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Investment Climate as a Catalyst for Attracting Investment in Syria's Reconstruction Phase

Suriye'nin İmar Sürecinde Yatırımı Çekmede Katalizör Olarak Yatırım Ortamı

ABSTRACT

This article analyzes Syria's investment climate and its capacity to attract capital for reconstruction efforts following years of conflict. It examines the key factors and fundamental principles essential for creating a conducive investment environment in Syria. Additionally, the study explores the relationship between the investment climate, global competitiveness, and the ability to attract both domestic and foreign investment. The analysis also identifies current challenges faced by Syria's investment environment and highlights select successful international practices in this area. The research utilizes both analytical and descriptive methodologies. The findings suggest that establishing an attractive and supportive investment environment is vital for promoting reconstruction initiatives in Syria.
Keywords: Syria, Investment Climate, Investments, Reconstruction

ÖZET

Bu çalışma, uzun süreli çatışmalar sonrası Suriye'nin yatırım ortamını yeniden yapılandırma ve sermaye çekme kapasitesini değerlendirmektedir. Araştırma, Suriye'de olumlu bir yatırım ortamı oluşturmak için temel faktörler ve prensipler üzerinde durmakta olup, aynı zamanda yatırım ortamı ile küresel rekabet gücü ve yerli ile yabancı yatırımların çekilme kapasitesi arasındaki ilişkileri incelemektedir. Analiz, mevcut zorlukları ve bu alanda uluslararası alanda başarılı uygulamaları kapsamlı bir şekilde ele almaktadır. Çalışmada hem analitik hem de betimsel yöntemler kullanılarak, Suriye'de yeniden yapılanma süreçlerini desteklemek için cazip ve sürdürülebilir bir yatırım ortamının oluşturulmasının şart olduğu sonucuna varılmaktadır.
Anahtar Kelimeler: Suriye, Yatırım Ortamı, Yatırımlar, Yeniden Yapılanma (İmar).

1. INTRODUCTION

Since March 2011, Syria has experienced significant political and security changes, culminating in an extended conflict that has profoundly impacted the nation's social, economic, and political structure. The conflict has caused widespread destruction and theft of economic assets, while international sanctions have further weakened the Syrian economy. Additionally, the country's infrastructure has suffered extensive damage due to ongoing hostilities. These circumstances have led to a large outflow of capital, hindering economic development and societal progress.

As Syria progresses through its complex recovery process following the collapse of its previous regime and the transition toward new governance structures, it is essential to develop comprehensive strategies for economic rehabilitation and revitalization within the framework of national reconstruction efforts. These strategies should outline key interventions and priorities aimed at restoring and strengthening Syria's economic foundation while carefully considering current economic conditions and sector-specific opportunities.

Central to this initiative is the development of a favorable investment climate to support reconstruction efforts and encourage contributions from both domestic and international stakeholders. Establishing attractive investment conditions will promote long-term sustainability, facilitate public–private partnerships, and stimulate economic recovery. The successful revitalization of Syria's economy depends on mobilizing substantial investment resources. Achieving this objective requires creating an enabling environment that positions Syria as a competitive destination for investors. A strong investment climate relies on a range of factors, including tangible infrastructure such as airports, ports, roads, energy systems, water supply, and telecommunications, as well as intangible elements like policy frameworks, governance, regulations, and institutional integrity. These factors influence investment decisions and highlight the importance of enhancing the overall business environment.

This research aims to conduct a comprehensive analysis of Syria's investment environment and its critical role in the nation's reconstruction efforts. Using a descriptive and analytical methodology, the study examines global capital flows alongside broader economic integration processes. It offers a conceptual overview of the investment landscape, defines industrial investment, and outlines the fundamental principles and key elements that contribute to a favorable investment climate. Additionally, the research explores the impact of investment promotion agencies on shaping investment dynamics, analyzes the relationship between competitive positioning and the overall investment environment, and assesses Syria's current investment conditions within the context of post-conflict recovery.

The results underscore a notable relationship between the structural elements of the investment environment and the ability to attract substantial capital to Syria. This correlation highlights the importance of optimizing investment facilitators to support effective contributions to the country's reconstruction efforts. The findings provide valuable insights for enhancing Syria's competitiveness as an investment destination during this pivotal period of recovery, while also emphasizing the strategic role of targeted investments in rebuilding the nation's socio-economic infrastructure.

This study is based on the premise that enhancing the investment climate and increasing its attractiveness are critical strategies for attracting both domestic and foreign investments to Syria during its post-conflict reconstruction phase. The underlying assumption is that a stable and supportive investment environment is essential for mobilizing capital flows and promoting sustainable economic recovery.

Within this framework, an attractive investment environment is regarded as the independent variable, encompassing a comprehensive set of institutional, legal, economic, and infrastructural reforms aimed at improving the overall business climate. These reforms include policy adjustments, increased regulatory efficiency, political stability, improved access to financing, and upgrades to both physical and digital infrastructure.

The dependent variables include:

- The inflow of domestic and foreign capital into the Syrian economy, serving as an indicator of investor confidence and the environment's supportiveness for investment activities.

- The contribution of new investments— from both public and private sectors— to reconstruction efforts, including job creation, infrastructure development, and the revitalization of key economic sectors such as industry, agriculture, and services.

By examining the relationship between these variables, the study aims to evaluate how targeted improvements in the investment climate can serve as catalysts for attracting investments and supporting Syria's long-term reconstruction and development objectives.

1.1. Definitions of Key Terms and Concepts Used in the Research

Industry: Activities that effectively utilize available production factors to transform economic resources from their natural states into higher-value outputs, with the aim of meeting diverse and increasing human needs efficiently achieving shorter production times, lower costs, higher quality, and enhanced productivity (Haroun, 2002: 21).

Rehabilitation: According to the United Nations Industrial Development Organization (UNIDO), rehabilitation encompasses a series of targeted measures specifically tailored for developing countries in transition. These measures are intended to promote integration into the global economy and assist in adapting to international economic fluctuations (Quresh, 2006: 1048).

Investment Environment: The collection of specific factors that influence investment opportunities and incentives. A favorable investment environment enables investment institutions to operate efficiently, promote employment, and reduce overall business costs (Yahiawi, 2013; 4).

Reconstruction: The process that occurs following destruction, particularly after civil conflicts or foreign occupation, focusing on rebuilding and restoring affected areas and systems (AbuMusleh, 2013).

2. LITERATURE REVIEW

A substantial body of research has been conducted on the investment environment across various regions and contexts. However, a notable gap remains in the academic literature regarding the role of the investment environment in supporting Syria's reconstruction efforts. Key studies that contribute to the broader understanding of investment dynamics include the following:

In 2022, Alekneviciene, Huzenko , and Solianyk undertook a comprehensive analysis of global investment flows and foreign direct investment (FDI) in Ukraine. Their findings revealed that, contrary to global trends, FDI had not functioned as a key driver of economic development in Ukraine, as no statistically significant correlation was found between GDP changes and FDI fluctuations. Importantly, their research suggested that FDI could become a pivotal element of economic growth in the post-war era, provided it aligns with Western and global economic strategies while balancing domestic priorities. A 2020 study by Irtyshcheva et al. focused on designing a mechanism to foster a supportive investment environment in Ukraine, with the aim of enhancing the country's investment capacity. The research highlighted the criticality of such mechanisms for improving Ukraine's global economic rankings. Abdulrahman Najm Al-Mashhadani (2019) conducted an analytical and descriptive investigation into the post-2003 period in Iraq, analyzing the interplay between political stability and foreign investment. The study underscored the fundamental role of political stability in attracting foreign investors. Similarly, Batoul Sarawah (2018) examined investment policies in Iraq after 2003 through a descriptive analytical framework. The findings pointed to deficiencies in existing governmental regulations and emphasized the absence of innovative strategies to incentivize investors in undertaking construction or infrastructure projects. Ershova Nina (2017) reviewed Japanese investment activities in Russia during 2005–2014. Her analytical study identified systemic challenges and barriers that accounted for Japanese firms' hesitancy to expand their operations within the Russian market. In Iraq, Batool Ebadi and Baqir Habib (2015) investigated economic policies relevant to FDI in the post-2003 context through descriptive analysis. The study argued that well-crafted investment policies hold the potential to rectify structural economic imbalances and advance Iraq's growth trajectory. Ahmed Mohamed Talib (2012) analyzed the impact of the Syrian-European Partnership Agreement on Syria’s manufacturing sector. His findings suggested an initial negative impact on industrial development in the short-to-medium term, with positive outcomes anticipated over a longer horizon. Krista Tuomi (2011) adopted a micro-level approach by utilizing firm-level data and interviews to explore determinants of FDI flows into South Africa. The study concluded that financial incentives had minimal influence on investor decisions but highlighted constraints such as political and regulatory uncertainty, skills shortages, labor-related issues, and exchange rate instability as critical factors undermining the investment climate. Nidal Taleb (2009) examined industrial competitiveness within Syria through an analytical descriptive study, illustrating a reciprocal relationship between competitiveness and industrial modernization as mutually reinforcing dimensions. Huda Rajab (2009) presented findings on Syria’s economic reform trajectory, emphasizing the imperative for transforming Syria into a more adaptable and competitive economy capable of integrating effectively within global markets. Finally, Tidiane Kinda (2009) conducted a cross-national analysis using data from 77 countries and firm-level information to investigate how the investment climate influences FDI flows. The research demonstrated that environmental impediments adversely affect FDI inflows, underscoring the necessity of addressing these barriers to promote investment.

This study builds upon and complements existing research examining the investment climate in post-conflict and developing economies. Like previous studies, it evaluates the current state of Syria’s investment environment, identifying key strengths and weaknesses, and explores strategic measures to enhance its attractiveness to both domestic and international investors.

What distinguishes this research is its specific focus on the role of the investment environment within the context of Syria’s post-conflict reconstruction phase. Unlike prior analyses that generally address investment climates in more stable or clearly defined national settings, this study considers the unique complexities of Syria’s environment, shaped by over a decade of conflict, economic decline, and institutional instability.

Consequently, the economic conditions and investment dynamics in Syria differ markedly from those in other contexts. The country faces a distinct set of challenges, including weak governance, limited access to financial services, extensive infrastructure damage, and the impact of international sanctions. These factors necessitate tailored policy solutions and targeted investment strategies.

By situating the Syrian case within broader academic discussions on post-conflict recovery and investment promotion, this study contributes to the expanding body of knowledge on fragile and conflict-affected states. Its goal is to provide practical insights into how improving the investment climate can support sustainable reconstruction efforts and promote long-term development in such environments.

3. INTEGRATION INTO THE GLOBAL ECONOMY AND FOREİGN DIRECT INVESTMENT INFLOWS

In today's highly competitive global economic landscape, nations are increasingly influenced by regional and international cooperation through economic blocs and multilateral agreements. This underscores the importance of maintaining strong economic connections with global markets, regardless of a country's internal circumstances.

For post-conflict economies such as Syria, reintegration into the global economy is not only an economic objective but also a strategic imperative. Engaging effectively with international markets can facilitate investment attraction, infrastructure development, and the revitalization of key economic sectors. To achieve these goals, a comprehensive and proactive strategy should be adopted, emphasizing the following key steps:

- *Alignment of Economic Policies and Legal Frameworks with International Norms*

A fundamental step toward global integration involves harmonizing Syrian legislation and policies with internationally recognized standards. This includes reforms in trade regulations, taxation, labor laws, and environmental policies. Such alignment enhances the country's credibility with foreign investors and supports integration into global supply chains.

- *Development of Strategic International Economic Partnerships*

Building bilateral and multilateral economic relationships is vital for strengthening Syria's position on the global stage. Engaging with regional organizations and international trading partners can open new markets, promote technology transfer, and attract foreign direct investment. Prioritizing participation in international trade agreements and forums should be a key component of diplomatic and economic outreach efforts.

- *Creation of a Conducive Investment Environment*

Establishing an attractive investment climate is essential for drawing both domestic and foreign capital. This involves reducing bureaucratic obstacles, simplifying licensing processes, and offering targeted incentives such as tax exemptions, customs duty reductions, and improved access to financing. Ensuring transparency and policy stability is also critical in fostering investor confidence.

- *Strengthening Fundamental Elements of a Resilient Investment Climate*

A robust investment environment relies on key supporting factors, including political stability, reliable infrastructure, access to skilled labor, and secure property rights. Investing in basic services such as energy, transportation, and digital connectivity will significantly enhance the country's attractiveness to investors.

- *Enhancing Syria's Ranking in Global Competitiveness Indices*

Improving Syria's position in indices such as the World Bank's Ease of Doing Business, the Global Competitiveness Report, and Transparency International's Corruption Perceptions Index is essential to signaling reform progress. Achieving this requires strengthening institutional capacity, implementing governance reforms, and establishing accurate, transparent data reporting mechanisms.

By pursuing these strategic initiatives, Syria can progressively rebuild its economic foundations, restore investor confidence, and establish itself as a promising destination for investment and sustainable development in the post-conflict era.

4. THE CONCEPT OF THE INVESTMENT ENVIRONMENT

The investment environment is one of the key factors associated with a country's ability to attract local and foreign direct investments, particularly in the context of global competition. A nation's capacity to attract foreign investments is linked to the availability of fundamental components that make it an attractive destination for investment. Countries can be classified based on specific criteria reflecting their competitive capabilities compared to others, with a direct relationship observed between the level of competitiveness and the volume of investment flows.

In this regard, numerous institutions and researchers have attempted to provide various definitions of the investment environment. According to the Arab Investment Guarantee Corporation (AIGC), the investment environment is defined as the set of political, economic, and legal conditions that influence capital trends. It is also described as the "political, economic, social, security, legal, and administrative conditions" that shape the investment process. These elements often overlap and directly affect one another. Consequently, the investment environment plays a pivotal role in either enhancing or hindering the success of investment projects. An unfavorable economic environment may drive capital to seek alternative destinations (AIGC, 2002: 177, 2-3).

On the other hand, the World Bank's development reports define the investment environment as "a set of specific factors that shape investment opportunities and enable investment institutions to operate efficiently, creating job opportunities and reducing the costs of doing business". These factors are divided into two main groups: environmental factors related to society (including individuals, institutions, sectors, political, economic and social trends) and government policies that encompass political, economic, and social trends and indicators (Yahiawi, 2013; 4). This definition focuses on both tangible and intangible aspects that determine the investment environment.

5. THE CONCEPT OF INVESTMENT

Investment involves the strategic utilization of available resources to acquire, develop, or improve assets with the objective of optimizing their use and generating desired returns. This process includes expanding existing infrastructure, establishing new projects, modernizing outdated operations, or acquiring securities to finance new initiatives. Such activities contribute to increasing the production of goods and services within the economy over time.

Various interpretations of investment exist. From a material standpoint, investment is often defined as "the use of money to achieve returns, income, or profit." However, this definition may not encompass all aspects of investment. Alternative perspectives describe investment as the reinvestment of profits and the development of investment projects, characterized as "the expendable portion of income used in productive processes for capital formation" (Altaan, 2006: 9). While informative, these definitions may still be somewhat limited.

From an international perspective, foreign investment can be understood as "the transfer of capital, advanced technology, and management practices in collaboration with local resources, aimed at supporting the economic, social, and administrative development of the host country" (Altaan, 2006: 10).

Building upon these perspectives, a comprehensive definition of investment can be articulated as follows: the strategic allocation of resources—including savings, capital, technology, and expertise—toward assets and projects with the aim of maximizing returns to promote macroeconomic growth and social development objectives.

6. BASIC PRINCIPLES OF THE INVESTMENT CLIMATE

Several key principles and conditions underpin a robust investment environment in any country. These include (Yahiawi, 2013: 5):

- Transparency, consistency, and adherence to investment law: Information related to investments must be clear, regularly updated, and readily accessible to all investors without discrimination.
- Free Movement of Capital: It is essential to facilitate the unrestricted transfer of invested capital and returns generated from investments.
- Stability: This involves establishing political, economic, social, and legal stability, as well as maintaining ongoing incentives for investors through a comprehensive investment promotion framework.

Implementing these core principles is essential for establishing a robust and conducive investment environment, especially in post-conflict contexts such as Syria. Addressing challenges related to transparency, legislative stability, and restrictions on capital transfers necessitates comprehensive institutional and legislative reforms. Such measures are vital to strengthening investor confidence and facilitating the acceleration of the reconstruction process through increased investment inflows.

7. ELEMENTS OF THE INVESTMENT CLIMATE

The elements of the investment environment comprise a range of factors that impact the movement of capital and labor. These elements can be organized within a comprehensive framework, which includes the following components.

7.1. Political and Security Climate

The political and security environment significantly influences investment decisions, as it is considered a key factor affecting the attractiveness of a region for investment. When evaluating potential investment locations, investors tend to prioritize political and security stability and often avoid areas experiencing political unrest. Weak political stability can lead to reduced savings and increased domestic capital flight. A country's political climate is shaped by several critical factors, including (AIGC, 2005: 15):

- The characteristics of its political system and the degree of its democratic governance

- The presence and strength of civil society organizations and their benefits from democratic processes
- The characteristics of political parties and the extent of individual freedoms granted
- Overall political stability

The ongoing political and security challenges in Syria, stemming from conflicts, sabotage, and other destabilizing factors, pose significant obstacles to attracting investment. Consequently, identifying safe, stable, and secure regions within the country is an essential initial step toward restoring national security and stability, thereby enabling the promotion of investment opportunities throughout Syria.

7.2. Economic Climate

The economic environment is a key factor impacting the viability of investments. A strong national economy typically correlates with greater investment opportunities. This environment includes various components such as natural resource availability, infrastructure quality, the size of the local market, the effectiveness and flexibility of economic policies (monetary, fiscal, and trade), government support levels, access to skilled labor and prevailing wage conditions, the capacity of local production institutions, market competition levels, and the maturity of capital markets from legal and organizational standpoints.

Syria presents several favorable features within its economic environment, including abundant natural resources, a substantial local and regional market, and a skilled workforce. These factors position the country as a potential hub for investment during the reconstruction period. However, challenges remain, such as infrastructure development, the enhancement of financial markets, and the modernization of economic policies to support the transition and restructuring processes.

7.3. Administrative and Judicial Climate

The administrative and judicial landscape in Syria plays a significant role in shaping investment decisions. An efficient administrative framework should prioritize clarity, transparency, simplicity, and the elimination of unnecessary bureaucratic barriers. Additionally, accessible and well-functioning administrative institutions are vital for fostering a favorable investment climate. Implementing comprehensive and transparent information systems can enhance investor confidence. A fair and impartial judiciary is essential for encouraging investment; the lack of such can act as a deterrent to prospective investors. Developing an independent and equitable legal system, supported by effective oversight mechanisms during the reconstruction phase, is critical to establishing a secure and stable environment that promotes sustainable investment (ESCWA, 2008: 2).

7.4. Political Environment and Legal Framework

A comprehensive legal and regulatory framework that provides assurances, incentives, and exemptions plays a vital role in encouraging investment. Robust legal protections, combined with the efficient execution of procedures and administrative processes, create an environment conducive to investment activity and promote long-term stability for investors. The effectiveness of a country's legislative initiatives and its adaptability to global market conditions significantly enhance its capacity to attract and retain foreign investment (Al-Khadr, 2010: 142).

7.5. Environmental and Social Climate

This encompasses the values and traditions that influence societal dynamics and economic productivity. Key factors include the effectiveness of labor unions, labor market conditions, education policies and their outcomes, population growth rates and the proportion of the workforce relative to the total population, social composition, levels of health and environmental awareness, and the community’s willingness to support investment projects. Additionally, relevant indicators involve poverty rates, average annual per capita income, employment and unemployment figures, existing labor laws and their enforcement efficiency, as well as metrics related to public health, safety standards, and the availability of essential public services (AIGC, 2007).

8. THE ROLE OF INVESTMENT PROMOTION AGENCIES AND THEIR INFLUENCE ON INVESTMENT FLOWS

Investment promotion agencies, in partnership with relevant stakeholders involved in fostering and attracting investment, play a vital role in positioning the country—particularly its economy and industrial sector—as an attractive destination for investors. These agencies can effectively facilitate investment through a range of strategic initiatives, including:

- Developing a comprehensive and positive image of Syria and its economy, emphasizing its potential as a viable investment location.
- Creating an enabling investment environment that addresses the needs and requirements of both domestic and international investors.
- Providing high-quality investor services, which are essential for fostering positive perceptions among current and prospective investors (Yahiawi, 2013: 13).
- A study examining the role of investment promotion agencies in attracting foreign direct investment (FDI) identified several noteworthy findings (AIGC, 2007):
- A targeted sectoral approach can increase FDI inflows by as much as 155% compared to non-targeted sectors.

The existence of a dedicated investment promotion agency is associated with a twofold increase in the proportion of FDI flows to developing countries with such agencies, with an average ratio 2.5 times higher than in countries without dedicated agencies.

9. INVESTMENT AND COMPETITIVE ENVIRONMENT

Establishing an attractive investment climate is a vital priority on a global scale. As nations compete to attract capital, international rankings based on various indicators and criteria have been developed to evaluate national investment competitiveness. These indicators should serve as a strategic reference for efforts to cultivate a favorable investment environment in Syria, especially during the reconstruction period. Enhancing the country's performance across these measures is crucial for increasing its economic attractiveness and attracting sustainable investment. Key indicators in this regard include (Ali, 2007: 502):

9.1. Global Competitiveness Indicators

Global Competitiveness Indicators, Comprised of Two Main Components

9.1.1. Growth Competitiveness Index

- This index assesses a country's potential for economic growth over the next five to eight years and is çöpse of three key pillars (AIGC, 2007: 6):
- The first pertains to the relative significance and contribution of the technology sector to the national economy.
- The second evaluates the performance of public institutions, including the legislative framework, rule of law, judicial independence, and levels of corruption and bureaucratic inefficiency.
- The third examines macroeconomic stability, encompassing fiscal sustainability, monetary policy effectiveness, and overall economic resilience.

9.1.2. Competitive Business Index

This index evaluates a country's ability to promote economic growth and consists of two primary components (AIGC, 2007: 6–7):

- The development level of the business sector
- The quality of the investment environment
- It is derived from eight equally weighted factors that collectively assess a country's overall economic potential within an ongoing, regularly updated statistical model. These factors include:
- Degree of economic openness
- Efficiency of the institutional framework
- Performance of the financial sector
- Quality of the information environment
- Infrastructure development
- Extent of government intervention in economic activities
- Human resource indicators
- Modernization of management systems.

9.2. E-Government Index

This index assesses the extent to which public institutions incorporate and utilize information and communication technologies in providing services to citizens and businesses, both domestic and international. Advancing toward e-government is a vital step in enhancing investor relations by increasing transparency, reducing costs, and streamlining administrative processes (AIGC, 2005: 5).

9.3. Economic Freedom Index

This index assesses the extent of government intervention in economic activities and its influence on political and economic freedoms, business performance, and international relations. It is based on ten factors encompassing fifty variables. The primary components include: trade policy (tariff rates), public financial management systems (tax structures), volume of domestic and foreign private investments, performance of the banking and financial sectors, appropriateness of legal frameworks and administrative procedures, the relative size of the public sector as a share of GDP, monetary policies (exchange rate and inflation), respect for intellectual property rights, wage levels, and the prevalence of informal parallel market activities (AIGC, 2004: 10).

9.4. Performance Index and Potential Foreign Direct Investment Index

This index was first introduced with the publication of the UNCTAD World Investment Report in 2002 and has since undergone periodic revisions and updates. It comprises two primary components (AIGC, 2006: 6–7):

9.4.1. Performance Index

Measures a country's success in attracting foreign direct investment (FDI) by comparing its global FDI inflows relative to GDP. A three-year average is utilized to mitigate the effects of seasonal fluctuations.

9.4.2. Capacity Index

Evaluates a country's potential and capacity to attract foreign investment through an assessment of thirteen key indicators, including:

- GDP growth rate
- Per capita income
- Export-to-GDP ratio
- Number of fixed telephone lines
- Mobile phone subscriptions
- Per capita energy consumption
- R&D expenditure as a percentage of GDP
- Ratio of higher education enrollment to total population
- Share of natural resource exports
- Percentage of household appliance spare parts imports
- Car export percentage
- Service export ratio
- Cumulative FDI stock relative to global FDI flows.

9.5. Country Risk Indicators

These indicators are compiled and published by Political Risk Services through comprehensive country reports, which assign numerical values to various risk factors to evaluate the overall risk profile of each country. The risks are categorized into three primary groups: political, economic, and financial risks. Consequently, investors can utilize these indicators to inform their decision-making processes, particularly when other variables are comparable across countries, often resulting in a preference for those with lower risk levels (AIGC, 1993: 9).

By analyzing a range of global indicators that measure countries' competitiveness in attracting investment, policymakers in Syria can identify key areas for reform. These include:

- Enhancing existing competitive advantages.

- Addressing vulnerabilities and structural challenges.

Implementing these measures can substantially contribute to creating an attractive investment environment, which is essential for financing the reconstruction phase.

9.5.1. An Overview of The Investment Environment in Syria

Following the conclusion of the conflict, Syria offers several competitive advantages that may encourage both foreign and domestic investment. These include abundant natural resources, a strategic geographical position, and diverse natural landscapes. Additional conducive factors comprise:

- Competitive labor costs

- Availability of a skilled and experienced workforce

- Access to substantial local and regional consumer markets

However, despite these advantages, there are still significant challenges that impede investment inflows into the country, which will be addressed in the subsequent discussion.

9.6. Significant Challenges Affecting the Investment Environment During the Reconstruction Period

Given Syria's prevailing political and economic circumstances, the obstacles affecting the investment environment can be categorized into two primary groups: Structural limitations prior to 2011 and challenges resulting from the conflict since 2011.

9.6.1. Pre-Crisis Obstacles to Investment (Prior to 2011)

The investment climate in Syria has historically faced several institutional and regulatory challenges, including (Al-Kafri, 2008: 17–18):

- Infrastructure: Inadequate and unevenly distributed across regions.
- Banking System and Financial Services: Ongoing inefficiencies in providing modern banking solutions.
- Interest Rates: Elevated and fixed over extended periods, reducing the effectiveness of monetary policy as an incentive for investment.
- Taxation and Wages: Lack of transparency and fairness in tax policies, coupled with overlapping and burdensome tax regulations.
- Foreign Exchange Restrictions: Particularly impacting non-Syrian investors, with difficulties in profit repatriation and access to foreign currency.
- Administrative Procedures: Complex processes and numerous licensing authorities, often leading to bureaucratic delays.
- Financing Sources: Limited compared to other countries, with underdeveloped insurance mechanisms for investment protection.
- Feasibility Study Guidelines: Absence of comprehensive frameworks for evaluating investment project viability.
- Investor Awareness: Limited understanding of available investment opportunities.
- Legal Dispute Resolution: Cumbersome processes in addressing disputes between investors and domestic entities.
- Market Competition: Influx of foreign products at competitive prices via formal or informal channels, adversely affecting local industries.

9.6.2. Challenges Pertaining to Post-2011 Developments

Syria is currently experiencing a transitional period marked by fragility and structural complexities across multiple political, economic, and social sectors. While there is a general sense of optimism following the regime change, notable challenges to stability and institutional development continue to be present. This phase was marked by a complex and challenging environment shaped by multiple interrelated factors that significantly hindered economic recovery and investment attraction. These challenges can be analyzed as follows:

1) Political and Security Instability

Ongoing political fragmentation and fragile governance structures have hampered national unity and created an unpredictable environment for both domestic and international stakeholders. Persistent security challenges, including sporadic violence and regional power conflicts, have further impeded investment and delayed reconstruction initiatives.

2) Currency Fluctuations and Exchange Rate Volatility

The Syrian pound has experienced significant depreciation against major foreign currencies, notably the U.S. dollar, driven by hyperinflation, diminished central bank support, and declining foreign exchange reserves. This volatility has impacted purchasing power, increased import costs, and introduced uncertainty for businesses and investors operating within the country. By April 2025, the currency had depreciated by more than 25000% against the U.S. dollar since 2011. Specifically, the exchange rate increased from approximately 46 Syrian pounds per dollar in January 2011 to nearly 12,000 Syrian pounds per dollar in April 2025, based on official data from the Central Bank of Syria. This unprecedented devaluation has exacerbated socioeconomic challenges, including widespread poverty and unemployment, while undermining the business environment and hindering efforts toward post-conflict recovery and reconstruction.

3) Rising Inflationary Pressures

Inflation has escalated to unprecedented levels due to currency devaluation, disruptions in supply chains, and increasing public debt. These factors have led to declining real wages and rising living costs, contributing to increased poverty and inequality, and diminishing domestic demand and consumer confidence.

4) Deterioration of Infrastructure

The infrastructure in the affected areas has experienced significant damage, with reports from the World Bank indicating that a substantial portion of essential services -including electricity, water supply, healthcare facilities, and educational institutions- have been substantially compromised or rendered inoperable.

5) Impact of International Sanctions Across Various Sectors

Sanctions imposed by Western nations and international organizations have restricted access to global financial markets, limited trade opportunities, and deterred multinational companies from engaging in Syria. These measures have particularly affected banking, energy, construction, and transportation sectors, constraining economic activity and access to vital resources.

6) Decline in Social and Economic Conditions

The ongoing humanitarian crisis, including a substantial displacement crisis, continues to affect approximately 13 million Syrians both domestically and abroad, according to United Nations estimates for 2024. Data from the United Nations High Commissioner for Refugees (UNHCR) indicate that around 6.8 million Syrians are either internally displaced or refugees in other countries, positioning Syria among the most significant displacement crises in recent history.

The degradation of public services, high unemployment rates, and widespread displacement have resulted in a humanitarian crisis. Poverty levels have risen significantly, with access to healthcare, education, and social protection measures declining, thereby undermining human capital development and long-term growth prospects.

7) Energy Shortages and Frequent Power Outages

The energy sector has suffered extensive damage to infrastructure, compounded by fuel shortages and management challenges. Consequently, frequent and prolonged power outages have become commonplace, disrupting industrial and commercial operations and increasing reliance on expensive alternative energy solutions.

8) Economic Contraction

According to data from the World Bank, the Syrian economy experienced a decline of over 82% in 2020, 79% in 2021, and 65% in 2022 relative to its 2011 level. This significant contraction highlights the severity of the ongoing economic challenges faced by the country, which are attributed to various factors including the prolonged armed conflict, international sanctions, the deterioration of the financial system, and decreases in domestic production across key sectors such as industry, agriculture, and energy.

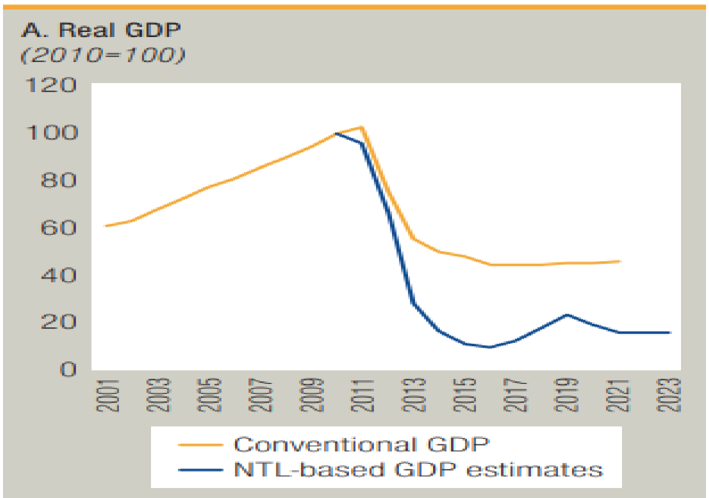

Figure 1: Syrian Real GDP, Source. World Bank. Syria Economic Monitor 2024

This Figure compares two estimations of Syria's real Gross Domestic Product (GDP) over time: blue Line (Conventional GDP): This line represents the official GDP figures based on traditional economic indicators and national accounting data. As shown, there is a sharp decline in GDP starting from 2011, reflecting the severe economic contraction caused by the onset of the conflict. Orange Line (NTL-based GDP Estimates): This line reflects GDP approximations derived from satellite imagery analyzing nighttime light intensity (NTL – Nighttime Lights[1]). The alignment between conventional GDP and NTL-based estimates reinforces the conclusion that Syria experienced a dramatic economic downturn beginning in 2011, with GDP levels dropping significantly throughout the conflict years.

9.7. The Investment Climate in Syria

Prior to the political developments in 2011, Syria was progressively transitioning from a centrally planned economy toward a more market-oriented system. Between 2000 and 2010, several significant legal reforms were enacted, including: The Updated Trade Law (2007), Maritime Law (2008), Public Finance Law (2004) and Banking Law (2004).

These reforms facilitated a gradual move away from longstanding centralized planning structures. The new investment law further promoted foreign investment through measures such as:

- Permitting full foreign ownership

- Customs exemptions on machinery and equipment imports

- Tax holidays of up to five years, extendable to seven years if public sector participation reaches 25%

Domestic banking and insurance sectors, including both local and foreign institutions, were established, and trade liberalization measures, supported by European Union cooperation, contributed to opening the domestic market through phased tariff reductions and customs system modernization. Additionally, Syria developed several industrial zones to support investment facilitation (MTE,2025)

During the years 2002–2005, Syria was ranked among countries with low performance and limited capacity to attract FDI, based on two key indicators (Abdulaziz Al-Jundi, 2010: 639):

- UNCTAD's FDI Performance Index[2]

- UNCTAD's FDI Potential Index

Following the liberalization of certain sectors—including infrastructure, telecommunications, banking, insurance, education, healthcare, and advertising—FDI inflows experienced growth. Legislative reforms and improved investment processes attracted both regional and international investors. Statistical data reflected a 48% increase in new investment entries and a 2.6% rise in exiting investments, driven by a combination of internal and external factors such as (Abdulaziz Al-Jundi, 2010: 640):

[1] These estimates serve as a proxy for economic activity, particularly useful during periods when official statistics are scarce or unavailable (e.g., 2012–2015). The NTL-based method provides a more continuous and spatially informed view of economic trends during the crisis.

[2] The Foreign Direct Investment Attraction Performance Index (FDI) measures the actual economic and investment situation of a country in terms of its real share in global FDI inflows.

- Availability of investment incentives
- Flexibility in FDI regulations
- Streamlined administrative procedures
- Enhanced access to information and infrastructure
- Expansion of domestic sectors including tourism, transportation, and real estate
- External factors like declining returns on investments in foreign markets

Since 2011, ongoing conflict has resulted in a severe humanitarian and economic crisis, leading to a substantial decline in investment flows. Syria has been subject to economic sanctions imposed by the United States and the European Union, which restrict trade and investment activities. In May 2025, a decision was made to lift these sanctions. There has been no publicly available reliable international data on foreign direct investment (FDI) inflows into Syria since 2012. According to the latest figures from the United Nations Conference on Trade and Development (UNCTAD), FDI inflows decreased significantly from USD 2.57 billion in 2009 to approximately USD 804 million in 2012. Data collection for FDI, including both inflows and outflows, has been largely disrupted since that time.

Data compiled by the Syrian Investment Authority between 2008 and 2014 indicate that Russia was the leading investor in Syria, accounting for 75.8% of FDI stock, followed by Germany with 19.7% (MTE, 2025).

Between 2015 and 2017, ten foreign direct investment projects were recorded, with total estimated investment costs of approximately SYP 1 trillion (roughly USD 2 billion)[3]. Lebanon was the leading investing country during this period, contributing through seven industrial projects with a combined value exceeding SYP 560 billion (approximately USD 1.166 billion) (SYK, 2018; 50).

According to the UNCTAD World Investment Report 2019, Syria’s total stock of foreign direct investment (FDI) stood at approximately USD 10.74 billion[4] in 2018 (UNCTAD, 2019).

Regarding domestic investment, data indicates an 8% increase in the number of registered investment projects recorded by the Syrian Investment Authority in 2019 compared to 2018. These included approximately 118 projects with an estimated total investment of USD 315 million, resulting in the creation of around 8,682 jobs. The industrial sector represented the largest share of these projects, accounting for 62% of the total.

In terms of foreign investment, the number of registered projects increased to nine in 2019, representing an increase of three projects compared to 2018, with a total estimated investment of USD 56 million. These projects contributed to approximately 1,128 employment opportunities (SYK, 2020).

9.7.1. Syria’s Indicators in the Doing Business Report

In recent years, Syria has been positioned toward the lower end of the global Doing Business rankings. In 2017, the country was ranked 174th out of 190 economies. Significant declines were observed in several key areas, including access to credit, contract enforcement, electricity supply, insolvency resolution, and protection of small investors (SYK, 2018; 51).

According to the World Bank's Doing Business 2020 report, Syria's ranking declined slightly, moving down three positions to 176th out of 190 economies (World bank, 2020).

These developments underscore the importance of implementing comprehensive reforms aimed at streamlining procedures and reducing the time required to establish and operate investment projects. Such initiatives are vital for attracting increased investment, supporting reconstruction efforts, and fostering overall economic growth. The table below provides a comparative overview of Syria's regulatory framework for conducting business.

[3] The exchange rate of 480 Syrian pounds per U.S. dollar is derived from the average exchange rates of the Syrian pound over the years 2015, 2016, and 2017.

[4] In 2019, the average exchange rate was approximately 608 Syrian pounds per U.S. dollar.

Table 1: Syria's ranking in the Doing Business report in 2015-2016-2017-2020

Topics	2015	2016	2017	2020
Overall	175	173	174	176
Starting a Business	152	136	133	143
Dealing with Construction Permits	189	187	186	186
Getting Electricity	76	151	153	160
Registering Property	82	154	155	162
Getting Credit	165	170	173	176
Protecting Minority Investors	114	87	89	97
Paying Taxes	117	81	81	91
Trading across Borders	146	176	176	178
Enforcing Contracts	175	109	161	160
Resolving Insolvency	119	161	163	158

Source: World Bank, Doing Business reports, 2017, 2020.

10. INTERNATIONAL EXPERIENCES IN ENHANCING THE INVESTMENT ENVIRONMENT

10.1. The UAE Experience

Foreign investment is a vital metric for assessing a country's ability to create an attractive environment for both domestic and international investors. In recent years, the United Arab Emirates (UAE) has established itself as a prominent destination for foreign capital within the Arab region, as reported by the United Nations and the World Bank. The sustained increase in foreign investments in the UAE can be largely attributed to a range of incentive-driven policies, including fiscal and legislative initiatives, as well as the development of robust infrastructure and supportive facilitation measures designed to bolster current investments and attract new ones to UAE.

According to the latest data presented in the World Investment Report 2024 published by the United Nations Conference on Trade and Development (UNCTAD), inward foreign direct investment (FDI) flows into the United Arab Emirates reached approximately USD 30.688 billion (equivalent to around AED 112.6 billion) in 2023. This represents a significant increase compared to the previous year, during which FDI inflows amounted to about USD 22.737 billion (approximately AED 83.5 billion). The growth rate recorded was nearly 35%, reflecting the country's growing appeal as an investment destination. Consequently, the UAE ranked second globally in terms of the highest FDI inflows received in 2023 (U.A.E. (n.d.-a)).

The following outlines the key factors that have contributed to the favorable investment environment in the UAE (U.A.E. (n.d.-b)):

- The United Arab Emirates (UAE) has established itself as a prominent destination for foreign investment at both regional and international levels, supported by economic policies that promote openness, competition, and anti-monopoly measures. The country maintains strong trade relationships with key global and regional organizations, including its membership in the World Trade Organization (WTO), the Greater Arab Free Trade Area (GAFTA), and various bilateral free trade agreements.
- Economic stability is a fundamental strength of the UAE economy. According to the Global Competitiveness Report 2019, the UAE ranks 25th globally and first in the Middle East in terms of economic competitiveness. This stability is attributed to strategic geographic positioning, substantial financial reserves, increased government investment in infrastructure and digital transformation, and proactive policies aimed at economic diversification.
- The UAE has introduced the "National Economic Principles" as a strategic framework for future development, emphasizing innovation, knowledge-based growth, and sustainable development. These principles encompass ten key areas:
  - Creating an open and attractive investment environment
  - Attracting global talent and skilled professionals
  - Strengthening the UAE’s position as a global hub for the digital economy
  - Empowering youth within economic sectors

  - Promoting sustainable development
  - Ensuring the stability of the financial system
  - Regularly updating economic legislation
  - Enhancing transparency and adherence to the rule of law
  - Developing a resilient banking sector
  - Building world-class logistics and infrastructure networks

- Furthermore, the UAE ranks highly among global countries in terms of ease of doing business, holding the 16th position worldwide according to the World Bank's Doing Business Report 2020. It demonstrates strong performance in areas such as electricity access, contract enforcement, and property registration.
- The country offers a flexible business environment, including over 45 free zones that permit 100% foreign ownership, along with various legal and operational advantages.
- It benefits from a highly skilled, diverse workforce supported by a modern visa system designed to attract expertise across sectors such as healthcare, science, and technology.
- Investment incentives include full ownership rights within free zones and certain sectors, profit repatriation of up to 100%, a flexible 10-year residency visa system, a stable and liquid banking sector, unrestricted currency conversion, low inflation rates, and minimal customs tariffs, typically between 0–5%.
- The UAE's political and social stability enhances its reputation as a secure and reliable location for both investment and residence. With diplomatic relations spanning over 100 nations and nearly 200 foreign missions, the UAE is recognized as one of the safest countries in the region and consistently ranks highly in global indices related to happiness and tolerance, reflecting its commitment to cultural diversity, social harmony, and inclusive governance.

10.2. The Chinese Experience

China’s approach to attracting foreign investment is widely recognized as a leading global example and has been instrumental in driving the country’s economic growth. China has successfully established an investment-friendly environment, positioning itself as a prime destination for international capital. The country implemented a comprehensive strategy aimed at encouraging foreign direct investment through a set of core principles and policies, including (Hreib, (n.d.)):

- Mutual benefit and protection: Ensuring the safeguarding of the rights and interests of all stakeholders involved in investment activities.
- Economic structural modernization: Employing scientifically grounded management practices to update economic frameworks.
- Technology transfer: Importing advanced and applicable technologies to bolster domestic industries.
- Preferential treatment: Offering incentives to foreign investors, such as income tax exemptions in joint ventures and full customs duty exemptions on imported goods for foreign-invested enterprises.
- Tax incentives for high-tech projects: Exempting qualifying high-tech initiatives from income taxes.
- Investment management rights: Allowing foreign investors in joint ventures to maintain full control over enterprise management.
- Geographical and sectoral focus: Developing special economic zones linked to international markets, with an emphasis on export-oriented sectors and the creation of export production networks to support foreign exchange earnings.
- Regulatory environment: Establishing a liberal system that governs employment policies, wage setting, labor market flexibility, and exemptions from state subsidies and land use fees.
- Tax policies: Facilitating profit repatriation through tax exemptions.
- Legal framework: Enacting over 100 laws and regulations to regulate international economic relations and support foreign investment.
- Institutional support: Developing a legal and guidance framework tailored for foreign investors.

- Financial infrastructure: Creating specialized banking systems to facilitate and promote foreign direct investment.

10.3. The Malaysian Experience

Malaysia has established itself as one of the leading developing countries in attracting foreign direct investment (FDI), particularly from multinational corporations, through targeted incentive policies tailored to specific industries and sectors. The following outlines the key factors that have contributed to the favorable investment environment in the Malaysia (Abdel-Azim, 2005):

- The Malaysian government has implemented a flexible approach by continuously modifying the structure and scope of incentives to align with national development goals. It has enhanced its global competitiveness by integrating investment incentives with opportunities for skill development and technological innovation, leveraging strategies employed by multinational firms.
- The focus has been on promoting overall investment while directing efforts toward high-tech sectors and industrial clusters. To attract foreign investors, special economic zones have been created, offering facilities such as:
    - Subsidized infrastructure services
    - Exemptions from customs and export duties
    - Expedited customs procedures
    - Exemption from standard property ownership laws within free zones
- All restrictions on corporate ownership rights have been eliminated, enabling foreign investors to hold full ownership (up to 100%) provided that companies export at least 80% of their production. Additionally, tax exemptions are available for companies producing goods under the Investment Incentives Act, while income tax reductions are granted to firms operating in designated sectors such as export-oriented manufacturing.
- Financial incentives encourage research and development activities as well as workforce training at the local level. A five-year tax holiday has also been introduced to incentivize companies to establish operations in Malaysia. The government has entered into bilateral agreements with various nations to provide legal guarantees for foreign investments, including protections against expropriation, access to dispute resolution mechanisms, and the right to transfer profits, income, and capital abroad.
- To support these initiatives, the Industrial Development Authority was established to address the needs of foreign investors. Additional incentives have been introduced to promote strategic projects, high-tech innovations, research and development, and industrial integration.

By examining Malaysia's approach to creating a favorable investment climate, it is evident that similar policies could positively influence the investment environment in Syria, especially during its post-conflict reconstruction phase. Key measures include:

- Streamlining customs procedures
- Simplifying company registration processes
- Ensuring property rights security
- Offering tax incentives and exemptions
- Managing investments via incentive-based mechanisms
- Facilitating the free movement of capital, profits, and income across borders
- Establishing accessible free zones to attract foreign investors
- Promoting public-private partnerships
- Developing industrial zones tailored to operational needs
- Upgrading the banking system to serve foreign enterprise requirements
- Creating specialized institutions dedicated to investor relations and investment promotion within Syria.

11. CONCLUSION AND DISCUSSION

This study has conducted an analysis of the investment environment in Syria, focusing on its key components and fundamental principles. It has also examined the relationship between the investment climate, global competitiveness, and the country's capacity to attract foreign capital. Additionally, the study identifies the primary obstacles impeding the development of an improved investment environment in Syria. Based on this analysis, it can be observed that there is a significant correlation between the determinants of the investment environment and the potential volume of investments that could be attracted during the post-conflict reconstruction phase.

The post-conflict transition in Syria involves a complex set of interconnected challenges that require comprehensive and strategic solutions to ensure sustainable recovery and long-term development. These challenges can be analyzed through the following key thematic areas:

- Syria's extensive political fragmentation, along with the presence of diverse armed and political actors, continues to hinder the establishment of a unified and legitimate governance framework. Promoting an inclusive political environment supported by strong state institutions is essential for achieving lasting security and national reconciliation. An internationally supported peace process is critical to consolidating political stability and enabling pathways toward sustainable governance.
- The Syrian pound has experienced significant depreciation due to economic mismanagement, capital outflows, and the impact of international sanctions. Restoring monetary stability will require a multifaceted approach, including rebuilding confidence in central banking authorities, implementing comprehensive monetary policy reforms, and increasing foreign exchange reserves through international aid and regional cooperation.
- Persistent hyperinflation has severely reduced purchasing power and intensified poverty across many segments of Syrian society. Addressing inflationary pressures necessitates fiscal discipline, the rationalization of subsidies, and strengthening monetary policy frameworks, while also ensuring the social welfare of vulnerable populations.
- The ongoing conflict has destroyed or severely damaged essential infrastructure, including transportation, housing, water and sanitation systems, as well as healthcare and education facilities. Transparent, needs-based planning supported by international financial mechanisms is vital to restoring public services and stimulating economic activity nationwide.
- Economic sanctions have limited Syria's access to international markets, restricted foreign investment, and constrained financial operations. Progress in political negotiations could lead to the easing or lifting of sanctions, opening opportunities for trade, reconstruction funding, and fuller integration into regional and global economies.
- High unemployment, widespread poverty, and limited livelihood opportunities require targeted interventions. Implementing social protection programs, creating employment opportunities, and investing in education and healthcare are crucial steps toward inclusive socioeconomic growth and reducing dependence on humanitarian aid.
- Persistent energy shortages, especially in electricity supply, have impacted household well-being and industrial productivity. Revitalizing the energy sector involves investing in both traditional power infrastructure and renewable energy sources to support economic recovery and improve quality of life.
- Developing an efficient, independent, and impartial legal and judicial framework characterized by procedural clarity, transparency, and legislative coherence.
- Reducing corruption and promoting accountability within a framework of full transparency.
- Improving governance within banking systems, financial institutions, credit agencies, and stock markets.
- Adopting best practices from international experiences, particularly those that have successfully attracted industrial and foreign direct investment, as models for improving the investment climate in Syria.
- Addressing these areas through coordinated policy reforms and ongoing international support is fundamental to guiding Syria's post-conflict recovery and fostering resilience and equitable development

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