The Impact of Trade Liberalization on Syrian Economy

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1. Introduction:

Syria has produced heavy-grade oil from fields located in the northeast since the late 1960s. Syria's rate of oil production has been decreasing steadily, from a peak close to 610,000 barrels per day (bpd) in 1995 down to approximately 379,000 bpd in 2008. In parallel, Syria's oil reserves are being gradually depleted and reached 2.5 billion barrels in 2009. Experts generally agree that Syria will become a net importer of petroleum by the end of the next decade. Oil still accounts for a majority of the country's export income. Syria also produces about 22 million cubic meters of gas per day, with estimated reserves around 240 billion cubic meters or 8.5 trillion cubic feet6.

Over the medium term, Syria faces challenges of: keeping strong growth developing non-oil sectors to cope with still important demographic pressures, with the decline in oil production, Integration into the global economy, adapt of Arab Free Trade Area, and prepare for the dues of the partnership agreement with the European Union, and also the Syrian application submitted for membership in WTO.

The problem: is how can Syrian Government maintain growth under the condition of decreasing of public budget revenue due to lower customs duties.

The general objective of this study is to evaluate the impacts of Trade liberalization in Syria for obtaining approximately optimal trade policy, Therefore more detailed objective are showmen in the follows:

- To Exam the impact of reducing Custom Duties on Industrial sector.
- To estimate the impact on the welfare of households.

This study adopting these two follows hypotheses:

- Custom duties' reduction in industrial sector in Syria, will improve the competitiveness of local production.
- Custom duties' reduction in industrial sector will improve the welfare of households.
- Creasing of public budget revenue due to lower customs duties.

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2. Forge in Trade in Syria:

The figures indicate that Syrian Economy face many problems: manufacturing sector except Textiles is uncompetitive, thus most of exported products are raw, and domestic oil -which dominated high share of total exports- might be depleted.

Syria could find good international markets for Textiles and Fruits, Vegetables and Preparations thereof during 2007-2009 thus the exports of these two products increased.

Table No.1. The Most important Exports by product groups

<table>
<thead>
<tr>
<th>Product Groups</th>
<th>2003</th>
<th>2005</th>
<th>2007</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value (Millions of S.P.)</td>
<td>Share in total exports</td>
<td>Value (Millions of S.P.)</td>
<td>Share in total exports</td>
</tr>
<tr>
<td>Crude Oil</td>
<td>165518.06</td>
<td>62.5%</td>
<td>178730</td>
<td>42.1%</td>
</tr>
<tr>
<td>Textiles</td>
<td>17204.078</td>
<td>6.5%</td>
<td>17964</td>
<td>4.2%</td>
</tr>
<tr>
<td>Fruits, Vegetables and Preparations thereof</td>
<td>8828.595</td>
<td>3.3%</td>
<td>9249</td>
<td>2.2%</td>
</tr>
<tr>
<td>Raw Cotton (Fiber)</td>
<td>6420.049</td>
<td>2.4%</td>
<td>8174</td>
<td>1.9%</td>
</tr>
<tr>
<td>Live Animals and Meat</td>
<td>10300.897</td>
<td>3.9%</td>
<td>10438</td>
<td>2.5%</td>
</tr>
<tr>
<td>Phosphate</td>
<td>1412</td>
<td>0.5%</td>
<td>2761</td>
<td>0.7%</td>
</tr>
<tr>
<td>Raw Hides and Leather (excluding Fur skins)</td>
<td>764.783</td>
<td>0.3%</td>
<td>897</td>
<td>0.2%</td>
</tr>
<tr>
<td>Lentils</td>
<td>1259.398</td>
<td>0.5%</td>
<td>1573</td>
<td>0.4%</td>
</tr>
<tr>
<td>Tobacco</td>
<td>108.288</td>
<td>0.0%</td>
<td>167</td>
<td>0.0%</td>
</tr>
<tr>
<td>Wheat</td>
<td>0</td>
<td>0.0%</td>
<td>348</td>
<td>0.1%</td>
</tr>
<tr>
<td>Total</td>
<td>265038.93</td>
<td></td>
<td>424300.35</td>
<td></td>
</tr>
</tbody>
</table>

Resource: Quarterly Statistical bulletin, years 2010-2009, tables 43-38 Central Bank of Syria

Table 2 indicate that there is a significant increase in Fuels which confirm the point of view that Syria has a big problem in foreign trade policy, we also notes that the demand of imported fuel decreased significantly in 2009 because the fuel subsidies omitted in the middle of 2008 by government, so the impact of this policy affected the fuel consumption in 2009, we also notes that two capital goods, namely, Machinery and Equipment, Transport Equipment’s dominated a consolidated import share of 26.5% in 2003 which decreased to 16.7% in 2009, another important imported goods are Metal and Products thereof, which increased according to the improvement of construction sector.

Table No. 2 The Most important Imports by product groups

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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value (Millions of S.P.)</td>
<td>Share in total imports</td>
<td>Value (Millions of S.P.)</td>
<td>Share in total imports</td>
</tr>
<tr>
<td>Machinery and Equipment</td>
<td>40854.706</td>
<td>17.3%</td>
<td>61276</td>
<td>12.2%</td>
</tr>
<tr>
<td>Metal and Products thereof</td>
<td>35029.207</td>
<td>14.8%</td>
<td>63678</td>
<td>12.7%</td>
</tr>
<tr>
<td>Other Foodstuff</td>
<td>31731.366</td>
<td>13.4%</td>
<td>44942</td>
<td>8.9%</td>
</tr>
</tbody>
</table>
Chemicals and Products thereof | 20450.821 | 8.6% | 32252 | 6.4% | 38574.518 | 5.6% | 53658.44821 | 7.5%
---|---|---|---|---|---|---|---|---
Textiles and Textile Articles | 19389.564 | 8.2% | 23614 | 4.7% | 19867.216 | 2.9% | 33886.22319 | 4.7%
Transport Equipment's | 21738.313 | 9.2% | 38314 | 7.6% | 50589.835 | 7.4% | 50093.91749 | 7.0%
Resins, Artificial Rubber and Products thereof | 19640.895 | 8.3% | 32206 | 6.4% | 46686.464 | 6.8% | 52641.26972 | 7.4%
Fuels | 8608.524 | 3.6% | 123650 | 24.6% | 148910.7674 | 21.8% | 37376.58908 | 5.2%
Paper and Products thereof | 7363.689 | 3.1% | 10333 | 2.1% | 12262.114 | 1.8% | 14400.96794 | 2.0%
Raw and Refined Sugar | 5910.436 | 2.5% | 8909 | 1.8% | 15781.10635 | 2.3% | 24514.20214 | 3.4%
Wood and Products thereof | 6618.841 | 2.8% | 8964 | 1.8% | 10130.357 | 1.5% | 12905.17198 | 1.8%
Fruits and Vegetables | 2722.329 | 1.1% | 3579 | 0.7% | 6857.217 | 1.0% | 12010.20948 | 1.7%
Live Animal, Meat and Canned Meat | 1874.408 | 0.8% | 2022 | 0.4% | 8811.424 | 1.3% | 11757.43948 | 1.6%
---|---|---|---|---|---|---|---|---

| | 236768 | 502367.733 | 684556.5197 | 1 | 714215.594 |

Resource: Quarterly Statistical bulletin, years 2010-2009, tables43-38 Central Bank of Syria

3. Customs Duties:

Goods imported into Syria are subject to a customs duty and "unified" tax. Rates are progressive, depending on the Syrian government's view of the necessity for the products. Food and industrial raw materials carry low rates while luxury goods, such as automobiles, have high rates.

The rate of Exchange according to official price of U. S $ was (4.05) S.P for imports and (3.90) S.P for Exports until 1986. With the beginning of 1987 it became (11.25) S.P for imports and (11.20) S.P for exports, in 2000 it became (46.50) S.P for imports and for export it was (46.00) S.P. In 2004 the official price for imports and exports became (48.65) S.P, during 2005 the rate of exchange became (50.00) SP for Imports. And for exports it became as Central Bank of Syria issue, in 2008 it became (46.65) S.P for Imports and (46.47) S.P for Exports, according to the average of annual official prices, issued from Central Bank of Syria.

Until 2006 Syrian authorities apply three different exchange rates, these three rates consolidated in one free managed rate in 2006. this different rates apply to artificially low imports value, and most imports of basic goods evaluated at the customs exchange rate 11.25 LS/$, so Syria imposed very high effective tariff rate.

Minimum effective Tariff rates for Food and Live Animals (SITC0) are very low, with the exception of other fruits, and also other products. (salt, children food, spice, coffee beans, etc.). Even the maximum rates are often at reasonable levels and, while significantly higher, usually not excessive, tariff imposed on Onion.
(fresh and dried) and other fruits and Preservation of vegetables and fruits in 2007 is very high, Syria has limited local industry for Canning vegetables and fruits, so government used this policy to protect local production, instead of improving the competitiveness of these production, Tariff of Logging and forestry Cocoa and chocolates is also high.

- Beverages and Tobacco carry rather high minimum effective tariff rates and high maximum effective tariff rates, also tariff imposed in 2007 is very high especially for Spirits and wine which can become more prohibitive, but in case of tobacco products it is still lower than effective tariff rate.

- The average of Minimum effective Tariff rate for Manufactured goods (SITC6), was not high, but as Syria has a limited local industry for Manufacture of cutlery, hand tools and general hardware (knives, scissors, spoons, forks, saws, saw blades, etc.), and Non-electric home appliances: cooking ovens, heaters, so the government used protection policy for these production, this policy became dipper in 2007, high tariff rate has imposed on several products, especially Ceramic ware, Non-electric home appliances: cooking ovens, heaters, Electric home appliances: Vacuum cleaners, Electric home appliances: other home appliances.

Most of local industries are protected by government, this protection policy couldn’t be used when Syria enforced to decrease Tariff rate according to international agreement, Tariff for some of these products decreased in 2007, in general the average of tariff rate in 2007 was negligible.

-Machinery and Transport Equipment’s (SITC7): the general picture seems to be that most machinery carries low effective tariff rates more heavily, while high rates are levied on Spare parts (Spare parts for vehicles and transportation equipment’s, Manufacture of bodies (coachwork) for motor vehicles while spare parts are taxed somewhat), also high rates are levied on other two kind of machines (Telephony transmitters, Photographic cameras).

In general the average of tariff rate in 2007 is high, which means more restrictions on importing very important factor.

We note that; high rates are levied on some important machines for household use (TV and video cameras, Television and radio receivers (TVs, radios), and Air conditioners and related spare parts) which effect negatively on their standard of living.

The tariff rate on some kinds of vehicles also increased (Manufacture of non-agricultural motor vehicles including those of special use (tankers refuse collectors, street sweepers, etc.), and Trailers' (excluding railway trailers')).

This group is very important to focus on, in simulation to find the impact of trade liberalization, cause almost, tariff reduction on this group will effect significantly on the whole Syrian economy.
4. Simulation:

The Syrian CGE model is constructed with 27 equations using Social Accounting Matrix Data in Syria 2007, and solved by GAMS program, this model used to simulate the follows policy scenarios:

- Completely liberalization of all Industrial activities (Tariff = 0 for all activities).
- Completely liberalization of Manufacture of Food Products, and continued protecting other Activates (Tariff = 0 for Manufacture of Food Products).
- Completely liberalization of Manufacture of tobacco products, and continued protecting other Activates (Tariff = 0 for Manufacture of tobacco products).
- Completely liberalization of Manufacture of footwear and leather products, and continued protecting other Activates (Tariff = 0 for Manufacture of footwear and leather products).
- Completely liberalization of Manufacture of Textile and wearing apparel, and continued protecting other Activates (Tariff = 0 for Manufacture of Textile and wearing apparel).
- Completely liberalization of Manufacture of paper and paper products, and continued protecting other Activates (Tariff = 0 for Manufacture of paper and paper products).
- Completely liberalization of Wood Industries, and continued protecting other Activates (Tariff = 0 for Wood Industries).
- Completely liberalization of Manufacture of Chemicals and Chemical Products, and continued protecting other Activates (Tariff = 0 for Manufacture of Chemicals and Chemical Products).
- Completely liberalization of Petroleum products, and continued protecting other Activates (Tariff = 0 for Petroleum products).
- Completely liberalization of Metal Industries, and continued protecting other Activates (Tariff = 0 for Metal Industries).

5. Results:

- Revenue losses due to lower import tariff can be sizable for Syrian government, but it ensure relatively cheap imports for industrial sector, while government seek for protecting domestic industries through high tariff rates on non-basic consumption goods.
- Analysis of effective tariff rates - which corrects the overvalued customs exchange rates - finds rather low average effective tariff rates for major product categories. Only few selected items carry prohibitive tariff loads.
- Tariff reduction reflected to private households’ welfare and stimulates private consumption.
- Simulation result. Trade liberalization hardly affects the costs of input usage, since initial tariff rates are already low.
- Private consumption is the main beneficiary of trade liberalization. Real disposable income of private households rises by approximately the amount of lost tariff revenue. This additional income is partially spent on...
- imports and partially spent on domestic goods.
- Domestic industries, which suffer from increased competition of imported output goods, benefit from increased private household demand for their products

1. Abstract:

CGE Model constructed using Social Accounting Matrix Data in Syria 2007, and solved by GAMS program, this model allows for government monopolies in selected sectors of the economy, scenarios of trade liberalization are studied in simulations of a CGE model of the Syrian economy.

As a result, lost tariff revenue basically benefits private consumption. The government budget deficit increases sizably under radical liberalization scenario. However, in the medium term industrial Exports will increase.

2. References

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