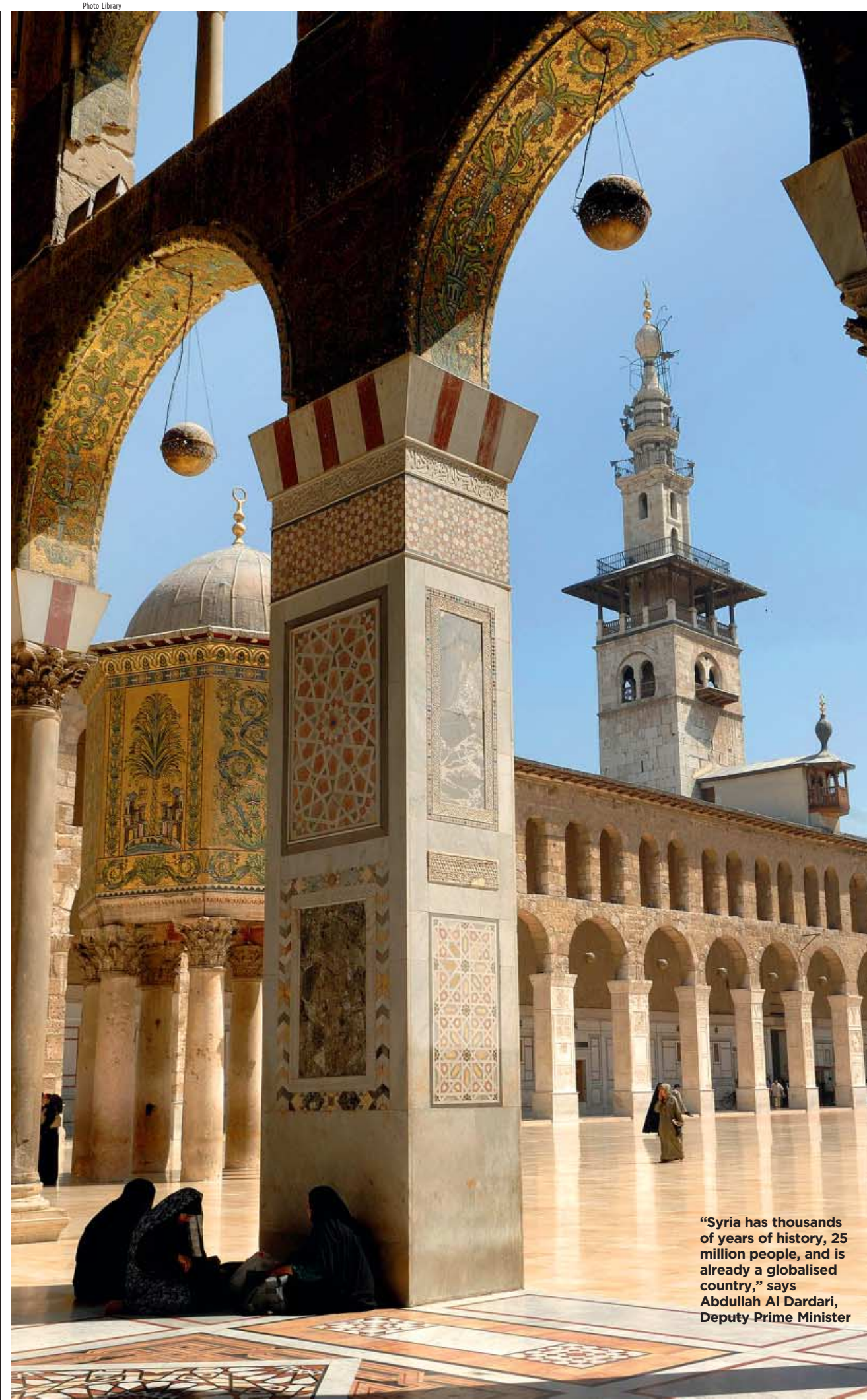
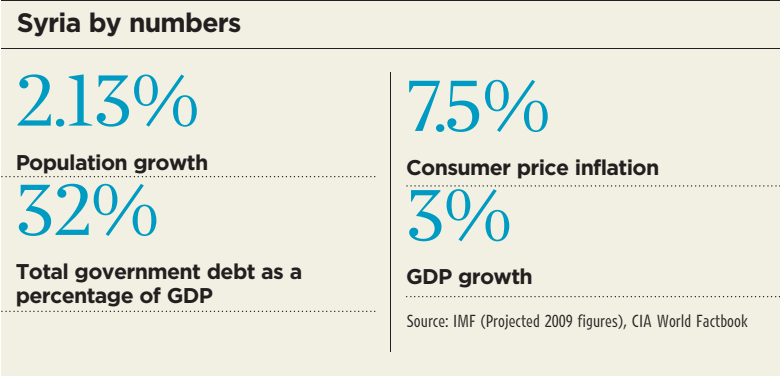
Currently, Damascus is drawing up new labour laws to help to stimulate the economy by watering down onerous employee rights and introducing more flexible conditions.

While the level of future foreign in-

“ Western tourists seen to be increasingly interested in Syria

vestment in Syria will depend on the speed of legal reform to reassure overseas business that it can depend on Damascene regulations, the country continues to operate as a trading nation, with 65 per cent of GDP derived from foreign trade.

While a predominantly agricultural nation, the country has a buoyant textile business, which is nimbler than the vast manufacturing operations in the Far East, and more able to respond to shifting Western demands.



"Syria has thousands of years of history, 25 million people, and is already a globalised country," says **Abdullah Al Dardari**, Deputy Prime Minister

Damascus aims to convert investors

Syria has called in a credit rating agency to rank its debt and attract foreign money, reports **Suzy Jagger**

Syria is to open its books to credit rating agencies as part of its move to liberalise its economy and entice foreign investment.

Abdullah Al Dardari, the Syrian Deputy Prime Minister, told *The Times* that it has already asked Capital Intelligence, the credit rating agency, to examine the country's finances in order to rank its sovereign debt.

The minister, who was hired by President Al Assad of Syria to devise and spearhead economic reform for the country, said that he hopes other international rating agencies such as S&P and Fitch will follow.

Al Dardari (pictured right) said: "We should be on the international radar. We want them to have a closer look at Syria, to hopefully get a good rating, we have one of the lowest levels of foreign debt in the world, just 12 per cent of GDP."

Syria's intention to secure an international credit rating on its debt forms part of its ambitious programme to create a diverse banking sector, reform its labour market and lure

foreign money to invest in infrastructure projects. Damascus hopes that if its government debt is internationally rated, commercial Syrian banks will be able to increase their own lending levels and nurture new business relationships.

In addition to its economic liberalisation programme, Syria is banking on the imminent relaxation of US trade and financial sanctions that have been in place since 2004.

While the sanctions are product-specific — they restrict the sale of aircraft spare parts, computer goods

\$17.6bn

Value of exports
Source: IMF (projected 2009 figure)

and telecommunications equipment — they have corroded relationships with companies from a wide number of industries that derive substantial revenues from America and are anxious to not offend the US with their business practices.

In July, George Mitchell, the US Middle East envoy, flew to Damascus to tell President Al Assad that the Obama Administration wanted to work to ease the measures as part of Washington's pursuit of détente with its once long-time Middle East rival.

President Al Assad also offered to

assist the US in trying to build relations with Iran. With Al Dardari's programme of economic reform and the promise of relaxed sanctions, Syria is hoping that infrastructure funds, sovereign wealth funds and private investors will invest in the country.

Syria, whose population is growing at 6 per cent a year, desperately needs to build new power stations and modernise its electricity grid. Power cuts are so common in Syria — especially in the summer when air-conditioning units boost demand for power — that hospitals, hotel chains and government departments have their own back-up generators.

Syria is building seven new power stations across the country, but is in need of more. In addition, the country's national grid is so old that significant amounts of energy are lost through transmission and also from theft.

Al Dardari joked: "In the industry, they call it technical and commercial loss. I call it bad cabling and stealing."

Earlier this month, the British Syrian Society hosted an international conference in Damascus on public private partnerships in the hope that it can encourage foreign firms to invest money in the country and bring much-needed specialist expertise.

The public-private partnership

(PPP) model was effectively invented in Britain and typically involves a contract between a government or public sector authority and a private party or number of private parties.

The private party — which could be, for example, a consortium of management consultants, a construction company and an infrastructure fund — undertakes to complete a project and assumes most of the financial, technical and operational risk of the programme.

In some cases, such as the construction of a toll road, the private consortium is responsible for building the highway and then managing it for a fixed period of time, where they take a slice of the revenue. At the end of the contract, control of the finished asset is returned to the Government or public sector authority.

Al Dardari said: "Many Syrians don't want reform. To make our energy sector efficient, to make it work, we are going to have to think hard about restructuring it with a tariff structure."

Maybe of installing meters in everyone's homes so that everyone who consumes electricity pays for it. Reforms such as these are not popular.

"We desperately need new roads in Syria, yes,

we have built new ones but they have taken us ten years to complete. We don't have that sort of time, we need them now."

The Deputy Prime Minister warned that he has no intention of pursuing the economic liberalisation route seen in Dubai. "Dubai is a plastic city. Damascus is real. Dubai is a country made for foreigners to enjoy themselves. Syria has thousands of years of history, 25 million people and is already a globalised country. Last year we had \$33 billion worth of foreign trade — around 65 per cent of GDP."

“ We desperately need new roads in Syria — we need them now

Given the attendance of the PPP conference, it would appear that world markets are watching Al Dardari's progress carefully. One particular investor — Prince Rahim, the second son of the Aga Khan — delayed his departure from Damascus to watch the Deputy Prime Minister making his speech.

"Look," said Al Dardari, beaming. "He's stayed for the speech. What a gesture."

● **Suzy Jagger** is *Politics and Business Correspondent at The Times*

Country's relations with Iraq are put to the test

Accusations of sheltering extremists and carrying out suicide bombings have caused a rift, says **Suzy Jagger**

One of the thorns in Syria's side is the country's relationship with its neighbour Iraq.

Syria is home to about 1.3 million Iraqi refugees who fled over the border after the invasion of Iraq in 2003.

The cost of feeding and housing the Iraqis is estimated by the Damascus Government at around \$2 billion a year, a cost that the country insists it can ill afford.

As Abdullah Al Dardari, the Syrian Deputy Prime Minister, pointed out: "The pressure on services such as schools and hospitals is immense. We have about 50,000 Iraqi children being educated in our schools and 50,000 hospital operations for Iraqis which have come out of our budget."

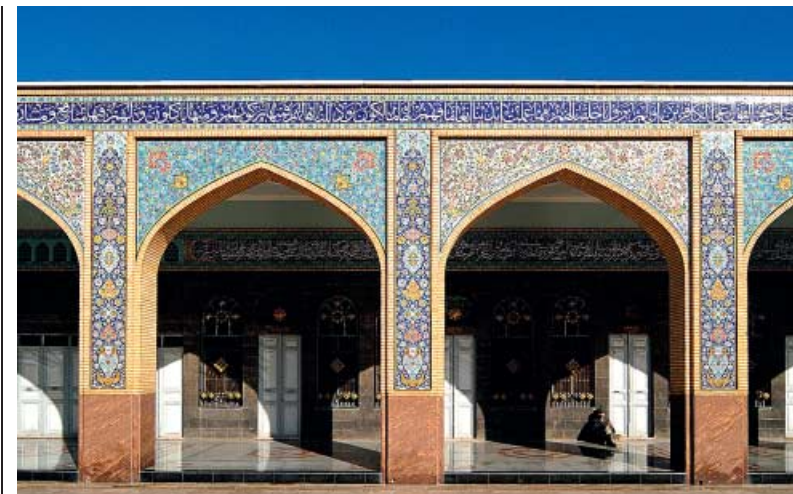
He added: "The refugee community also applies pressure on housing and rent costs, which we were already suffering from. We would like to see them going home but we are not pushing them out."

But the economic cost of the Iraqi refugees is the least of Syria's worries. More pressing are accusations that the Syrian-Iraqi borders are so porous that they allow extremists to shelter in Syria and plot terror acts in Iraq and that the Syrian intelligence services are aware of their existence but choose to turn a blind eye.

Relations between Syria and Iraq deteriorated markedly this summer after suicide bombers killed 95 people near the Baghdad government ministries and wounded another 600. The truck bombings were the worst to have hit the Iraqi capital for 18 months and dealt a major blow to the country's security efforts after a substantial withdrawal of American troops.

After the attacks, Wissam Ali Kadhem Ibrahim, who said he was a former chief of police until 1995 under Saddam Hussein, admitted on video to plotting the bombings.

The former Baathist official said: "I



Syria stands to benefit significantly from trade with Baghdad

received a call a month ago from my boss in the party, Sattam Farhan, in Syria to do an operation to destabilise the regime."

The claims severely damaged relations between the two countries with both withdrawing their respective ambassadors. More widely, the accusations threaten Syria's attempts to

strengthen diplomatic relations with America.

But Al Dardari said: "We [the Syrian Government] were unbelievably shocked at such an accusation. Before, things were moving in a nice direction. Why would he [Nouri al-Maliki — the Iraqi Prime Minister] imagine that Syria would do something like that?"

Everyone is waiting for the Iraqi elections. At the moment there is too much election politics."

The Deputy Prime Minister added that from the Syrian perspective, Damascus "cannot wait" until Iraq becomes more stable and begins to grow its economy, explaining that his own country stands to benefit significantly through trade with Baghdad.

However, while the row between

“ Attempts to strengthen relations with America are under threat

Syria and Iraq has proved to be diplomatically damaging, it is Damascus's close relationship with Iran that continues to beguile the West. As a close ally of Tehran, President Al Assad has offered to help America and Iran to build relations. It is an offer that, so far, President Obama has failed to call on.