FDI Locational Determinants in Transition Economies: an Interpretivist Perspective

Evidence From Syria

Being a Thesis Submitted for the Degree of Doctor of Philosophy

By

Mahmoud Alajaty

Bachelor of Law –Aleppo University Law School, Syria.
MSc in Business Management, Hull University Business School, UK.

November 2013
Abstract

In 2005, the Syrian government decided to move from a centrally planned economy to a more market-based one. This research explains why the Syrian government has taken this transitional decision and presents the institutional reforms carried out as a result of this decision. Indeed, it was clear that a major goal of these institutional reforms was attracting more FDI inflows into Syria. This is because FDI can play a vital role in driving economic growth. Therefore, this study explores the extent to which institutional reforms have affected FDI inflows into Syria, which has not been undertaken before in the transition economy of Syria.

Since the early 1990s, many researchers have explored the locational determinants of FDI in transition economies. However, these studies were quantitative, mainly econometric. This study is different since, in respect of the transition economy of Syria, it explores the locational determinants of FDI following a qualitative research strategy that is based on a strategic management perspective. Within this, the deductive and the inductive research approaches are integrated to create a more open and flexible research design that can go beyond the borders of the quantitative findings of the previous econometric research. Data was collected using semi-structured interviews with thirty key decision makers who were directly involved in making the locational decision of FDI in Syria. The thematic analysis of text, using the template technique, was followed in this study to analyse the conducted interviews.

The research’s findings revealed that the Syrian government institutional reforms have enhanced Syria’s attractiveness to FDI. Yet, they also revealed that further steps are needed to overcome the remaining problems in the Syrian institutional investment environment. However, these problems proved to be less daunting to foreign investors who already had experience in Syria or in a similar type economy. The same holds true for investors whose backgrounds were culturally close to that of Syria. Other foreign investors, however, overcame these problems by having a Syrian partner.

This study also revealed that institutional factors, although important, were not by themselves sufficient to attract FDI into Syria. Foreign investors also had to have economic motivations to invest in Syria to ensure the profitability and the competitiveness of their FDI projects. In addition, the research also revealed that the economic motivations for FDI in Syria were clearly linked with the institutional reforms taken by the Syrian government. This was because institutional reforms opened the door to FDI, enabling foreign investors to benefit from the economic opportunities now offered by Syria.

Key Words: Transition economies, FDI, locational determinants, thematic analysis, template analysis, Syria.
# Table of Contents

Abstract ........................................................................................................................................... ii  

List of Figures .................................................................................................................................. viii  

List of Tables .................................................................................................................................. ix  

List of Abbreviations ................................................................----------------------------------------------- x  

1 Chapter One: Introduction .............................................................................................................. 1  
   1.1 Research Background ............................................................................................................. 1  
   1.2 Research Question ................................................................................................................ 6  
   1.3 Research Aims and Objectives ............................................................................................... 7  
   1.4 Research Methodology .......................................................................................................... 7  
   1.5 The Significance of this Research ......................................................................................... 8  
   1.6 Thesis Outline ...................................................................................................................... 11  

2 Chapter Two: Transition Economies: The Syrian Experience ..................................................... 13  
   2.1 Introduction ........................................................................................................................... 13  
   2.2 Transition Economies ............................................................................................................ 14  
       2.2.1 Socialist Economy and its Consequences ................................................................. 14  
   2.3 The Syrian Economic Transition Experience ...................................................................... 18  
       2.3.1 Triggering Events of Transition .................................................................................. 18  
       2.3.2 Different Transition Paths .......................................................................................... 20  
       2.3.3 The Syrian Economy’s Transition Path ....................................................................... 22  
       2.3.4 Syrian Investment Policy Enhancement Measures .................................................. 27  
       2.3.5 Syrian FDI Inflows Figures ......................................................................................... 39
2.4 Conclusion........................................................................................................41

3 Chapter Three: Literature Review......................................................................42

3.1 Introduction......................................................................................................42

3.2 Theoretical Foundation of FDI......................................................................44

3.3 Institutional Environment and FDI Locational Decision...............................50

3.4 Empirical Evidence for Host Country Institutions’ Effects on FDI Inflows.....52

3.5 Empirical Evidence for Economic FDI Locational Determinants.................59

3.6 Conclusion......................................................................................................65

4 Chapter Four: Methodology..................................................................................67

4.1 The Research Purpose....................................................................................67

4.2 Research Philosophy and Paradigm...............................................................68

4.3 Research Approach.......................................................................................70

4.4 Research Strategy..........................................................................................71

4.5 Data Collection Methods...............................................................................72

4.6 Research Population, Sampling Technique and Data Sources.....................74

4.7 Research Hypotheses.....................................................................................75

4.8 Ethical Issues..................................................................................................80

4.9 Data Quality Issues.......................................................................................80

4.10 Conclusion.....................................................................................................82

5 Chapter Five: Data Collection Process and Data Analysis...............................83

5.1 Introduction.....................................................................................................83

5.2 The Research Conceptual Framework............................................................84
5.2.1 Institutional Determinants of FDI .......................................................... 85
5.2.2 Economic Determinants of FDI .......................................................... 88
5.3 Data Collection Process ........................................................................... 91
  5.3.1 Designing the Interview Questions ...................................................... 91
  5.3.2 Choosing and Contacting Participants .............................................. 95
5.4 Data Analysis ......................................................................................... 100
  5.4.1 Preparing the Interviews for the Analysis .......................................... 100
  5.4.2 Using the N-Vivo Computer Programme for Data Analysis .......... 101
  5.4.3 Thematic Analysis of Text ............................................................... 105
6 Chapter Six: Research Findings ............................................................... 118
  6.1 Introduction ......................................................................................... 118
  6.2 Institutional Factors as FDI Locational Determinants ....................... 119
    6.2.1 Policy Framework for FDI ............................................................. 120
    6.2.2 Business Facilitation Activities ..................................................... 150
    6.2.3 Clear Political Vision and Strong Will for Economy Openness and Market Liberalization ................................................................. 165
    6.2.4 Previous Experience in a Similar Economy, the Local Partner and Cultural Proximity ................................................................. 168
  6.3 Economic Determinants ........................................................................ 170
    6.3.1 Market Seeking ........................................................................... 171
    6.3.2 Efficiency Seeking ........................................................................ 175
    6.3.3 Resource/Asset Seeking ............................................................... 177
  6.4 Conclusion .......................................................................................... 179
Chapter Seven: Discussion and Hypothesis Testing .................................................. 180

7.1 Introduction ........................................................................................................... 180

7.2 Institutional Factors as FDI Locational Determinants ........................................ 181

7.2.1 Economy Openness ....................................................................................... 182

7.2.2 FDI Liberalization Policies ........................................................................... 185

7.2.3 Trade Policy ................................................................................................. 189

7.2.4 Political Stability and Improving International Relationships .................. 190

7.2.5 Privatization Policy ...................................................................................... 192

7.2.6 Business Facilitation Activities ................................................................... 193

7.3 Previous Experience and Cultural Proximity ................................................... 199

7.4 Economic Determinants of FDI ........................................................................ 204

7.4.1 Market Seeking Motivations ........................................................................ 205

7.4.2 Efficiency Seeking Motivations .................................................................... 206

7.4.3 Resource/Asset Seeking Motivations ............................................................ 208

7.5 Conclusion ........................................................................................................... 211

Chapter Eight: Conclusion .................................................................................. 213

8.1 Introduction ........................................................................................................... 213

8.2 Summary of Key Findings .................................................................................. 214

8.3 Study Contribution .............................................................................................. 217

8.4 Policy Implications .............................................................................................. 221

8.5 Limitations of the Study and Recommendations for Further Research .......... 222

❖ Addendum: a comment on the impact of the recent unrest in Syria on the research .... 224
REFERENCES..................................................................................................................228

Appendices........................................................................................................................253

Appendix 1: Recent Empirical Studies about FDI Locational Determinants ..........254

Appendix 2: Interview Guide in English ...........................................................................263

Appendix 3: Interview Guide in Arabic .............................................................................276

Appendix 4: Final Analytical Template for FDI Locational Determinants ..........286

Appendix 5: FDI Inflows Figures ....................................................................................288
List of Figures

Figure 1.1 Global FDI Inflows, Top 20 Host Economies, 2008–2009 .......................... 3

Figure 3.1 Dunning’s OLI Paradigm ........................................................................... 47

Figure 5.1 Host Country Determinants of FDI .............................................................. 84

Figure 5.2 The Liberalization of FDI Policies .............................................................. 86

Figure 5.3 Data Collection Process ............................................................................. 91

Figure 5.4 Preparing the Interviews for Analysis ......................................................... 100

Figure 5.5 Organizing the Data Using Folders within the N-Vivo Project ................. 103

Figure 5.6 Creating Attributes using N-Vivo ............................................................. 104
List of Tables

Table 2.1 Net FDI Flows into Syria between 2000 and 2008 ........................................... 39

Table 5.1 Participants List .................................................................................................. 97

Table 5.2 Participants per Sector ....................................................................................... 99

Table 5.3 Participants per Position ..................................................................................... 99

Table 5.4 Phases of Thematic Analysis ............................................................................. 106

Table 0.1 FDI Projects in Syria per Country and Sector 1991-2008 ................................. 289

Table 0.2 FDI Projects by City ......................................................................................... 290

Table 0.3 FDI Projects by Sector ....................................................................................... 291
List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BIT</td>
<td>Bilateral Investment Treaties</td>
</tr>
<tr>
<td>BOT</td>
<td>Build, Operate and Transfer</td>
</tr>
<tr>
<td>BRICS</td>
<td>Brazil, Russia, India, China and South Africa</td>
</tr>
<tr>
<td>CEE</td>
<td>Central and Eastern Europe</td>
</tr>
<tr>
<td>CESEE</td>
<td>Central, Eastern and South-Eastern Europe</td>
</tr>
<tr>
<td>DTT</td>
<td>Double Taxation Treaties</td>
</tr>
<tr>
<td>EAR</td>
<td>Export Administration Regulations</td>
</tr>
<tr>
<td>EMs</td>
<td>Emerging Markets</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FSA</td>
<td>Firm Specific Advantages</td>
</tr>
<tr>
<td>FYP</td>
<td>Five Year Plan</td>
</tr>
<tr>
<td>GAFTA</td>
<td>the Greater Arab Free Trade Area</td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>ICT</td>
<td>Information &amp; Communications Technology</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IPR</td>
<td>Intellectual Property Rights</td>
</tr>
<tr>
<td>M&amp;A</td>
<td>Mergers and Acquisitions</td>
</tr>
<tr>
<td>MNE</td>
<td>Multinational Enterprise</td>
</tr>
<tr>
<td>OECD</td>
<td>the Organization of Economic Cooperation and Development</td>
</tr>
<tr>
<td>PPP</td>
<td>Private-Public Partnership</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>SAA</td>
<td>the Syria Accountability Act</td>
</tr>
<tr>
<td>SIPA</td>
<td>the Syrian Association for Intellectual Property</td>
</tr>
<tr>
<td>SOE</td>
<td>State Owned Enterprise</td>
</tr>
<tr>
<td>SSA</td>
<td>Sub-Saharan Africa</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Name</td>
</tr>
<tr>
<td>---------</td>
<td>-----------</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
<tr>
<td>WIPO</td>
<td>World Intellectual Property Organization</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
</tbody>
</table>
1 Chapter One: Introduction

1.1 Research Background

Since the publication of Child (1972) on the strategic choices of organisation, an impressive amount of research has been done on how organisations make strategic choices during periods of fundamental institutional change (Peng, 2003; Zhou and Peng, 2010). “Emerging Markets” (EMs) have become an interesting context for exploring the strategic choices of organisations, mainly because they have witnessed a noticeable growth in terms of their attractiveness to Foreign Direct Investment (FDI) whilst their institutional environment has been under comprehensive change (de Angelo et al., 2010; Peng et al., 2008). There is no unanimous definition of EMs in the international literature. Nevertheless, it is widely agreed that EMs share three major features: they are characterised by being 1- relatively less developed but 2- rapidly developing economies. Furthermore, 3- their economic policies support market liberalization and the adoption of the supply-demand mechanism (Arnold and Quelch, 1998; Hoskisson et al., 2000). In this sense, “emerging markets describe countries experiencing rapid economic growth and industrialization but having not yet achieved the maturity of developed markets, particularly the development of regulatory institutions” (Liou et al., 2012: p.182).

EMs include economies in Latin America, Asia, Africa and the Middle East. In many cases, researchers have studied these markets within groups, in spite of the fact that these countries might not share any other factors apart from being emerging markets. Examples of such groups include the Asian tiger economies (South Korea, Taiwan, Singapore and Hong Kong), BRICS countries (Brazil, Russia, India, China and South Africa) and Tiger Cubs (Thailand, The Philippines, Malaysia and Indonesia). In addition, some of these economies (e.g. South Korea and Taiwan) achieved a level of
economic development that classified them as advanced economies (Peng, 2003; Liou et al., 2012).

A subset of EMs are in the course of a liberalization process and are moving from Socialism to market-based economies, and in this case they are usually labelled as “Transition Economies” (Peng, 2003; Arnold and Quelch, 1998). Transition economies, such as those located in Central and Eastern Europe (CEE), mainly emerged after the end of the Cold War and the fall of their Socialist governments, which initiated a new era of intensive political, legal, and economic change within these countries in order to liberalize their markets and to move towards market-based economies (Newman, 2000; Cullen and Parboteeah, 2010; Walch and Wörz, 2012).

The primary idea of economy transition is to replace the institutions of a centrally planned economy with the institutions of a market-based economy (Meyer, 2001b). Since institutions are “the rules of the game in a society”, as described by North (1990: p.3), and given the new business opportunities derived from liberalizing the former socialist markets, transition economies have emerged as an interesting context for research in the field of FDI strategies (Bevan et al., 2004; Meyer and Gelbuda, 2006; Gelbuda et al., 2008).

The importance of the EMs and transition economies is confirmed because despite the world financial crises, the share of EMs and transition economies of global FDI inflows soared from 18 % in 1992 to 43% in 2008, while the developed countries’ share declined over the same period. In addition, three EMs and transition economies were ranked among the top largest six recipients of FDI in 2009 (Figure1.1): China became second after the US, Hong Kong became fourth after France and Russia was ranked as the sixth largest recipient of FDI after the UK (UNCTAD, 2010, 2009, 1996).
Syria can be considered as a recent example of an economy in transition. In June 2005, the ruling Syrian Baath Party’s Congress clearly initiated a transitional era in the Syrian economy by adopting “The Social Market Economy” as its new ideology for the Syrian economy, replacing socialism, which it had been following since the 1960s. The new ideology is based on two major concepts: the supremacy of free market forces and emphasizing the importance of social issues (Barry and Murad, 2000; Raphaeli, 2007).

The Syrian transition decision, similar to those in other transition economies, was taken because of fundamental problems arising from the former Socialist economic policy. Such problems fall into two major categories: coordination problems and incentive problems. In many Socialist economies, these problems caused severe famines, very low living standards, food shortages and scarcity of consumer goods (Peng, 2000).

In the case of the Syrian Socialist economy, also, coordination problems and incentive problems were observable. In terms of coordination problems, due to the heavy reliance on centralization, planning authorities were incapable of providing coherent production plans for the huge public sector. Therefore, their output targets for the state owned enterprises (SOEs) were unrealistic. Moreover, appointment of unqualified managers for the SOEs for political reasons, in addition to the rapid turnover in such positions,
created a lack of experienced managers, especially in terms of quality and efficiency. These SOE managers had no power to adapt their production to market conditions. For all these reasons, it was impossible to solve the continuous problems in matching the outputs of SOE to market needs (Hinnebusch, 1995).

With regard to incentive problems, paying SOEs’ managers and shop-floor workers low wages made them careless and obsessed with personal benefits. Shop-floor workers were not motivated to care about their work quality or to cooperate with their managers in solving production problems. The policy of maximizing employment and providing job security worsened the problem since public sector workers knew that they would not be dismissed for bad performance (Sukkar, 2007).

During the 1970s, however, the negative consequences of the Syrian Socialist economic system were masked by financial assistance from Arab Gulf countries, and by growing oil revenues (Hinnebusch, 1997). However, the noticeable decline in the Syrian government’s investment ability because of the sharp fall in oil prices during the eighties, plus the clear decline in financial support from other Arab countries, reduced the state’s ability to create new work opportunities, and caused a deep recession in the Syrian economy during the 1980s (Hinnebusch, 1997; ElLaithy and Abu-Ismail, 2005).

Initially, the Syrian government designed incremental reforms to overcome the recession and economic decline. Similar to what happened in other Socialist economies, these reforms failed to achieve any significant changes because of the strong and deep psychological and emotional roots of the classical Socialist ideology in the Socialist state of Syria, which caused fundamental flaws in the Syrian economy (Sukkar, 2001; Weigl, 2008). In fact, during the second half of the 1990s, Syria’s economic growth slowed down with investment’s share in Gross Domestic Product (GDP) falling from 27% in 1995 to 17.6% in 2000 (IMF, 2005).
Furthermore, the IMF Executive Board concluded, with respect to Syria, that generating new resources for growth and income that could replace the exhausting oil reserves and create new work opportunities was not possible by following the same slow reform, since “a slowdown in the pace of economic reforms could dampen investors’ interest and the prevailing political uncertainties will remain a source of vulnerability” (IMF, 2006: p.8).

Therefore, the Syrian government was finally convinced that incremental economic reforms would not make any important difference to the Syrian economy and concluded that, in order to achieve significant economic growth and social improvement in the 21st century, the government’s tenth five year plan (from 2006 to 2010) “must be transformation–oriented” (Al-Dardari, 2006: p.2). Accordingly, the Syrian government adopted “the Social Market Economy” as its new ideology to replace central planning, and its 10th Five Year Plan (FYP) was designed to move the Syrian economy in this direction (Raphaeli, 2007). The Syrian government intended to achieve annual 7% real GDP growth through its 10th FYP, basically by diversifying the Syrian economy, attracting more FDI and extending trade ties (PRS, 2009).

While enhancing the expansion of the private sector was the main objective of the Syrian government after taking the transition decision, developing FDI inducing policies became the focus of special concern for a number of reasons. For instance, FDI is crucial for transition economies since it provides them with the elements needed to integrate with the global economy, such as management skills and more stable capital (Lankes and Venables, 1996; Estrin et al., 2000). Moreover, it has been argued that FDI could speed up the transition process and contribute to the host countries’ growth through the spillovers that can be generated from the advanced technology brought by foreign enterprises, and by encouraging organizational restructuring to provide more
effective corporate governance (Borensztein et al., 1998; Djankov and Murrell, 2002; Hakro and Ghumro, 2010; Chen, 2012). Furthermore, FDI has a significant influence upon the host countries’ prices, exports, imports, income, employment, production and balance of payments. It has even been concluded in the literature that FDI is one of the most important factors that foster globalisation and provide links, not only between developed and developing countries, but also among the developing countries themselves (Gastanaga et al., 1998; Erdal and Tatoglu, 2002; Chowdhury and Mavrotas, 2005; Ghauri and Firth, 2011; Groh and Wich, 2012).

1.2 Research Question

The Syrian economy is under transition towards a market-based economy because of the consequences of the previous Socialist economy’s problems. Moreover, Syria’s economic recovery requires increased private investment, both domestic and FDI. Due to the special characteristics of FDI and its role for transition economies, it is important for Syrian decision makers to work on enhancing the institutional environment and to carry out the policy reform measures that can enhance the attractiveness of the Syrian economy to FDI.

However, it should be noted that enhancing the institutional environment and liberalizing FDI policy frameworks have not always been combined with increased FDI inflows (Loree and Guisinger, 1995). For example, while extensive policy changes in many CEE countries created more favourable conditions for private investment followed by remarkable increase in FDI figures, similar changes in some other countries failed to achieve increases in their FDI inflows (Asiedu, 2002). This variation can be attributed to the fact that open FDI policies aim to induce foreign investors but the inducement might not be taken (UNCTAD, 1998). This raises a question about the role of other factors, other than institutional reform, in enhancing economy attractiveness to
FDI and the extent to which they determine the locational decision of FDI. Therefore, this study aims to answer the following major research question:

*To what extent have institutional reforms affected FDI inflows into Syria and are they sufficient by themselves to explain the growth of FDI inflows into Syria during the period under study?*

### 1.3 Research Aims and Objectives

The aim of this research is, in terms of transition economies, particularly Syria, to explain the mechanism by which FDI locational choices are made, and to reveal the factors that determine this choice. Based on the previous discussion and the research aim and question, this research’s objectives are:

1- To explain the rationale behind Syria’s economic transition.

2- To provide a clear picture of the Syrian investment environment.

3- To determine the role of the Syrian government’s institutional reforms in enhancing the investment environment and attracting more FDI inflows.

4- To determine the impact that other economic FDI locational determinants have upon FDI inflows into Syria.

5- To identify the differences among multinational enterprises (MNEs) from different sectors and origins regarding their responses to Syria’s transition and economic liberalization.

6- To identify the implications of the study for the Syrian FDI policy framework.

### 1.4 Research Methodology

This study has mixed purposes, which classifies it as *explanatory, exploratory* and *descriptive* study at the same. This study is *explanatory*, since it aims to determine the impact of institutional and economic factors upon FDI inflows into Syria. In addition,
this study is exploratory since it also tries to achieve deeper understanding of the FDI locational decision-making process and determinants. Moreover, this study is partially descriptive due to the need to portray a clear picture of the research context, i.e. Syria, which previously has been neither studied in depth in relation to FDI, nor explored as a transition economy.

Integrated deductive and inductive research approach is considered the most suitable for the study and a set of research hypotheses regarding FDI locational determinants have been designed using the relevant literature. Moreover, our understanding of FDI locational choice as a managerial decision, which is based on decision makers’ interpretations and perspectives regarding FDI locational determinants, shapes the research philosophical base and determines the overall methodological approach. To be more precise, the research ontological position is subjectivism, and interpretivism is the epistemological position for this study. Based on this philosophical background, this study follows the qualitative research strategy and the semi structured interview is the data collection method in this research (these points are fully discussed in Chapter Four).

1.5 The Significance of this Research

The significance of this research stems from two major factors. First, the majority of studies that have explored FDI locational determinants in transition economies have been carried out in CEE or China (e.g. Cheng and Kwan, 2000; Zhou et al., 2002; Bevan et al., 2004; Javorcik, 2004; Cuervo-Cazurra, 2006; Li and Park, 2006; Pusterla and Resmini, 2007; Cuervo-Cazurra, 2008; Riedl, 2010; Zhang et al., 2011). This study explores FDI locational determinants in transition economies within a new geographical region, i.e. The Middle East, which has not been empirically explored regarding this point before. Exploring FDI location determinants within the Syrian economy will strengthen the understanding of MNEs’ decisions, when investing abroad,
in terms of how they choose their foreign investment locations. This will also help Syrian decision makers in designing the policies needed for enhancing the attractiveness of the Syrian economy to FDI.

Even though the current study focuses on the Syrian economy as a recent case of a transition economy, the findings will not be limited to the context under focus, but they will contribute to the findings of other studies that take place in similar contexts. In this sense, linking this research to other attempts to identify FDI locational determinants in transition economies shows the broader theoretical significance of this study (Saunders et al., 2009).

Second, and most importantly, as is apparent in the literature review in Chapter Three and the table presented in Appendix 1, the majority of the previous studies, particularly those of transition economies, used a quantitative approach, mainly an econometric one, to explore FDI locational determinants within a pool of economies. In other words, the previous studies did not explore and present an interpretivist perspective of the locational determinants of FDI. This was perhaps because foreign investors are generally very cautious in revealing their managerial opinions or decision making considerations in this matter (Wang et al., 2011).

This study is different since, in respect of transition economies in general, and the transition economy of Syria in particular, it follows a qualitative approach to test a set of hypotheses that are developed according to the relevant literature. In this sense, deductive and inductive research approaches are integrated to create a dynamic research design that suits the nature of the research topic and extend the borders of the quantitative findings about the this topic, i.e. FDI locational determinants. In other words, following this unusual qualitative methodological approach when studying the locational determinants of FDI in this research is expected to reveal new factors that
have an impact on FDI locational decisions and that previous econometric research ignored or neglected.

The significant need for qualitative research within various fields of international business has been highlighted before by many other researchers (e.g. Young et al., 2003; Coviello and Jones, 2004; Ghauri and Gronhaug, 2005; Sinkovics et al., 2005; Aharoni, 2011). This direction within international business research has been basically driven by the growing need for more open, dynamic, flexible and creative research designs that can reveal the meaning behind the numeric data in former statistical research and capture a broader, more detailed and clearer picture of the research context (De Ruyter and Scholl, 1998; Denzin and Lincoln, 1998; Sinkovics et al., 2005).

Nevertheless, there has been a lack of qualitative research in international business research. Sinkovics et al. (2005) attribute this to the huge efforts needed to coordinate international research teams and the problem of non-replicability of such qualitative research.

Being a local researcher with a good position in an important academic institution in Syria made it easier for the writer of this research to gain access to the required data through face-to-face interaction with the respondents. The local researcher advantage was previously recommended by other researchers (e.g. Lee and Miller, 1999; Hoskisson et al., 2000) to be the most suitable solution for data access problems in similar situations. In addition, this advantage makes Sinkovics et al.’s (2005) concerns regarding managing international research teams irrelevant in this case. Similarly, the replicability problem (as it will appear in Chapter Four, Methodology, when discussing data quality, section 4.9) is irrelevant in our case since, when using a non-standardised research approach, the findings are not necessarily intended to be
repeatable as long as they reflect the reality at a certain time and under certain circumstances, which might change later (Marshall and Rossman, 1999).

### 1.6 Thesis Outline

This thesis consists of eight chapters. The first chapter introduces the research, and contains the research background, research question and research objectives. The second chapter focuses on the context of the research, i.e. the transition economy of Syria. Therefore, Chapter Two starts by explaining the meaning and the causes of economic transition in general. Then, an overview of the causes and experience of the Syrian economic transition is provided. Thereafter, Chapter Two highlights the major reform efforts that the Syrian government has taken since its decision to move to a more market-based economy in 2005. Within the same chapter, an overview of FDI inflows into Syria over the same period is provided.

Since this study focuses on FDI locational determinants, the third chapter, the Literature Review, starts by defining FDI and the MNE. Then, this chapter explains why firms engage in FDI by reviewing the main theories underpinning FDI. In this section, Dunning’s eclectic paradigm appears to be the dominant analytical framework in explaining MNEs’ foreign based activities and it provides a suitable theoretical framework for this study. Thereafter, a review of previous empirical studies that have investigated FDI locational determinants is presented. This review of previous empirical studies provides better understanding of the locational decision of FDI and the role of each factor in this regard.

The fourth chapter provides an explanation of the research methodology of this study. This includes the research purpose, research philosophy, research approach, research strategy, and data collection methods. Basically, this research is mainly deductive, and a set of research hypotheses regarding FDI locational determinants have been designed
using the previous literature. Moreover, the research ontological position is subjectivism, and interpretivism is the researcher’s epistemological position for this study. These philosophical backgrounds underpin the choice of qualitative research as the research strategy and the semi structured interview as the data collection method.

The fifth chapter (Data Collection Process and Data Analysis) starts by providing an explanation of the adopted conceptual framework (i.e. the UNCTAD (1998) classification of host country determinants of FDI). Thereafter, this chapter provides a description of the steps that were carried out to collect and analyse the qualitative data needed in this study. The findings from the data analysis are presented in Chapter Six. In Chapter Seven, these findings are discussed in the light of the literature presented in Chapter Three. This enables the research hypotheses to be tested by comparing previous researches’ patterns with the patterns of the findings presented in Chapter Six. The Eighth Chapter (Conclusion) provides a summary of the key findings of this research, showing at the same time how these findings answer the research question. Then, it explains the various aspects in which this study contributes to the literature, and it highlights the policy implications of this study. Finally, the limitations of this research are explained and recommendations for further research are given.
2 Chapter Two:

Transition Economies: The Syrian Experience

2.1 Introduction

From 8\textsuperscript{th} March 1963, the ruling Syrian Communist Baath Party adopted Socialism as its ideology for the Syrian economy (Barry and Murad, 2000). However, as will be explained later in this chapter, fundamental problems (coordination and incentive problems) in the socialist economic policy in Syria started to appear and, as a result of these problems, a deep recession struck the Syrian economy during the 1980s. Initially, the Syrian government tried to implement incremental economic reforms that were basically intended to obtain help from the private sector in overcoming these problems whilst the Syrian economy was still running under the same socialist mentality. However, these attempts failed to make any significant improvement in the Syrian economy. Thus, in 2005, the Syrian government decided to begin the transition from a socialist to a Social Market economy.

Therefore, the major objectives of this chapter are to provide background to the Syrian economy and to explain the rationale behind the Syrian government’s decision to move towards a market-based economy in general. However, the Syrian case has to be seen in the context of the growth of the transition economies phenomenon. This is necessary in order to link the research to other attempts to identify FDI locational determinants in transition economies, and thereby reveal the broader theoretical significance of this study (as discussed in Section 1.5).

Therefore, in order to achieve these objectives, it is necessary to start by exploring the emergence of transition economies. Then, an overview about the Syrian economy transition experience will be provided.
2.2 Transition Economies

Since the collapse of Communism in 1989 and the fall of the Berlin Wall in 1990, many countries within a huge landscape, ranging from Central and Eastern Europe to China, started the fundamental transition from Socialism to a market-based economy (Chirot, 1991; Weigl, 2008). Understanding the motivations for these countries to move towards market-based economies, requires explaining the main characteristics of their previous Socialist economies and their damaging consequences (Peng, 2000).

2.2.1 Socialist Economy and its Consequences

The main architects of the socialist ideology, Marx, Engels and Lenin, claimed that a new system was needed replace capitalism, which they asserted was chaotic and inequitable. Socialists claim that capitalists’ private ownership of production facilities gives the owners the power to exploit the working class by paying workers far less than they deserve from their production value. Socialists further argue that private ownership supports this exploitation by making workers extremely dependent on capitalists for their employment. This dependency prevents workers from having any bargaining power since they can easily be dismissed and be replaced from the big pool of unemployed workers. According to Marx, the best alternative is Socialism, in which the state is the owner of factories, farms, and major infrastructure. In Socialism, government is the representative of the peasantry and other working classes, and is responsible for distributing public income among them (Korani, 1992).

The Syrian Communist Baath Party adopted Marx’s ideas in its revolution of 8th March 1963. Baathists argue that, before their revolution, wealth was accumulated in the hands of small social groups who owned production facilities and exploited the working class by giving them very low wages. Therefore, the revolution aimed to help less fortunate social groups by adopting Socialism as the Syrian economic ideology (Barry and Murad,
The socialist system, which ruled almost a third of the world population at one time, has two main characteristics (Peng, 2000):

1- *Central Planning*: Socialists allege that the instability in the supply and demand mechanism and the “invisible hand” of the capitalist system, as it was called by Adam Smith, caused high unemployment, overproduction problems and economic recessions. To overcome those problems, socialists emphasise the use of central planning instead of the supply-demand mechanism, which has given rise to the term “centrally planned economy” (Peng, 2000: p.17; Weigl, 2008).

2- *Bureaucratic Control*: instead of using the supply-demand mechanism, socialist systems use bureaucratic control to organise economic transactions and to attain coordination among economic players. These economic players are mainly state-owned enterprises (SOEs). This is because Socialism proposes that the state should own all production facilities and private ownership must be limited. Moreover, in almost all socialist countries, the direction of the economy was based on multiyear plans designed by national planning agencies, the most powerful bureaucratic authorities (Ericson, 1991). In Syria, the State Planning Commission is responsible for drawing up these plans.

In other words, in the Socialist system, the decision to enter or exit from the market is taken by the planning bureaucracy. Furthermore, the planning bureaucracy decides on the annual scale and scope of production on behalf of SOEs’ managers. Consequently, variety, quality or customer services and satisfaction are not considered by the SOEs’ managers, who are mainly production engineers or politicians appointed by the central planning agency and who function as implementers of orders rather than as decision takers (Korani, 1992; Peng, 2000).
State Socialism initially worked well, despite its inherent problems. This was because of the availability of basic education, jobs, health care and housing for the majority of the population during the 1950s and the 1960s (Khanin, 2003; Weigl, 2008). In the case of Syria, the inherent problems of socialism were initially masked by financial assistance from Arab Gulf countries, in addition to the growing oil revenues during the 1970s (Hinnebusch, 1997).

However, this success did not last for long and fundamental problems caused by huge errors in the Socialist economic policy started to appear (Peng, 2000). Socialism’s fundamental economic problems fell into two groups:

1- Coordination Problems which are basically caused by extreme dependence on central planning and governments’ bureaucratic coordination of activities within national economies. Each of those economies can be considered as “Centrally Planned Economy Inc.”, whose planning offices play the role of the headquarters of the divisions, SOEs in this case, compared with typical large Western enterprises (Ericson, 1991; Peng, 1996; Peng, 2000: p.22).

This situation caused huge confusion and inconsistency because of the continuous revisions and adjustments to economic plans resulting from the planning offices’ lack of information needed to build their plans on a realistic and correct basis, as is the situation in market-based systems (Naughton, 1996).

2- Incentive Problems: due to Socialism’s rejection of private ownership, private property was transferred to the public sector in the form of SOEs. However, socialist governments were not able to monitor the thousands of SOEs’ functions. This was due to the lack of adequate information and the huge conflicting responsibilities of the socialist state, such as improving the economy, creating wealth, providing social services and achieving full employment (Naughton, 1996). As a result, planning offices
in these countries lacked the ability to evaluate the SOEs’ capabilities correctly; therefore, they could only estimate SOEs’ capabilities based on their previous year’s performance. In addition, the failure of managers to achieve their targets did not threaten the existence of SOEs, since failing SOEs were financially supported by the state for political reasons. Thus, SOEs’ managers lost any incentive to increase output as to do so would only increase their responsibility for higher targets in the following year. In addition, and in the absence of pressure or incentives to improve performance, competitive strategies and innovation ideas were paid little attention (Peng and Heath, 1996; Tan and Peng, 2003).

It was not only SOEs’ managers who lacked incentives to better performance, but also shop-floor employees. This is because the strategy of SOEs as “the property of the whole people” turned into “the state property belongs to all and to none”, which led to the absence of the motivation that usually comes from property ownership (Korani, 1992: p.75). Moreover, employees also had no incentive to care about their work quality or their efficiency, since they would be paid the same salary, irrespective of performance (Tung, 1981; Walder, 1989). Therefore, because of low salaries and poor living standards, workers used to say “they pretended to pay us, and we pretended to work” (Peng, 2000: p.24).

Turning to Syria, these fundamental problems of Socialist policy were observable. Due to the heavy reliance on centralization, the planning authorities were incapable of providing coherent production plans for the dominant public sector. Therefore, the output targets for the SOEs were always unrealistic. Moreover, appointment of unqualified managers to SOEs for political reasons, in addition to the rapid turnover in such positions, caused a shortage of experienced managers, especially in relation to quality and efficiency issues. These SOEs’ managers even had no power to adapt their
production to market conditions. For all these reasons, it was impossible to solve the continuous problems in matching SOEs’ outputs to market needs (Hinnebusch, 1995).

Moreover, paying SOEs’ managers and shop-floor workers low wages made them careless and obsessed with personal benefits. Shop-floor workers were unmotivated to care about their work quality or to cooperate with their managers in solving production problems. The policy of maximizing employment and providing job security worsened the problem as public sector workers knew that they would not be dismissed for poor performance (Sukkar, 2007). Also, since skilled workers were paid more in the private sector, they usually chose not to work for the public sector. Or, if skilled workers could not find job opportunities within the limited private sector, they emigrated. This situation turned the public sector into mass employment opportunities for unskilled workers or for those looking for easy employment opportunities depending on their political relationships (Hinnebusch, 1995).

2.3 The Syrian Economic Transition Experience

In the following sections, an explanation is provided of the events that triggered the economic reforms and led to the transition decision in Syria. These triggering factors were basically the consequences of the fundamental problems of the Socialist economy, discussed above. Then, the Syrian government’s chosen approach and path towards the market-based economy will be presented.

2.3.1 Triggering Events of Transition

The socialist economy’s fundamental problems caused severe famines, low living standards, and food and other consumer goods shortages within many of those countries that followed the Marxist school (Peng, 2000). Many socialist states tried to overcome their economic difficulties and attain public satisfaction and support through applying a series of incremental reforms. However, these attempts failed to achieve any significant
changes because of the strong and deep psychological and emotional roots of the classical socialist ideology in the socialist economies, until they started major fundamental transitions towards market based economies (Weigl, 2008).

Similarly in Syria, poor management in the public sector caused many serious problems. SOE managers’ focus on achieving production volume targets meant that profitability and cost efficiency were not relevant. Prices of the public sector products were simply marked up to give only 10% return on investment. Following socialist values, SOEs in many industries, e.g. sugar, textiles and fertilizer, had to sell their products near or below their production costs. Therefore, public sector returns were unable to fund the building of new plants or, at least, to finance major industry upgrades (Hinnebusch, 1995).

During the 1970s, foreign investment was restricted and Syria was trying to be economically independent through an extensive focus on industrialisation as a substitute for imports. Public investments during this period were basically financed by increasing oil revenues and aid from other Arab countries, while the public sector’s financial contribution to these investments was modest due to its inefficient returns (ElLaithy and Abu-Ismail, 2005).

The focus on industrialisation during this period encouraged mass consumption rather than capital accumulation. This caused huge dependency on imported capital goods without developing the export capacity needed to earn foreign currency. The inefficiency of the export agencies, which were mainly designed on a bureaucratic orientation rather than a merchandising one, deepened balance of payments problems. This situation led to bottlenecks in access to raw materials and spare parts for machinery. Therefore, many public sector plants had to operate at low capacity when their out-of-date equipment broke down. Moreover, during the 1980s, oil prices witnessed a
dramatic fall and the financial support from other Arab countries was greatly reduced. As a result, the Syrian government’s investments declined, and its ability to create new work opportunities became very limited (Hinnebusch, 1995).

As a result of all these problems, a deep recession struck the Syrian economy during the 1980s. During this recession, the Syrian economy experienced shortages of foreign exchange, increased debt and sharp falls in income per capita (Hinnebusch, 1997; ElLaithy and Abu-Ismail, 2005).

As a result of this crisis and after the termination of the relationship with the former Soviet Union due to its collapse, a strong rationale for liberalizing the Syrian economy emerged. This may be why Peng (2000: p.26) said that “Only deep crises could trigger reforms and transitions”.

2.3.2 Different Transition Paths

Following the decision to move towards market-based economies, the former Socialist economies have followed one of two main paths.

The first group followed the “big bang” approach by dropping socialism and moving to a market-based economy by undertaking reforms as fast as possible. This approach was first adopted by Poland in 1990 and was later followed by other CEE and Newly Independent States (NIS) of the former Soviet Union (Lipton et al., 1990; Sachs, 1993). These countries believe that “it is impossible to cross a chasm in two leaps” as Vaclav Havel, the Czech Republic president, said (WB, 1996: p.9).

In fact, some reforms could be made overnight, such as removing private ownership restrictions, abolishing central planning and liberalizing markets. However, many other reforms need years and perhaps decades to be accomplished, like changing the structure and governance of former SOEs and equipping the economy with market-supporting
institutions, in the form of laws and financial systems (Buck et al., 2000; Weigl, 2008). Therefore, this approach to transition caused a dramatic decline in the level of economic transactions among the CEE countries after the bloc’s breakup, which led to unstable and oscillating economies (Rosser Jr and Rosser, 2004). A few countries, such as Poland, have managed to achieve recovery after this sharp decline, a pattern which was later labelled the “J-curve” (Brada and King, 1992: p.37).

On the other hand, a “gradualist” approach has been followed by China and, later, Vietnam. These countries have chosen to deepen their transition gradually over time by applying incremental and partial reforms. Following this approach, these countries started by reducing the central planning role, liberalizing prices and opening their doors to FDI. Moreover, instead of following an aggressive privatization, other forms of ownership were allowed to emerge and spread, such as private and public private ownership (Jefferson and Rawski, 1994; Peng, 2000). These reforms caused a fall in the share of SOEs in total Chinese output from 78% in 1978 to only 28% in 1996, while the share of non-SOEs increased (Peng, 2000).

Finally, it should be noticed that in almost all transition economies, with the partial exception of China, establishing efficient markets has been slower than expected. Reforms have been turbulent, complex, sporadic and unpredictable, causing institutional frameworks to be incomplete during the transition period (Bhaumik and Estrin, 2007). This has led, in many cases, to the emergence of blurred legal frameworks, underdeveloped juridical systems, rigid bureaucracy and corruption, especially as informal institutions (e.g. cultures, norms, customs, values and conventions) change much more slowly than formal ones (e.g. regulations, written rules, laws and contracts), and are not easily changed by laws (Peng, 2000; Svejnar, 2002; Hitt et al., 2004).
2.3.3 The Syrian Economy's Transition Path

The Syrian economy has responded to the fundamental problems of its Socialist economy and the 1980s economic recession in two major stages. These are:

1- The incremental liberalization stage.

2- The transition to Social Market Economy stage.

2.3.3.1 The incremental liberalization stage

By the early 1990s, the Syrian government was convinced that economic liberalization was a necessity. However, it believed that liberalization must follow a proper sequence and private sector interest should not control economic policy. In the Syrian government’s view, before major public sector reforms or privatizations took place, liberalization must develop a dynamic private sector that could absorb the unemployed workforce. The Syrian government’s cautious approach towards liberalization was attributable in part to its awareness of the dramatic economic consequences of other liberalization experiences, such as those of Egypt (Hinnebusch, 1997).

Therefore, an incremental liberalization plan was designed, and was basically aimed to encourage private sector expansion. The incremental liberalization started by offering concessions to the private sector through enacting new legislation and reforming the banking and taxation systems. Since then, the list of goods that the private sector cannot export has been shortened, and the controls over foreign currency have been reduced (Hinnebusch, 1997; ElLaithy and Abu-Ismail, 2005).

Muhammed Al-Imadi, the Minister of Economy and Foreign Trade, was the main driver of the liberalization process during this period (Hinnebusch, 1997). Al-Imadi started by issuing a new investment law (Law no.10 for 1991) and showing interest in establishing joint venture (private-public) enterprises within the tourism and agriculture sectors. Then, he had to struggle against Marxist MPs, who considered the stock market as a
lottery, to create a new financial market law. He also had to face Syrian trade unions’ worries of bankruptcy and their objections to his attempts to make the public sector operate under market rules, which focused on achieving higher financial profits. Furthermore, he sought to promote the Syrian economy’s integration into the world market by making progress on achieving Syria’s membership of the General Agreement on Tariffs and Trade (GATT), and by stopping debt repayment exports to the former Soviet Union. Instead, he tried to encourage, or sometimes force, local merchants and industrialists to export to the West in order to generate more foreign exchange (Hinnebusch, 1997).

During the first half of the 1990s, private investments that took place in response to these reforms exceeded the state investment budget for the first time since the nationalizations of the 1960s. These investments, in addition to the discovery of new oil fields, bolstered the recovery of the Syrian economy, with an average growth rate of 7% (Hinnebusch, 1997; Sukkar, 2001).

However, this improvement did not last long. Economic growth slowed down to annual average of 2.6% during the second half of the 1990s. This was because of many weaknesses in the business climate that caused a fall in investment from 27% of GDP in 1995 to 17.6% in 2000. The IMF argued that these weaknesses were basically in public administration, trade and exchange regimes, the regulatory and tax environment, and the financial sector. Moreover, “government monopolies and poor governance weigh negatively on returns to private investment, and hence appear to be the main constraints to growth” (IMF, 2005: p.24).

Oil formed 70% of Syrian exports and contributed around 50% of the fiscal revenues during 2001 to 2004. However, the Syrian economy could no longer rely on its oil revenues to mask its weaknesses. Oil production fell and was not even able to meet the
growing domestic demand in 2005. Moreover, in 2006, for the first time, Syria became a net oil importer (PRS, 2009).

These facts made the Syrian authorities start to think of building the foundations for a growing non-oil economy (IMF, 2009). This can be clearly seen in the words of Dr. Adib Mayaleh, the governor of the Central Bank of Syria, who said, “We have to move from an oil economy to one based on banking, services and tourism.” He added, “Most importantly, we have to change the mindset of Syrians from a socialist system to a market system” (Raphaeli, 2007: p.8).

2.3.3.2 The Transition to a Social Market Economy

It is clear from the previous discussion that the incremental reforms failed to make any significant changes to the Syrian economy. The Syrian economist Nabil Sukkar (2003), who was involved in modelling the Syrian economy during the 1990s, attributed this failure to the absence of a clear and coherent reform programme. Furthermore, he argues that the incremental reforms were a response to the foreign exchange crisis, and were not motivated by a conviction that it was a necessity to abandon the former central planning system and to move to a market-based economy. Moreover, the heavy reliance on external aid and oil revenues to hide the serious problems of the Socialist economy prevented the Syrian economy from achieving sustainable growth rates (Sukkar, 2003).

Therefore, Syria was not prepared to face the challenges of the 21st century. Increasing globalisation and growing unemployment put more pressure on the Syrian economy. In order to handle these challenges, the IMF suggested the contribution of private investment to GDP should be increased to at least 30% (IMF, 2005).

The IMF Executive Board argued that generating new resources for growth and income to replace the depleting oil reserves and creating new work opportunities to overcome unemployment would not be possible by following the same slow reform path. This was
because “a slowdown in the pace of economic reforms could dampen investors’ interest and the prevailing political uncertainties will remain a source of vulnerability” (IMF, 2006: p.8). Similarly, Sukkar (2001) stated that achieving higher growth rates in Syria would not be possible by following the same hesitant reforms. In his opinion, attracting big local and foreign investments requires strong reforms and full commitment to a market economy. According to Sukkar, “Big investments will not come in, if the door is half open and half closed” (Sukkar, 2001: p.4).

Therefore, the Syrian government became convinced that in order to achieve significant economic and social successes, the 10th FYP (2006 to 2010) “must be transformation – oriented” (Al-Dardari, 2006: p.2) and in June 2005 the leading Syrian Baath Party’s Congress adopted the Social Market Economy as its new ideology for the Syrian economy. The new ideology is based on two concepts: following free market forces and stressing social issues.

Accordingly, the 10th FYP was designed to move the Syrian economy in this direction and intended to achieve 7% annual real GDP growth mainly by diversifying the Syrian economy, increasing FDI inflows and extending trade ties (Raphaeli, 2007).

The Baath Party’s new ideological approach gave the Syrian officials the authority and the courage to move further in the liberalization process (PRS, 2009). Abdallah Al-Dardari, the head of the State Planning Commission at that time, and deputy prime minister for economic affairs since 2005 said, “Whatever the negative consequences of globalization, isolation is far more dangerous for Syria” (Raphaeli, 2007: p.41).

Moreover, the 10th FYP adopted an “indicative planning policy” instead of the previous highly centralised and compulsory planning process. According to this policy, the state will only direct investment and market activities, without dominating or controlling them as it used to do. The government’s 10th FYP explained this policy approach by
saying that the state will try to expand private investment opportunities and promote them. Accordingly, the government’s economic intervention will be confined to issuing the laws and regulations required for smooth market transactions, combating monopoly, regulating competition, providing a suitable environment for encouraging local and foreign private investment and ensuring that the different market players are socially responsible (Al-Dardari, 2006).

The “indicative planning policy” approach adopted by the Syrian government’s 10th FYP reveals the Syrian government preference for gradual transition rather than the big-bang approach. This preference for the gradualist approach is also captured in a comment made by Dr. F. E. Aljouni, the Syrian Minister of Industry, in an interview with Reuters news agency on 05th November/2010. He said, “Syria is trying to attract private investors to help in developing the weak industrial sector, but privatization is not one of the options”. Aljouni attributes this strong rejection of privatization to the government’s intention to protect workers’ rights (Evans, 2010).

On the other hand, Sukkar (2007) strongly condemned the use of such excuses to justify refusing or even delaying public sector privatization. He argued that job security will only deepen the incentive problem and kill innovation in the public sector. He also thinks that as long as the government delays developing privatization plans and establishing supportive institutions, the economy will keep facing problems achieving high growth rates.

In brief, the Syrian economy has faced problems since it started running under the Socialist ideology, and incremental reforms failed to achieve any significant improvement under the same Socialist ideology. The Syrian government, therefore, became convinced that the Syrian economy would not achieve any higher growth unless it was fully reformed, both legally and institutionally, in order to allow the private
sector to expand and play a dynamic role in supporting economic growth and social stability (Al-Dardari, 2006; Chemingui and Dessus, 2008). Therefore, in 2005, the government announced the adoption of a Social Market Economy as its new ideology for the Syrian economy, instead of the previous Socialist economy. By doing so, the Syrian government initiated a transitional era in the Syrian economy from Socialism to a Social Market economy.

Among the many issues that the Syrian government needed to tackle after taking the transition decision, the attraction of more FDI inflows was of special concern for a number of reasons. For example, it has been argued that FDI can speed up the transition process and contribute to the host country’s growth (Basu et al., 2003; Groh and Wich, 2012; Chen, 2012). Moreover, Sukkar (2010) argues that the government plan to move to a Social Market economy requires massive efforts to modernise and upgrade the Syrian private sector. However, the needed capital, advanced technology, experience, and complex design and construction are far beyond the capability of the current private sector in Syria. In this situation, FDI can play a vital role in bringing in many of these significant ingredients for private sector development and economic transition.

In order to achieve these benefits, a number of institutional reform measures were taken by the Syrian government to liberalize the Syrian economy, to direct it towards a market-based one, and to make it a more attractive destination for FDI. These measures are presented in the next section, which is followed by an overview of the FDI inflows into Syria over the same period.

2.3.4 Syrian Investment Policy Enhancement Measures

In January 2009, an IMF report about Syria commended the annual average growth of non-oil GDP of 7% between 2004 and 2008, declining low government debt and the healthy level of foreign reserves. The IMF Executive Directors attributed the strong
performance of Syria’s overall macroeconomic environment during that period to the
government’s reform efforts, which aimed to move the Syrian economy towards a more
market based one (IMF, 2009).

In addition, the World Investment Report (UNCTAD, 2009) stated that Syria had
witnessed a 70% increase in its FDI inflows. The report attributed this rise in the FDI inflows to new business opportunities resulting from Syria’s growing economic openness and its better international relationships with other countries.

So, what were the main efforts that the Syrian government took in this regard?

The Syrian government economic reforms since 2005 fall into five major areas:

- reform of the Syrian financial and banking sector,
- new investment regulations,
- removal of restrictions on investments,
- investment facilitation activities,
- reduction of restrictions on trade and new international trade agreements.

Therefore, in order to contextualize this research and identify issues for investigation, the following sections will spotlight the major reform efforts that the Syrian government took since its decision to move to a market based economy in 2005.

2.3.4.1 Reforming the Financial and Banking Sector

Since the early days of the 10th FYP, efforts to enhance the investment environment and the liberalization process were very active in Syria. For example, by 2007, a separation between state enterprises’ operations and the state budget was made. In addition, top marginal corporate taxes were reduced from 65% to 35% during the same period (PRS, 2010). The Syrian government took many other measures to reform the financial sector with the aim of achieving a gradual implementation of market-based
tools for conducting monetary policy, instead of the previous administrative tools (IMF, 2010).

The most noticeable reaction to these reforms was the expansion of private banks following their first authorisation by Law No. 28 in March 2001. By September 2009, there were 12 private banks established in Syria with assets equivalent to about 24 per cent of total Syrian banking sector assets. Two Islamic banks also entered the Syrian economy following the legislative Decree No.35 of 2005 that authorised the establishment of Islamic banks in Syria. This was followed by many other initiatives that were necessary for strengthening banking supervision and for modernizing the Central Bank of Syria (IMF, 2010).

In addition to the above, some articles of Law No. 28 of 2001 and Decree No.35 of 2005 were amended by Law No.3, enacted in January 2010. Law No.3 raised the needed capital of private banks from $60 million to $200 million, and that of Islamic banks from $100 million to $300 million. It also increased the allowable percentage of foreign ownership of private commercial banks from 49% to 60% (PRS, 2010; UNCTAD, 2010), which gives foreign investors further control on their investment and, therefore, can encourage further foreign investment within the banking sector.

In April 2006, the Syrian government enacted Law No.24, which authorised the establishment of private money exchange companies. As a result, by the end of 2011, there were 10 money exchange companies operating in Syria. In addition to that, in February 2007, the Syrian government issued Decree No.15 that permitted the establishment of financial, social and banking institutions with a minimum capital of $5 million to offer micro-financing and insurance services to small investment projects. In January 2010, the Saudi-based microfinance institution, Bab Rizq Jameel, was the first microfinance bank that obtained a licence to operate in Syria (PRS, 2011).
It should be noted here that US sanctions against Syria made Western banks and other financial institutions less interested in investing in Syria. However, Middle Eastern banks were less concerned about this problem and many of them had already entered Syria. This may explain why the majority of private banks and money exchange companies operating in Syria are Arab-owned (EMM, 2009).

Moreover, during the first three years of the 10th FYP (from 2005 to 2008), many other financial reforms were implemented by the Central Bank of Syria in order to establish a suitable foreign currency market. This was necessary for private investment transactions and activities in various sectors, especially in terms of FDI. For instance, private banks were given more freedom to set their own interest rates. In addition, the Syrian government attempted to achieve a more liberalized exchange system through the abandonment of the Syrian Lira’s peg to the US dollar, in addition to introducing a unified foreign exchange system in January 2007 (PRS, 2009).

Other important steps took place in 2008 to give investors better access to funds. In 2008, foreign investors were allowed by a new legislative decree to purchase foreign currency from local banks and to obtain loans in foreign currency. Furthermore, a hard currency clearing room was established within the Central Bank of Syria in order to allow automatic conversion between US Dollars and Euros. Finally, the Syrian banks were authorized to lend in foreign currency to licensed investment projects following a decree by the Credit and Monetary Council (UNCTAD, 2009).

2.3.4.2 New Investment Regulatory Framework

The Syrian government took many initiatives to equip the Syrian economy with suitable legislative tools that could move it to a more market-based economy. These legislative initiatives tried to open the Syrian economy for private investment in general, and FDI in particular. In addition, these initiatives were necessary to regulate the functions and
the relationships among economic players within the Syrian economy. These efforts mainly addressed the following issues: the creation of a friendlier investment environment, the granting of investment incentives, expropriation, competition, investment dispute settlement and intellectual property rights protection.

**Creating a friendlier investment environment and granting investment incentives.**

Investment Law No.10 of 1991 and its amending Decree No.7 of 2000 were the Syrian government’s first attempt in this regard and aimed to make Syria a more attractive destination for both domestic private investments and FDI. However, the relevant Syrian authorities’ lack of suitable criteria to support the inflows of FDI left the investment process in Syria subject to political pressures, corruption and lobbying. Therefore, in January 2007, the Syrian government enacted legislative Decree No.8 to replace investment law No.10 of 1991 (UNCTAD, 2008; PRS, 2010, 2011).

The aims of Legislative Decree No.8 were to make the Syrian investment environment friendlier for private investments through offering them various incentives. To begin with, it allowed private investors to own or lease the land and buildings needed for establishing or expanding their investment projects. It gave them this right even if they exceeded the ownership limits defined by other Syrian laws and regulations, provided that the land and buildings acquired were used for the purpose of their projects only.

Moreover, the decree allowed free repatriation of profits, invested capital and shares on condition that all tax responsibilities were met. If private investors were not able to continue their investment plans because of difficulties or circumstances beyond their control, Decree No.8 gave them the right to repatriate all the foreign currency they had brought to Syria after 6 months from its arrival. It also allowed foreign staff to repatriate up to 50% of their net income and full repatriation of end-of-service benefits.

Furthermore, Decree No.8 granted investors full exemption from paying customs duties
on equipment that was imported to set up their projects, in addition to corporation tax
deductions if these projects were in one of Syria’s industrial zones. Finally, the decree
stated that any project in any of the sectors listed below enjoys the exemptions provided
in the income tax law and its amendments, in addition to all the other benefits and
guarantees in this legislative decree:

- agricultural or land reclamation projects,
- industrial projects,
- transportation projects,
- communications and technology projects,
- environmental projects,
- service projects, electricity,
- oil and mineral resources projects.

On the other hand, Decree No.8 cancelled the tax holiday that had been granted to new
investments following Law No.10 of 1991. In addition, Investment Law No. 10 of 1991
and its amendment, Decree No. 7 of 2000, did not stipulate any formal performance
conditions for establishing or expanding an investment or for determining its eligibility
for tax reduction and other types of investment incentives. However, Decree No. 8
indicated that a minimum investment capital of $1 million was required if the
investment projects were located in the bigger cities of Damascus, Aleppo, Homs,
Latakia, Tartus or Hama, and of $600,000 if the investments were located in rural areas
(PRS, 2010).

**Expropriation.** In 2000, the Syrian government issued Decree No.7, which stated that
any project that was licensed under Investment Law No.10 of 1991 was protected
against expropriation and nationalization. Furthermore, legislative Decree No.8 of 2007
explicitly states that licensed private investment projects enjoy protection against
expropriation and nationalization (unless the expropriation was necessary for the public benefit and against an immediate and fair compensation equal to the prevailing value of the project directly before the date of the expropriation) (PRS, 2011).

**Competition and anti-trust.** In April/2008, the Syrian government enacted Law No.7, which addressed competition and anti-trust for the first time in Syria. This law established the Syrian Competition Council which was responsible for controlling the Syrian Competition Authority, which was also established by the same law. The Syrian Competition Authority’s responsibilities were drawing, amending, developing and applying a general competition plan. In addition, The Competition Authority was responsible for investigating any breach of this plan by economic actors and for imposing suitable fines and other necessary actions.

Law No.7 of 2008 also stated that the prices of goods and services would be defined by free market mechanisms and free competition rules. Moreover, this law prohibited cartels and economic entities from abusing their dominant position in the market in a way that could limit or prevent free competition. In addition, public sector enterprises were informed that they would no longer be allowed to operate as monopolies, especially when the project could be funded by foreign or domestic private capital.

However, in practice, “the Competition Council has been ineffective in its enforcement of Law 7, as enforcement is financially detrimental to many senior regime officials and prominent business elites” (PRS, 2011: p.5). Moreover, there were no private-sector institutions or other non-governmental organizations to provide a systematic check on the above government directives. As a result, regulatory, legal and accounting systems in Syria were incompatible and local business did not comply with them (PRS, 2011).

**Dispute Settlement.** Syria is a party to the New York Convention on Arbitration of 1950. As a result, local courts have no jurisdiction to settle disputes between foreign investors
and the Syrian state when the investment contract or agreement includes a clause that international arbitration of disputes is applicable to these issues. In addition, in June 2005, the Syrian government signed the Washington International Convention on Investment Dispute Settlement. In March 2008, the Syrian first arbitration law, Law No.4, permitted public-sector entities to resolve disputes through arbitration. In December 2009, the first official economic arbitration centre in Syria was launched and another 11 centres were working on obtaining the necessary licences from the Syrian Ministry of Justice (PRS, 2010).

**Intellectual Property Rights Protection.** In 2002, the Syrian government signed the Stockholm Convention on Intellectual Property Rights (IPR) protection. In addition, in mid-2004, Syria joined the World Intellectual Property Organization (WIPO). In late 2005, a non-governmental organization called the Syrian Association for Intellectual Property (SIPA) was established in cooperation with the United Nations Development Programme (UNDP) in Syria. Its main objectives were to enhance public awareness about IPR issues and to support the implementation of IPR laws and regulations. Nevertheless, violations of IPRs are widespread in Syria (PRS, 2011).

Therefore, further efforts were taken to enhance the protection of IPRs in Syria. For example, in March, 2007, the Syrian government enacted Law No.8, which regulated trademarks, geographical indications, and industrial models and designs. Later, in May 2008, Syria joined the Geneva Act of the Hague Agreement pertaining to the protection of international designs. In order to support these efforts, WIPO agreed in late 2009 to help the Syrian government by modernizing the Patent Office in Damascus. In addition, WIPO suggested translating their documents, publications and guidelines into Arabic and distributing them among small and medium-sized businesses (PRS, 2010).
2.3.4.3 Removing Restrictions on Investments

Most sectors became open for private investments as a result of the gradual opening of the Syrian economy beginning in the early 1990s. Investment Law No.10 of 1991 and Decree No.8 of 2007 covered and regulated most of these sectors including manufacturing (except water bottling, cotton ginning and cigarette production), agriculture, transport, health and services.

In addition, many other sectors that were not covered by Law No. 10 and Legislative Decree No.8 were covered later by special legislation. For instance, in 2008 and 2009, the Syrian government enacted legislation that allowed the private sector, both domestic and foreign, to invest in extraction, mining, and quarry projects. In addition, on 14 November 2010 the Syrian government issued Law No.32 which allowed both foreign and domestic private sectors to invest in electricity generation and distribution projects.

Foreign and domestic private investments in the real estate and tourism sectors were regulated by a separate law and tax framework and were managed directly by the Ministry of Tourism. Similarly, oil and other mining investments were covered by the Ministry of Petroleum’s rules and regulations. Licensing of private banks and insurance companies was the responsibility of the Ministry of Finance. Finally, private universities must be coordinated directly through the Ministry of Higher Education, and private schools through the Ministry of Education (PRS, 2011; UNCTAD, 2011).

2.3.4.4 Facilitating Investment Procedures

On 27 January 2007, the Syrian Investment Authority was established by Article III of Decree No.9. This Authority was expected to play an important role in implementing the new investment policies and in achieving their goals by enhancing the investment environment (UNCTAD, 2009). This was simply because of the fact that, according to the same decree, it was its responsibility:
- to simplify and facilitate investment procedures,
- to prepare the investment map in coordination with the relevant authorities after taking into account investment projects of strategic importance and then,
- to promote these projects internally and externally,
- to track projects’ implementation and overcome obstacles that hinder their implementation and continuation, and most importantly,
- to establish a one-stop shop within the Investment Authority, which was responsible for:
  o registering, licensing, granting approvals and certificates required under the provisions of the Legislative Decree No.9 for 2007 and other legislation in force,
  o following up ongoing projects,
  o identifying their constraints and coming up with recommendations and solutions for them.

2.3.4.5 Trade Policy and International Agreements

The Syrian government efforts for creating a friendlier environment for inward FDI included trade policy liberalization initiatives and new international trade agreements.

For instance, in 2005, Syria joined the Greater Arab Free Trade Area (GAFTA), which was declared and fully implemented in January of the same year within the League of Arab States. This agreement included the following 17 Arab countries: Bahrain, Libya, Sudan, United Arab Emirates, Egypt, Morocco, Syria, Iraq, Oman, Tunis, Jordan, Palestine, Kuwait, Yemen, Qatar, Saudi Arabia and Lebanon. As a result of the GAFTA, trade was fully liberalized among these 17 Arab countries including Syria. Trade of goods among those countries equally enjoyed full exemption from customs duties and related fees (except Yemen and Sudan; since they are less developed, the exemption of customs duties was meant to be gradual until it became full in 2010) (ECSEI, 2012).
The main goals for Arab countries joining the GAFTA were increased regional trade, more efficient production options, higher production quality, higher competition within local markets, enhanced infrastructure and better growth for members through regional integration. Members of the GAFTA also hoped that achieving such goals in the long run would provide an enhanced investment environment that would attract more investment inflows, both domestic and foreign into their economies (Babili and Baghasa, 2008; ECSEI, 2012). Therefore, this study will later assess the extent to which Syrian membership in the GAFTA has achieved this goal and enhanced the attractiveness of the Syrian economy to FDI.

In addition to the GAFTA as a regional integration agreement, Syria signed a bilateral free-trade agreement with Turkey, which came into force in January 2007 (PRS, 2009). Through this agreement and the economic co-operation between them, both Syria and Turkey aimed to create conditions that encourage investments, especially joint ones, in both countries. For example, the agreement states in Chapter 3, Article 23, that trade and commercial transactions and payments between both parties shall be free from any restrictions, such as those on currency exchange. In addition, the same article states that any transfer related to investments shall not be subject to any kind of restrictions, especially those related to the repatriation of amounts invested or reinvested.

In addition, in Article 36, the agreement clearly states that Syria and Turkey shall give priority to promoting and creating investment and business opportunities in both countries through providing market information and exchanging expertise on management, entrepreneurship, production standards and quality (WTL, 2007).

Therefore, the Syrian-Turkish bilateral free-trade agreement is another example of trade policy initiatives and agreements that will be later assessed in terms of its impact on FDI inflows into Syria.
Syria was also most active among other West Asian countries by signing three bilateral investment treaties (BITs) in 2008 with India, the Czech Republic and Romania, in addition to two new double taxation treaties (DTTs) with the Czech Republic and Croatia (UNCTAD, 2009). In addition, a fully revised list of goods that cannot be imported was issued in April 2008. Many goods are no longer banned from import unless they are religiously prohibited or have health or security concerns (PRS, 2009).

Despite all these efforts, Syria’s economic transition has faced limitations and obstacles. For example, Syria’s application to join the WTO, submitted in 2001, has not yet been successful, even though Syria started upgrading its customs system to comply with WTO standards, especially after 2005. In 2007, a WTO directorate and four committees in the Ministry of Economy were established to prepare for WTO membership: the General Preparation Committee, the Committee for the Protection of Intellectual Rights, the Trade Committee for Services, and the Trade Committee for Merchandise. The major aim of these committees was to develop a suitable trade system in cooperation with the relevant ministries (PRS, 2011).

Another difficulty facing Syria is that since 1979, it has been designated by the United States as a state sponsor of terrorism and has been subject to the US Department of Commerce’s Export Administration Regulations (EAR). Therefore, all advanced technology and dual-use goods have been controlled or/and restricted from the Syrian market since that time. On the 11th of May, 2004, further economic sanctions were imposed on Syria through the implementation of economic sanctions under the Syria Accountability Act (SAA), which bans the export of almost all US products to Syria. The imposition of these sanctions on Syria, which could even be extended to influence the relationship of Syria with countries other than the USA, formed a major obstacle to further liberalization of Syrian trade policy (PRS, 2011).
Furthermore, Syria’s steps and efforts to sign the partnership agreement with the EU were unsuccessful. The main reasons for this failure were the same as those given in negotiations with the EU Parliament in 2004 when the latter refused to approve the agreement with Syria because of Syria’s refusal to introduce meaningful political reforms, its continued interference in Lebanon and its continued sponsorship of Hamas and Hezbollah. Even when the EU invited Syria to sign this agreement in 2008, the Syrian government hesitated, as it had concerns regarding the impact of this agreement on the Syrian economy (PRS, 2009).

All the above political problems and relations will also be taken into consideration in the later exploration of the FDI locational determinants in Syria. Before this, however, the following section will give an overview of the attractiveness of Syria to FDI by presenting the main figures of FDI inflows to Syria.

### 2.3.5 Syrian FDI Inflows Figures

A Syrian Investment Authority Report (Abdul-Azeez, 2008) indicated that Syrian FDI inflows had grown over the past few years (Table 2.1). It also stated that the number of licensed foreign investment projects, including those which had Arab or foreign partners, reached 234 between 1991 and 2008 and contributed about 43% of the total (local and foreign) private investment value.

**Table 2.1 Net FDI Flows into Syria between 2000 and 2008**

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI flows (Millions $)</td>
<td>270</td>
<td>110</td>
<td>115</td>
<td>160</td>
<td>275</td>
<td>508</td>
<td>613</td>
<td>898</td>
<td>1187</td>
</tr>
</tbody>
</table>

Source: Syrian Investment Authority Report (Abdul-Azeez, 2008)

The report attributed this improvement in FDI figures to the simplification and enhancement of investment systems and procedures, in addition to the growing investment promotion efforts and the creation of networks of internal and external relations by the government and businessmen, which aimed to attract investors and the
return of Syrian expatriate capital. However, the extent to which these assumptions are true will be determined later in this research with the investigation of FDI locational determinants in Syria.

In 2008, the number of countries which invested in Syria reached 36 (Appendix 5, Table 0.1, p.289), which is another indicator of the growing FDI inflows into Syria. Most noticeable among countries from outside the Arab region was Turkey, which had 35 FDI projects. Iraq came first among Arab countries, with 40 FDI projects in Syria; Kuwait came second with 32 projects, and Lebanon and Saudi Arabia were joint third with 25 projects each. FDI projects from other countries were far fewer. For example, the UK, Cyprus, Austria, France and Canada had three projects each, South Korea and USA had four projects each, China had two projects, and Italy, Sweden, Belgium, Netherlands, Spain and Brazil had one project each only (Abdul-Azeez, 2008, 2009).

The high number of Arab and Turkish FDI projects in Syria, compared with FDI projects from other countries, raises questions about the reasons for such variation in FDI inflows and about the role that Syria’s special relations and trade agreements with Turkey and other Arab countries (explained in the previous section) have played in this regard. Therefore, this study will try to find an explanation for this variation and to capture the role of the external dimension of policy enhancement efforts that were explained in the previous section in this regard.

Finally, in the most recent scan done by the Central Bureau of Statistics and Syrian Investment Authority (Abdul-Azeez, 2009), it was found that 178 FDI projects were fully established and running normally in Syria. Most of these projects were located in Damascus and Aleppo (Appendix 5, Table 0.2, p.290). Manufacturing projects were the highest in number; trade projects, financial and insurance projects came second and third respectively (Appendix 5, Table 0.3).
2.4 Conclusion

In 2005, the Syrian government initiated a transitional era in the Syrian economy when it announced that it was adopting the Social Market Economy as its new ideology for the Syrian economy, instead of the previous centrally planned one. Therefore, the Syrian government had to carry out a full reform of Syria’s formal institutions. A major goal of these reforms was to allow the private sector to expand and to play a dynamic role in supporting economic growth and social stability. In particular, attracting FDI was a very important objective of these reforms.

In this chapter, the major institutional reforms that the Syrian government carried out to achieve this goal were highlighted. It became clear that FDI inflows into Syria increased during the years of the reforms. However, FDI inflows into Syria remain relatively small, especially in comparison with other countries in the region (UNCTAD, 2008, 2009).

In order to shed light on the main deficiencies within the Syrian institutional environment, which have prevented further FDI inflows into Syria, and to help the Syrian policy makers design a more suitable institutional framework, it is important to understand how the institutional environment affects FDI inflows and the role that institutional change plays in determining FDI locational choice.

With the above in mind, the following chapter reviews the literature related to FDI locational determinants.
3 Chapter Three:

Literature Review

3.1 Introduction

The aim of this study is to explore FDI locational determinants within the transition economy of Syria, and in particular, the influence of institutional change. In order to understand FDI locational decision, it is necessary to explain why MNEs engage in FDI. Therefore, the following sections summarise the main theories underpinning FDI. Thereafter, a review of the previous empirical studies that have investigated the MNEs’ locational choice is undertaken. First, however, it is necessary to know what MNEs are and how FDI can be defined.

MNEs are the key players in international business, that is “transactions taking place across national borders for the purpose of satisfying the need of individuals and organizations” (Rugman and Collinson, 2009: p.7). These transactions can be classified into two major categories: first, international trade (export and import) for goods and services. Second, international investment which can be divided into two major subgroups: foreign direct investment (FDI) and foreign portfolio investment. More than 50% of all the world exports and imports and over 80% of the all world FDI are undertaken by the MNEs (Griffin and Pustay, 2010; Rugman and Collinson, 2009).

So, what is the MNE?

The IMF (1993: p.86) defined the direct investment enterprise “as an incorporated or unincorporated enterprise in which a direct investor, who is resident in another economy, owns 10 percent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise)”. Similarly, UNCTAD (2006: p.293) defined MNEs as “incorporated or unincorporated
enterprises that comprise parent companies and their foreign affiliates”. For enterprises to be considered as MNEs, the parent companies must have control over assets related to entities established in foreign countries by owning an equity stake of no less than 10% of the ordinary shares or voting power, or its equivalent in the case of unincorporated enterprises (UNCTAD, 2006). Dunning and Lundan (2008: p.3) said that “a multinational or transitional enterprise is an enterprise that engages in foreign direct investment and owns/or controls value-adding activities in more than one country”. Rugman & Collinson (2009: p.8) defined MNEs as “firms that are headquartered in one country but have operations in one or more other countries”. Another common definition for MNE is provided by Caves (2007: p.1) who said that the MNE is “an enterprise that controls and manages production establishments –plants- located in at least two countries”.

All the above mentioned definitions share at least three main common characteristics. First, they are very general and do not specify any particular ownership type or structure. Moreover, they do not consider firm size. In other words, they assume that as long as a firm operates within more than one country, it is a multinational one, regardless of its size or structure. Finally, almost all of them emphasise control, alongside ownership, as a major characteristic of MNEs. Therefore, a company may not own overseas assets, but still can be considered as MNE as long as it manages and exercises control over such assets. Thus, it can be said that “once a firm invests in value-adding activities outside its domestic market or starts to exercise control over such activities outside its domestic market, then the description ‘multinational’ becomes appropriate” (Johnson and Turner, 2003: p.102; Cullen and Parboteeah, 2010).

This criterion brings us to the second key concept in this chapter, FDI. FDI is defined by the US Department of Commerce as “having ownership or control of at least 10
percent or more of an enterprise in another country” (Cullen and Parboteeah, 2010: p.118). UNCTAD (2006: p.293) defines FDI as “an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)".

Based on the above definitions, FDI entails three main components: 1- equity capital invested by foreign investors through owning shares of other enterprises in countries other than their home countries, 2- reinvested earnings of the foreign invested capital, 3- and the intra company loans and debts that reflect the long term transactions between the foreign investors and affiliate enterprises (UNCTAD, 2006; Piteli, 2010). In this sense, FDI is different from foreign portfolio investment, which is basically purchasing financial securities (especially bonds) in other firms for the purpose of gaining financial profits when these marketable assets are sold. In other words, foreign portfolio investment does not entail managing and controlling foreign firms’ activities, as is the case in FDI (Rugman and Collinson, 2009).

The question now arises, why would firms engage in FDI in the first place? In the following section, this question is addressed by presenting the theoretical foundation of FDI.

3.2 Theoretical Foundation of FDI

Although MNEs have existed in one form or another for centuries, a theoretical framework for why and how firms decide to internationalize only emerged during the second half of the 20th century. The impetus for this came from the post-war boost in FDI among industrialised countries and the subsequent increase in the volume of international production. Before that point, neoclassical theories of capital arbitrage and
trade were the only explanation for firms’ cross-border activities (Johnson and Turner, 2003).

Stephen Hymer’s (1960/1976) PhD dissertation can be considered as the real start of work on theorising firms’ foreign based activities. The main point of his work was to emphasise firm specific advantages (FSA) that encourage the firm to directly invest overseas in order to exploit its ‘monopolistic advantages’, diversify against risk and avoid competition by operating on the international level. In addition to that, Hymer argues that moving companies’ resources to foreign markets and exercising control over them allow quicker transfer of knowledge, since this will take place internally, in contrast to other kinds of investments in which knowledge exchange takes place among different partners (Johnson and Turner, 2003; Piteli, 2010).

Similarly, internalization theorists (e.g. Buckley and Casson, 1976; Williamson, 1986) have focused on explaining FDI by showing the beneficial role of internalizing foreign activities in reducing transaction costs that can result from market imperfection. In other words, internalization theorists, similar to the ‘monopolistic advantage theory’, ask the question why FDI exists. The ‘internalization theory’ starts by assuming that operating in a foreign market is likely more costly for firms than operating within their domestic markets due to their lack of local contacts and knowledge of local business practices, culture and customs, compared with local competitors. Therefore, when a foreign market is interesting, firms will usually decide to export their products to this market or license the production process to local firms to take advantage of their local expertise. The ‘internalization theory’ presumes that when the transaction costs of negotiating, monitoring and enforcing export and licence contracts are too high, firms decide to internalize their foreign operations, since this will be a more cost efficient strategy (Cullen and Parboteeah, 2010).
The ‘Product life cycle theory’ that was established by Vernon (1966) is a widely recognised theory of FDI that used the beneficial role of internalizing foreign activities in reducing transaction costs as an explanation for FDI. The basic notion of the ‘Product life cycle theory’ is that product life cycle has three stages: innovation, growth and maturity. At the first stage, the product is innovatively produced locally to meet local demand. At this stage, local factor endowments, highly skilled labour and intensive research and development (R&D) are crucial for producing the product. As the demand for the product expands and the production scale becomes higher, the producer starts exporting it to other countries that have sufficient demand and purchasing power. At this point of the product life cycle, the product becomes more mature and more standardised. Therefore, highly skilled labour and innovation become less important and the producer starts locating the production process in the importing countries, driven by efficiency factors, such as lower production cost, mainly cheaper labour (Hasan, 2005; Dimitropoulou, 2007).

The ‘Product life cycle theory’ has been subject to a number of limitations and criticisms. For example, Buckley and Casson (1976) argue that, firstly, The ‘Product life cycle theory’ only gives an order for the product life cycle stages without any explanation for the timing and speed of change. Secondly, they argue that, in reality, the decision-making process in a firm cannot be divided into such separate and distinct stages, which makes the ‘Product life cycle theory’ an oversimplification. Even Vernon (1966) himself referred to his work’s limitation when he mentioned that his work was not intended to provide an explanation for all types of FDI, since it focused only on US firms investing in highly innovative industries during the 1950s and 1960s (Barrett, 2001).

Among other theoretical foundations of FDI, the eclectic paradigm that was developed
by John H. Dunning (Dunning, 1980, 1988, 1995, 2001), has been the dominant analytical framework in explaining and theorising MNEs’ foreign based activities since the 1980s (Bilgili et al., 2012).

Dunning’s eclectic paradigm is based on the idea that the determination of MNE engagement in foreign operations or foreign production depends on the interaction of three co-dependent variables, which themselves can be considered as sub-paradigms (Figure 3.1). These variables or sub-paradigms are:

**Figure 3.1 Dunning’s OLI Paradigm**

![Dunning's OLI Paradigm](image)

1- “Ownership specific Advantages” (O):

This sub-paradigm stresses that firms are more able to engage in, or increase, their foreign operations, activities and foreign investment if they have ownership advantages compared with their domestic or international competitors, especially regarding intangible knowledge such as marketing skills, brand names, product innovations and managerial skills (Dunning, 2000; Piteli, 2010).

2- “Location Specific Advantages” (L):

This sub-paradigm asserts that firms are more able to engage in, or increase, their
foreign operations and foreign investments if the various endowments needed to be used jointly with the firms’ own competitive advantages are immobile and located in foreign economies. These locational endowments or advantages can vary to include not only economic ones, such as natural resources, labour, managerial skills and technology, but also social and political factors such as culture, language, FDI policy and legal framework (Dunning, 1980).

3- “Internalization Advantages” (I):

The final sub-paradigm in Dunning’s eclectic paradigm is internalization advantages. This view considers FDI as a response to market imperfections, and a technique to avoid higher transaction costs (Piteli, 2010). This sub-paradigm provides an evaluation framework for the different approaches in which firms may decide to manage and exploit their core competencies, taking into account the context including locational advantages of different countries or regions, and the differences among industries (Dunning, 2001). In other words, similar to the internalization theory, the eclectic paradigm assumes that “the greater the net benefits of internalizing cross-border intermediate product markets, the more likely a firm will prefer to engage in foreign production itself, rather than license the right to do so, e.g. by a technical service or franchise agreement, to a foreign firm” (Dunning, 2000: p.164).

Dunning (2000) attributes the domination of his paradigm among other theorising frameworks to its content, which is strongly embedded in many other business and economic theories of FDI. He argued that FDI theories should be considered as complementary rather than substitutes to each other. Consequently, they cannot provide a comprehensive explanation for MNEs motives’ to engage in foreign based activities unless they are taken as group (Dunning, 2001). In other words, Dunning’s eclectic paradigm functions as “an envelope for economic and business theories of MNE
Despite its dominance, Dunning’s OLI paradigm has been subject to criticism. For example, some writers have argued that the paradigm includes a large number of explanatory variables, which makes its predictive value almost zero. Others have even claimed that it is misleading to assume that the three components of the OLI are independent. For instance, choosing to invest in a certain foreign place may affect a firm’s ownership advantages and, therefore, can affect its choice to internalize its operations (Dunning, 2001).

Another criticism was raised by Kojima (1982), who proposed that Dunning’s approach, similar to ‘the internalization theory’, is totally a micro-economic perspective. However Dunning (2001) disagrees with Kojima and thinks that Kojima assumes that the OLI framework and the internalization theory try to explain the same phenomenon, which is not true, since “no one from the internalization school has sought to explain the changing propensity of countries to invest, or be invested in, over time” (Dunning, 2001: p.180).

Yet, this is exactly what the eclectic paradigm does. Indeed, the locational specific factors (L) in Dunning eclectic paradigm are aspects of the investment location that host countries can manage and direct towards attracting more FDI inflows (UNCTAD, 1998). In this sense, institutions are very important locational factors that can influence the decision whether to invest in a particular location. This is because institutions are “the rules of the game in a society” that establish the incentives and barriers faced by domestic economic players as well as foreign investors (North, 1990: p.3). It is for this reason that this study aims to determine the role of the Syrian government’s institutional reforms in enhancing the investment environment and attracting more FDI inflows.

Accordingly, the following section explains the importance of institutional environment...
for FDI locational choice, especially in transition economies. Thereafter, the empirical
evidence for the effect of host country institutions on FDI inflows is reviewed.

3.3 Institutional Environment and FDI Locational Decision

The importance of the institutional environment for FDI locational choice could be
understood by explaining the various ways in which institutions can affect this choice.

For example, North (1990) argues that weak institutions are associated with a greater
level of uncertainty, higher risk and extra transaction costs. Hence, good institutions can
enhance growth and development (Kaufmann and Kraay, 2002) through encouraging
investment in general by reducing transaction cost, risk and uncertainty (Meyer, 2001b).

Méon and Sekkat (2007), Blonigen (2005) and Henisz (2000) argue that the major
effects of poor institutional quality on FDI are not confined to increasing transaction or
production costs, but also include the risk entailed. For instance, weak institutions may
cause the risk of nationalization and expropriation, which makes investment riskier and,
therefore, less likely to take place.

Many other studies have supported this claim. For instance, Harms and Ursprung (2001,
2002) found a positive relationship between democracy and economic growth. They
argue that FDI is more attracted by economies that respect civil and political freedom.
This is because of the greater risk associated with authoritarian regimes, due to the
continuous policy reversals aimed at obtaining public support through populist
measures. On the same rational, Brenton et al. (1999: p.100) included the “Economic
Freedom Index” in their regression equation as an indicator of the “market-friendliness”
of the host country’s economic policy. This index provides an annual ranking of about
150 countries, taking into account the following ten economic freedom factors: “trade
policy, taxation, government intervention in the economy, monetary policy, foreign
investment, banking, wage and price controls, property rights, regulation and black
market activity”. At the end of their study, they found that “the Economic Freedom Index” is positively related to FDI inflows.

In terms of transition economies, when Socialist economies decided to move from central planning to market-based economies, they had to totally remodel their formal institutions. This radical change has made these transition economies an interesting context for studying the impacts of the institutional environment on business strategies, including FDI (Meyer and Gelbuda, 2006; Gelbuda et al., 2008). Research suggests that, in almost all cases, establishing efficiently operating markets has been slow, complicated, sporadic and unpredictable. Consequently, the transition period was characterised by incomplete institutional frameworks and, in many cases, blurred legal frameworks, underdeveloped juridical systems, rigid bureaucracy and corruption. This can be better understood when it is taken into consideration that informal institutions (e.g. cultures, norms, customs attitudes, values and conventions) have a much slower pace of change compared with formal institutions (e.g. regulations, written rules, laws and contracts), and cannot easily be changed by issuing new laws (North, 1990; Peng, 2000; Svejnar, 2002; Peng, 2003; Wang et al., 2011; Martinez and Williams, 2012).

This situation within transition economies causes direct investors higher transaction costs than would be incurred by investing within an already developed institutional framework. Moreover, since the pace of transition varies among transition economies, these costs might also vary among different host transition economies (Peng, 2000). Therefore, some scholars argue that a more developed institutional framework should enhance transition countries’ attractiveness to FDI (e.g. Estrin et al., 2000; Bevan and Estrin, 2004; Botrić and Škuflić, 2006). This suggests that it would be desirable for Syrian policy makers to improve the quality of the Syrian institutions in order to enhance the attractiveness of Syria to FDI.
FDI is important for transition economies given its size and stability compared with other kinds of capital, in addition to its role in providing these economies with advanced technological, managerial and production techniques (Bénassy-Quéré et al., 2007). Hence, it is not surprising that there has been a growing interest in investigating the link between enhancing the institutional environment in transition economies and FDI inflows into these economies. Similarly, this study explores the impact of the institutional environment on FDI inflows into the transition economy of Syria. To set this research in a wider context, the following section reviews previous studies that investigated host country institutions’ effects on FDI inflows.

3.4 Empirical Evidence for Host Country Institutions’ Effects on FDI Inflows

Many studies have investigated the effects of various institutional variables, such as political risk, government policy, intellectual property rights protection, corruption, etc, on business strategies. Notably, some scholars have explored the effect of the institutional environment on MNEs’ entry strategies (e.g. Meyer, 2001a; Meyer et al., 2009; Estrin et al., 2009; Javorcik and Wei, 2009). However, “prior to deciding how to enter, investors have to decide where to invest” (Bevan et al., 2004: p.44). At this stage of strategic decision making, a country’s institutional framework plays a core role as a determinant of FDI. This is because foreign investors will not choose a country as their new location unless they are allowed to enter and invest in it according to its formal policies (UNCTAD, 1998).

Some previous studies failed to establish a link between institutions and FDI inflows. For example, Blonigen and Piger (2011) used three different sources of data to identify econometrically the determinants of FDI inflows to countries that were members of the Organization of Economic Cooperation and Development (OECD). At the end of their
research, they noticed that there was not a strong impact for policy variables on FDI inflows. Pusterla and Resmini (2007), focusing on manufacturing industry, used a wide firm level data set to explore FDI determinants in CEE transition economies. Among other factors, they found that policy plays an unimportant role in attracting FDI to these countries. In an earlier study done by Wheeler and Mody (1992), it was found that 13 variables representing risk and policy factors (including bureaucracy and red tape, political and institutional change, distribution of wealth, corruption, expatriate environment, probability of opposition takeover, stability of labour, terrorism risk and the quality of the legal system) were not significantly important for the location choice of US foreign affiliates.

However, many other scholars have re-examined this relationship and the majority disagree with the above results (e.g. Hines Jr, 1995; Henisz, 2000; Wei, 2000b; Asiedu, 2006; Li and Park, 2006; Hyun and Kim, 2010; Kinda, 2010; Mottaleb and Kalirajan, 2010).

In terms of corruption, for instance, and using a set of firm-level data from 22 transition economies, a study done by Javorcik and Wei (2009) found that corruption has a negative impact on the likelihood of investing in certain locations. Earlier, Shang-Jin Wei (2000a) studied the effect of corruption level and taxation rates on FDI inflows to 45 host countries from 14 source countries. At the end of his study, he found that host countries’ increased level of corruption and high taxation rates had a negative impact on inward FDI.

Cuervo-Cazurra (2008: p.25) found the same negative impact of corruption on FDI inflows, but he argued that the strength of this impact differed according to the corruption type and economic context. He argued that this negative impact was weaker in transition economies than other developed economies and “pervasive corruption -
corruption that is certain and widespread”, had a stronger negative influence on FDI flows to transition economies than “arbitrary corruption -corruption that is uncertain”.

In an earlier study, Cuervo-Cazurra (2006) also found that the negative impact of corruption on FDI locational decisions was weaker on FDI from MNEs that had already been exposed to bribery at home and which therefore were familiar with corruption and bribes. Indeed, he concluded that corruption might even encourage FDI inflows from countries where corruption was prevalent.

Another example of institutional impact on FDI flows is provided by Javorcik (2004) who, also focusing on transition economies, studied the impact of the degree of intellectual property rights (IPRs) protection on FDI inflows. She argues that weak IPRs protection negatively affects FDI inflows, and can even discourage not only foreign investors, but also domestic ones, to enter markets that do not offer a sufficient level of IPRs.

Botrić and Škuflić (2006) followed an econometric approach for determining the FDI locational determinants in seven transitional Southeast European countries (Romania, Croatia, Albania, Bosnia and Herzegovina, Serbia and Montenegro, Macedonia and Bulgaria). Their data included indicators for the following variables: GDP, GDP growth, GDP per capita, external debt, inflation, privatization, labour cost, population, internet and telephone connection per 100 inhabitants (ICT), openness, private sector share, service sector share, and financial sector development. Economy openness was the most statically significant determinant for FDI inflows into their sample. In addition, trade liberalization and transition progress (measured by the share of private investment in the market, which indicates the size of market share that is running under a market mechanism) appeared to have positive impact upon the inflows of FDI into their sample countries.
Stein and Daude (2001) used a wider range of institutional variables, including six institutional indicators, developed by Kaufmann et al. (1999), to test their link with inward FDI. They found that “political instability and violence, government effectiveness, regulatory burden, rule of law, and graft,” have a significant influence on inward FDI and only the sixth indicator, “voice and accountability” seems not to be significantly important in attracting FDI. Therefore, they think that if countries want to be more attractive to FDI, it is important to improve the quality of their institutions. To be more precise, they stated that “market-unfriendly policies, excessive regulatory burden, and lack of commitment on the part of the government” are very influential in deterring FDI inflows (Stein and Daude, 2001: p.19).

In a recent study done by Ramirez (2010), institutional factors appeared to be important determinants of FDI in nine major Latin American countries during 1980-2001. Similarly, Ali et al. (2010) tried to evaluate the role of institutional quality in determining FDI inflows to developing countries using data from 69 developing countries covering Asia, Eastern Europe, Latin America, the Middle East and North Africa (including Syria), and sub-Saharan Africa. At the end of their investigation, they found that institutional quality plays a significant role in determining FDI inflows into the countries included in their sample. Moreover, their analysis showed that property rights security seems to be the most influential among other institutional variables, such as political instability, democracy, social tension, and corruption.

Groh and Wich (2012) studied the impact of the legal and political system (the rule of law, regulatory quality, legal enforcement of contracts, political stability, violence, government effectiveness), the business environment (labour cost, taxation, bureaucracy, corruption), economic activity (market size, market potential) and infrastructure (transportation, energy and ICT infrastructure) on the FDI inflows in a 172 country
sample covering Africa, Asia, Asia Pacific and Oceania, East Europe, Latin America, the Middle East, North America and Western Europe. They concluded that an improvement in the emerging and developing countries’ legal and political systems and their infrastructure was crucial to enhance their investment environment attractiveness to FDI.

Using panel data from 36 developing countries, 12 of them in the Middle East and North Africa (MENA), over the period 1975-2006, Mohamed and Sidiropoulos (2010) tried to indentify key determinants of FDI inflows into their sample. Although they found that the key determinants are the size of the economy and the natural resources, in addition to the institutional variables, they concluded that policy makers can enhance their countries’ attractiveness to FDI by developing the appropriate institutions, including better financial systems and a more liberalized trade policy.

Bevan et al. (2004) explored specifically the effect of institutional development in transition economies on FDI flows. Their initial findings were that developing legal institutions, reforming the banking sector, liberalizing foreign exchange and trade, improving private sector and privatization have enhanced FDI flows to transition countries. However, they found no significant influence for developing competition policy or domestic price liberalization on attracting FDI, and they suggest that this could be because some FDI is attracted by the possibility of monopoly. Thus, they concluded that “policy makers have to be aware that what is good for domestic economic development does not necessarily attract more foreign investors” (Bevan et al., 2004: p.63).

These results are consistent with Rugman and Verbeke’s (2001) assumption that MNEs favour government policy reforms that allow them to efficiently exploit and develop their own resources and capabilities. Therefore, MNEs and policy-makers’ cooperation
can foster institutional reforms, but disagreements and conflicting interests might appear later regarding some reforms that do not suit foreign investors. For example, foreign investors in the telecommunication industry who made the first move into many developing countries enjoy monopolistic earnings, and have particular concerns regarding developing competition policy and other regulatory reforms, which might reduce their returns and increase competition from other investors who will later enter the market (Ramamurti, 2000).

Moreover, differences in FDI reaction to institutional change and liberalization policies can be observed based on the liberalization focus and according to the different sectors or industries subject to this focus (UNCTAD, 1998).

For instance, Ali et al. (2010) argue that while institution quality is important as a determinant for manufacturing and services FDI, it does not have a strong effect on primary FDI. Furthermore, Riedl (2010) studied FDI determinants for the period between 1998-2004 within eight transition economies (i.e. Poland, Czech Republic, Hungary, Estonia, Latvia, Lithuania, Slovenia and Slovakia) that became new members in the EU in 2004. She argues that service FDI responds to policy liberalization and reform measures faster than manufacturing FDI. She attributes her findings to the service industry’s characteristics, such as lower installation costs, lower capital requirements (Kravtsova, 2010), and an inability to trade many services. Therefore, the physical presence of the service providers where the customers are located is essential (Riedl, 2010).

Furthermore, it should be noted that enhancing the institutional environment and liberalizing FDI policy frameworks have not always been accompanied by increased FDI inflows (Loree and Guisinger, 1995). For example, while the extensive policy changes in many countries in the CEE have created more favourable conditions for
private investment, and have been followed by remarkable increase in FDI, similar changes in other countries, even in the same region and some other countries in Africa, failed to achieve similar increase in their FDI inflows (Asiedu, 2002). This variation may be due to the fact that, although the open FDI policies aim to induce foreign investors, the inducement might not be taken (UNCTAD, 1998).

Evidence that institutional improvement may not in itself be sufficient to encourage FDI was found by Agosin and Machado (2007), who developed an ordinal index to measure the FDI policy openness of individual countries. Despite the fact that there has been an increase in their openness index over the period from 1990 to 2002, their econometric test revealed that market size, market growth, and educational achievement level/human resource availability are the most important determinants of the variation among countries in terms of FDI inflows. Accordingly, they argue that “the openness of the FDI regime operates as a factor enabling FDI, but that location advantages are paramount in determining the international allocation of FDI” (Agosin and Machado, 2007: p.1234).

Based on the above evidence, it can be said that “open FDI policies are a necessary, but not a sufficient, host country determinant of investment” (UNCTAD, 1998: p.94).

Indeed, researchers have noticed that businesses decide to operate outside their home country for a number of reasons; some of these are home country push factors, others are host countries’ pull factors (UNCTAD, 2006). Regarding home countries’ push factors, when firms’ home economies are small, such as those in Switzerland and the Netherlands, and their opportunities to gain more profits are limited, they try to sell their products outside their home borders to increase sales volumes and to gain more profits. Other companies, especially big ones, invest overseas to diversify themselves against the risks, uncertainties and saturation in domestic markets (Dunning,
On the host countries’ pull factors side, many countries have been growing rapidly and/or have been moving toward more market-based economies (such as India, China and those in the CEE). This has provided MNEs with great opportunities to enter these markets and benefit from the vast demands for various goods and services that local firms have failed to offer. In addition, many companies have moved operations to foreign countries in pursuit of cost efficiency. This can be achieved, for example, through moving production to countries where goods can be manufactured at lower labour cost, or with lower energy prices. Being close to raw materials and the avoidance of high transportation expenses also reduces production cost and, thus, motivates MNEs to decide to invest abroad. Some companies have found FDI a good way of acquiring the required managerial and technological expertise by manufacturing their goods where such expertise is available instead of giving other firms access to their valuable information through licensing agreements (Suder, 2009; Rugman and Collinson, 2009; Wild et al., 2010).

Clearly, FDI locational choice is a strategic decision that reflects the company’s overall strategy intended from investing in a foreign location (Piteli, 2010). Such strategies have been classified into four groups: market seeking strategy, resource seeking strategy, efficiency seeking strategy, or strategic asset seeking strategy (e.g. Dunning, 2000; Johnson and Turner, 2003; UNCTAD, 2006: p.158). Consequently, exploring these strategies is important in understanding MNEs’ final location choice. Therefore, the following section provides a review of the empirical evidence for the economic locational determinants of FDI.

### 3.5 Empirical Evidence for Economic FDI Locational Determinants

Similar to the studies that discussed the role of institutional factors in determining the
location of FDI, many researchers have explored the impact of economic factors on FDI locational choice and all of them followed a quantitative, mainly econometric, methodological strategy in their research design (Appendix 1, p.254). In addition, in almost all cases, previous studies’ conclusions have been consistent regarding the importance of the following classical determinants: market size, market growth, labour cost and natural resource abundance (e.g. Asiedu, 2006; Moreira, 2010; Mottaleb and Kalirajan, 2010; Vijayakumar et al., 2010; Anyanwu, 2011; Procher, 2011; Zhang et al., 2011; Bilgili et al., 2012; Jadhav, 2012).

However, the conduct of studies in different geographical regions, at different times, and within different economic contexts, in addition to using different methodological approaches, has shown a variation in the relevance and the influence of the different factors in determining FDI inflows, and has even extracted new factors that can play an important role in determining FDI location.

For example, Botrić and Škuflić (2006) tried to identify the main FDI locational determinants within seven transitional Southeast European countries (Romania, Croatia, Albania, Bosnia and Herzegovina, Serbia and Montenegro, Macedonia and Bulgaria) that have different characteristics from those in CEE, where more studies have been carried out regarding the same topic. Their results revealed that FDI in their sample was not market seeking. They attribute these findings to the small market sizes of the countries they included in their sample. In addition, Villaverde and Maza (2011) carried out econometric research to identify the locational determinants of FDI inflows into Spain and the factors that influenced the regional distribution of FDI for the period from 1995 to 2008. They concluded that market size was not relevant at all and explained these findings by assuming that most FDI was export driven.

On the other hand, Moreira (2010) noticed that market size and natural resources have
been the dominant FDI locational determinants in Africa. Asiedu (2006) had previously noticed the domination of these factors. She limited her exploration of FDI determinants to sub-Saharan Africa (SSA), and by using panel data for 22 countries in that region for the period from 1984-2000, she tried to find out whether small African countries with less natural resources can still attract FDI or not. Her findings were consistent with the conclusion of Moreira (2010) in terms of the importance of market size and natural resources for FDI inflows to SSA. However, she further argues that countries which are smaller and/or with fewer natural resources still have the opportunity to attract FDI inflows through improving their FDI policies and cooperating with other countries in the same region by following regional integration strategies. This is because these activities expand market size, enhance policy improvement and reduce transactions costs, which will be beneficial for all countries in the same region regarding their attractiveness to FDI.

Ramirez (2010: p.13) tried to capture the main institutional and economic FDI determinants in Latin America by using a pooled model that included data from nine Latin American countries (i.e. Mexico, Argentina, Colombia, Brazil, Costa Rica, Uruguay, Ecuador, Peru and Chile) covering the period from 1980 to 2000. His model showed a significant positive effect on FDI inflows for the following factors: market size, government expenditures on education (which was included to indicate the quality of human capital), credit provided by the private banking sector and the level of economic freedom.

On the other hand, he noticed a negative significant effect on FDI inflows for public investment spending, country risk (measured by the debt-service ratio), and the volatility of the real exchange rate. He attributes the negative effect of exchange rate volatility on FDI inflows to the uncertainty it causes when investors try to calculate
their costs and profits. Regarding public investment, his results conflict with the suggestion in previous studies that public investments generate more FDI inflows because of their role in providing better infrastructure for doing business, which increases the economy’s attractiveness to FDI (e.g. Wheeler and Mody, 1992; Cheng and Kwan, 2000; Biswas, 2002; Erdal and Tatoglu, 2002; Li and Park, 2006; Mottaleb and Kalirajan, 2010). He attributes this result to the nature of the variable he used in his model to represent public investment. This variable included public investments undertaken by heavily subsidized and/or inefficient SOEs, a practice which would have a negative impact on the private sector opportunities to invest in the same projects instead of the SOEs.

Focusing on Brazil, Russia, India, China and South Africa (BRICS) as large emerging markets, in spite the fact that they are not integrated within one trade or economic union, Vijayakumar et al. (2010) used annual data sets for each country between 1975-2007 to identify FDI determinants in these countries. Their empirical investigation provided support for the role of the following factors in determining FDI location choice: market size, cost of labour, infrastructure facilities, currency value and gross capital formation. On the other hand, they found that trade openness (measured by the ratio of total trade to GDP), economic stability and growth prospects (measured by inflation rate and industrial production respectively), were not significantly important to FDI inflows in their selected markets.

Subsequently, Jadhav (2012) re-explored FDI locational determinants within the same countries (i.e. BRICS countries) using panel unit-root test and multiple regressions of panel data for the period from 2000 to 2009. Similar to Vijayakumar et al. (2010), he noticed that traditional economic locational determinates of FDI (especially market size) were more important than institutional and political factors.
Using panel data for the period from 2005 to 2007 for 68 developing countries from Latin America, Africa and Asia, Mottaleb and Kalirajan (2010) also found a significant impact for market size, labour cost and host country infrastructure on FDI inflows. Moreover, they argue that receiving a larger amount of foreign financial aid may increase developing countries’ attractiveness to FDI for a number of reasons. For example, receiving such aid could help host countries improve their infrastructure and create a friendlier macroeconomic environment. In addition, receipt of substantial financial aid can be taken by foreign investors as an encouraging gesture from the donating organizations/countries regarding the host country’s macroeconomic environment. Alternatively, however, these gestures might be negatively perceived as results of the inefficiency of the receiving countries’ economies. Moreover, Kimura & Todo (2010) argue that the above effects of international financial aid are confined to FDI coming from the donating countries. In other words, they found that financial aid from Japan encouraged Japanese companies to invest in the receiving countries but did not necessarily encourage FDI from other countries.

In another attempt to understand MNEs’ behaviour under the gravity model framework, Hyun and Kim (2010) used panel data from 101 countries covering the period 1989-2005 to explore the relationship between countries’ characteristics and FDI by focusing on mergers and acquisitions (M&As). In addition to institutional quality variables, they found that market size, economic integrations and common languages have a positive relationship with M&As while geographical distance negatively affects M&As.

Similar variation in the effects of FDI locational determinants can be observed in the previous studies that have been done in transition economies. For instance, focusing only on manufacturing industry’s FDI inflows into transition economies in CEE, Resmini (2000) argues that the responsiveness of FDI inflows to market variables varies
among sectors. She also noted that the host countries’ progress in terms of transition towards a market-based economy has stronger influence on FDI inflows in capital intensive and science-based sectors than traditional sectors.

Walch and Wörz (2012) analysed the locational determinants of FDI in eleven transition economies in Central, Eastern and South-eastern Europe, CESEE (Romania, Bulgaria, Poland, Czech Republic, Hungary, Estonia, Croatia, Latvia, Lithuania, Slovenia and Slovakia) over the period 1995 to 2011. They found that FDI in these countries was mainly market and efficiency seeking, suggesting that market size and cost factors were the most important locational determinants for FDI in these countries.

Riedl (2010) distinguishes between services and manufacturing FDI in terms of the importance of FDI locational determinants in eight transition economies. She argues that while market size is more important for the service sector as a locational determinant of FDI than it is in the manufacturing sector, labour cost is more significant as a locational determinant in manufacturing than it is in services. Her finding regarding the negative impact of high labour cost on manufacturing FDI inflows is consistent with the findings of many previous studies (e.g. Békés, 2005; Pusterla and Resmini, 2007).

In contrast, however, Clegg and Scott-Green (1999) argue that the effects of labour cost on FDI inflows can vary according to the type of FDI that is taking place. For example, while low labour cost could attract labour intensive investments which are seeking unskilled or semi-skilled workforce, it can be considered as a sign of the unavailability of skilled labour that other advanced and technology investments may require and, therefore, they may become uninterested in investing in a location for this reason.

For this reason, Noorbakhsh et al. (2001) and Birsan & Buiga (2009) suggest that enhancing developing countries’ attractiveness for FDI, and especially for higher quality and more sophisticated FDI, requires developing new policies that can foster the
build-up of more skilled and more qualified human capital. In addition, this variation based on the FDI type also might explain why the negative effect of labour cost on FDI inflows has not been statistically significant in some studies (e.g. Cheng and Kwan, 2000; Resmini, 2000).

3.6 Conclusion

At this stage of the economic transition in Syria, FDI is an important element for achieving the objectives of this transition. This is because of the role of FDI in speeding up the transition process, enhancing the Syrian economy’s growth, and helping it to integrate more with the global economy through the spillovers that can be generated from the advanced technology brought by foreign enterprises and by encouraging organizational restructuring to provide more effective corporate governance (Borensztein et al., 1998; Chen, 2012; Djankov and Murrell, 2002; Estrin et al., 2000).

The literature review suggests that, in order to attract more FDI inflows, Syrian policy makers have a major responsibility to improve the Syrian institutional environment. This is because, based on the discussion provided in this chapter, institutional factors have an impact upon the MNEs’ foreign investment locational decision (e.g. Ali et al., 2010; Bénassy-Quéré et al., 2007; Bevan et al., 2004; Botrić and Škuflić, 2006). The Syrian policy makers seems to be aware of this impact and of their responsibility in this regard, as the Syrian government has already carried out many reforms of the Syrian formal institutions (Chapter Two). These were mainly aimed at allowing the private sector, FDI in particular, to expand and to play a dynamic role in supporting economic growth in Syria.

Therefore, this research will investigate to what extent the institutional changes taken by the Syrian government as a fundamental part of the transition to market-based economy have played a role in determining the locational decision of FDI in Syria.
On the other hand, it was noticed that “open FDI policies are a necessary, but not a sufficient, host country determinant of investment” (UNCTAD, 1998: p.94). This is because the literature review revealed a number of economic motives and strategies that have an influence upon FDI locational decision. Hence, the impact of these economic factors on the locational decision of FDI in the transition economy of Syria will also be assessed and explored in this study.

Finally, it is clear from the literature that the adoption of a quantitative research strategy, mainly an econometric approach, is a common feature among all previous studies that tried to identify the role of various institutional factors and economic motives/strategies in determining the locational decision of FDI (see the table in Appendix 1, p.254). This means that these studies did not pay enough attention to the fact that the locational decision of FDI is mainly taken by people (e.g. foreign investors) whose perceptions about these factors and motives determine the final locational decision of FDI. Hence, in the following chapter, i.e. the Research Methodology Chapter, it is shown that this study fills this gap in the literature. This is done by following a qualitative research strategy to identify the role of the various institutional factors and economic motives/strategies in determining the locational decision of FDI in the transition economy of Syria.
4 Chapter Four: Methodology

This chapter starts by providing an appropriate classification for the research based on its purpose as *explanatory research*, but partially *exploratory* and *descriptive* as well. Then it explains the philosophical bases of the research and the approach that underpins the chosen research strategy and data collection methods. Moreover, this chapter includes the research hypotheses, derived from reviewing the relevant literature. Finally, explanations of the research ethical considerations are also included in this chapter.

4.1 The Research Purpose

Business research can be classified into three categories based on its purpose. These are: ‘Exploratory research’, ‘Descriptive research’, and ‘Explanatory research’ (Robson, 2002; Saunders et al., 2009). Exploratory research is followed by researchers who wish to deepen their understanding of a reality and seek new insights through searching within the literature, conducting open interviews and/or focus group interviews. Descriptive study aims to draw an accurate profile of a certain event, individual or situation. Explanatory study is useful for researchers who are interested in finding the causal relationships among variables (Zikmund, 2002; Alajaty, 2009).

As discussed in the second chapter, the socialist ideology adopted by the Syrian government in the nineteen sixties caused many problems for the Syrian economy. In addition, the Syrian government’s incremental economic reform failed to achieve any significant improvement in the Syrian economy. Therefore, the Syrian government started to move to a more market based economy and hopes that this transition will attract higher FDI inflows into Syria. Therefore, this study aims to find out, in respect of the Syrian economic transition, to what extent the institutional changes undertaken by the Syrian government have played a role in determining the locational decision of FDI in Syria. Furthermore, since institutional factors are not the only FDI locational
determinants, this study will identify the impact of economic FDI locational determinants on FDI inflows into Syria.

These objectives classify this study as an *explanatory* study, in which the researcher seeks to find the causal relationship among different variables (Zikmund, 2002). However, this study also tries to achieve deeper understanding of the FDI locational decision-making process and determinants by following a new perspective, an interpretivist perspective, which classifies this study as *exploratory* research too. In other words, this study has mixed purposes, which classify it as *explanatory* and *exploratory* study at the same.

Furthermore, before evaluating the effectiveness of the Syrian economic reforms in enhancing the investment environment, it is necessary to have a clear picture about the Syrian economy and the reform measures that have been taken up to now. Therefore, this study can also be considered as partially *descriptive*. In such studies, researchers try to portray an accurate profile of certain events, situations or persons (Robson, 2002). The descriptive aspect of this study is important because it is crucial to have a clear picture of the phenomenon being studied before starting an investigation (Saunders et al., 2009). This is especially important since Syria has neither been explored as a transition economy nor properly investigated regarding its attractiveness to FDI. This reveals the need for explaining the rationale behind the transition decision and describing the previous conditions of the Syrian economy that led to such a decision (Chapter Two).

### 4.2 Research Philosophy and Paradigm

All original research aims to extend the boundaries of knowledge in the chosen field. The researcher’s perceptions regarding the nature of this knowledge and the relationship between the nature of knowledge and its development process form the research
philosophy that underpins the chosen research approach, strategy, design, and data collection methods. When deciding the underpinning philosophy of the research, the researcher has two major approaches to think about: the ontological position and the epistemological position (Saunders et al., 2009).

Some writers (e.g. Collis and Hussey, 2009; Guba and Lincoln, 1994; Neuman, 2010) refer to the identification of the researcher’s ontological and epistemological positions as the research paradigm that determines the whole thinking system within the research. In this sense, the research paradigm can be defined as “a set of very general philosophical assumptions about the nature of the world (ontology) and how we can understand it (epistemology)” (Maxwell, 2005: p.46).

This study examines the impact of various FDI locational determinants on MNEs’ decisions to choose Syria as their investment location. Understanding of such a relationship requires exploration of the perceptions and perspectives of strategic decision makers regarding the various FDI locational determinants within the chosen context. In other words, this relationship cannot exist in isolation from the people who are responsible for taking the locational decisions, and cannot be explored without considering their different perceptions and interpretations regarding the various FDI locational determinants. Therefore, the ontological position of this research is subjectivism in which social reality is viewed as social construction that is established by people’s experiences, ideas, understandings, perceptions and interactions (Bryman and Bell, 2007).

Regarding the epistemological position, the basic issue is whether or not researchers can explore the social world using the same principles and techniques used in natural science research. The answer to this question splits researchers into two epistemological groups: positivists and interpretivists (Bryman and Bell, 2007). Positivists follow
natural scientists’ techniques in exploring the social world and they try to reach law-like results. On the other hand, interpretivists stress the importance of understanding the differences between and the role of people’s perceptions and interactions in forming social reality. In this sense, interpretivism is the proper epistemological position for this study, especially in conjunction with its ontological position, i.e. subjectivism, which stresses the same points (Saunders et al., 2009).

4.3 Research Approach

Another important issue that affects research design and data collection methods is the researcher’s use of theory. In this regard, research can follow one of two approaches: a “deductive approach”, in which the researcher proposes hypotheses/theories and then develops a research strategy to test these hypotheses, or an “inductive approach”, in which the researcher develops the theory after collecting data and analysing them (Saunders et al., 2009: p.117; Easterby-Smith et al., 2009).

As the literature review shows, many researchers have studied FDI locational determinants in developing countries, emerging markets and transition economies. These previous explorations provide a pool of research that can be used to develop a set of hypotheses in order to test them later. In this sense, this research should follow the deductive approach.

Syria has not previously been properly studied in these terms, nor has it been explored as a transition economy. As a result, Syria needs to be studied in depth in order to achieve sufficient understanding of this new context. In addition, based on the adopted subjectivist ontological approach, this study explores the perceptions and perspectives of strategic decision makers regarding the various FDI locational determinants within this new context. Hence, following the deductive approach’s classical highly structured methodology to collect quantitative data from a big sample will not be useful for
achieving such objectives. To solve this problem, the hypotheses are tested using qualitative rather than quantitative data.

Some may argue that adopting interpretivism as the research philosophy implies following the inductive approach instead of the deductive approach, which finds its roots in natural sciences (Bryman and Bell, 2007). However, Saunders et al. (2009: p.117) believe that “such labelling is potentially misleading and of no real practical value”. Moreover, this problem is overcome by using qualitative data to test the research hypotheses. This allows for deeper exploration of the context, and for qualitative testing and refining of the hypotheses using factors that inductively stand out in the data.

4.4 Research Strategy

Research strategy is the overall approach by which the researcher intends to answer his/her research question/questions and achieve his/her research objectives. Taking the variety of research purpose, research philosophy and research approach into consideration, two distinctive research strategies can be identified within business and management research; these are qualitative research and quantitative research (Bryman and Bell, 2007).

The literature review reveals that the quantitative research strategy, mainly the econometric approach, is the common aspect of the methodological designs of all previous studies that tried to identify the role of various institutional factors and economic motives/strategies in determining the locational decision of FDI (see the table in Appendix 1, p.254). This means that previous studies did not pay enough attention to the fact that the FDI locational decision is a strategic decision that is based on human perceptions of aspects of the investment location. This reveals a limitation in the previous research that necessitates a deeper exploration of the decision makers’
perceptions regarding the locational determinants of FDI, so as to provide a better understanding of the FDI locational decision process and its determinants.

Therefore, there is a need for a more open, dynamic and flexible research methodological approach in the field of FDI locational determinants that can reveal the broader meaning behind the numeric data in the former statistical research. Thus, answering the research question in this study and achieving its objectives will be approached by following a qualitative research strategy that is based on the exploration of the perceptions of key people who are involved in making the decision on FDI location. In so doing, it is expected that this study will provide deeper insights into the topic of FDI locational determinants and reveal any other factors that have an impact upon the locational decision of FDI that previous quantitative studies failed to reveal.

4.5 Data Collection Methods

As indicated above, this research follows a qualitative approach to answer the research question and achieve the research objectives. Therefore, the primary data was collected using semi-structured interviews. Choosing to follow a qualitative design and to interview respondents is a result of the objective of gaining a rich understanding of the context in which this research is taking place, i.e. the Syrian economy. Moreover, this data collection method facilitated a focus on the various elements and themes covered by this study and was adaptable to the organizational context of the interviewees (Saunders et al., 2009), especially in terms of their variation in size, sector, origin, experience, etc.

Moreover, this research strategy and data collection method are consistent with the adopted epistemological position, i.e. interpretivist. To be clearer, this approach regards locational decisions of MNEs as arising from the interaction among a set of conditions and persons. Due to the complexity and the uniqueness of each explored case, this
epistemological position highlights the need to understand the variation among people while playing their role in deciding the foreign location of their investments and responding to the different investment conditions and locational determinants. This view matches the chosen ontological position, i.e. subjectivism. To be more precise, collecting data based on the adopted ontological position entails a direct interaction with the people involved in deciding the location of FDI, talking and listening to them in order to understand their perceptions and to have access to their understandings and interpretations regarding the business environment and FDI locational determinants in Syria (Mason, 1996).

Furthermore, this research is concerned with top managers and the main players involved in drawing up the investment strategies of their enterprises. In this case, collecting data using semi-structured interviews seems to be more suitable than using a questionnaire for a number of reasons. For instance, Saunders et al. (2009: p.316) argue that “managers are more likely to agree to be interviewed, rather than complete a questionnaire, especially where the interview topic is seen to be interesting and relevant to their current work”. This might be because it is much easier for them to reflect on events during an interview rather than writing their reflections down using a questionnaire, in which respondents usually do not have the option or the space to provide deeper explanations or reflections on their answers. Therefore, interviewing respondents was necessary to generate qualitative data that provides a richer and deeper view of the reality compared with the data generated using a questionnaire and other quantitative data collection methods that were followed in other similar studies (e.g. Ali, 2000; Bevan et al., 2004; Pusterla and Resmini, 2007; Walch and Wörz, 2012).

In addition, personal contact with those managers during an interview allowed the interviewer the opportunity to give personal assurances about how their information
would be used. Such personal assurances, especially from a local researcher, as in this case, can be very useful in extracting sensitive and confidential information from this kind of respondents, who might not provide it for someone they have not met, as is the case when using a questionnaire. Therefore, using semi-structured interviews should generate higher response rates and provide greater access to data than using a questionnaire (Saunders et al., 2009; Hoskisson et al., 2000; Lee and Miller, 1999).

In addition, the descriptive part of this research, i.e. explaining the rationale behind the Syrian economy transition and portraying a clear picture of the Syrian economy’s conditions and FDI inflow figures, requires reflective secondary data analysis as another data collection method (Cooper and Schindler, 2003). With the aim of explaining the Syrian government rationale to move towards a market-based economy, prior studies about socialism and economy transition are of particular interest. Other studies of the Syrian economy and governmental documents and publications are also important as secondary data sources, to provide an overview of the Syrian economy and to explain the Syrian government’s reasons for the transition decision.

4.6 Research Population, Sampling Technique and Data Sources

A research population is defined as “the specific, complete group relevant to the research project” (Zikmund, 2002: p.373).

In a survey done in 2009 by the Syrian Central Bureau of Statistics, it was found that 178 FDI projects were fully established and operating in Syria (Abdul-Azeez, 2009). The foreign investors in these projects or their representatives in Syria, such as their Syrian partners and regional managers, form the research population for this study, after excluding the managers of those projects that do not meet the MNE or FDI criteria defined in the Literature Review chapter.

Due to the various time and cost limitations of any study, the best way to explore this
research population is by using a representative sample instead of trying to cover the whole population (Ghauri and Gronhaug, 2005). Because of the variation among MNEs, “stratified random sampling” (Bryman and Bell, 2007: p.187) was the most appropriate method for providing a representative sample of the research population.

Therefore, the research population was stratified into four groups based on two criteria, sector and origin. On the sector criterion, the research population was divided into manufacturing FDI and services FDI. On the origin criterion, the research population was divided into FDI inflows from the Middle East and neighbouring countries and FDI from other countries. The choice of these two criteria is based on the literature review, which highlights the differences among MNEs’ responses based on the sector they invest in (e.g. Riedl, 2010) and based on their countries of origin (e.g. Estrin et al., 2000; Peng, 2000). Then, samples were chosen from each of these four groups using a simple random sampling technique (Bryman and Bell, 2007: p.185).

The major sources of information about the sample, including the respondents’ projects and contact addresses, were the Syrian Central Bureau of Statistics and the Syrian Investment Authority. Other sources of data were the relevant Syrian ministries and their branches in the main Syrian provinces.

Other information regarding FDI inflows and their origin and sector is taken from the following resources: Syrian Investment Authority reports, the United Nations World Investment Reports and International Monetary Fund reports. The Syrian State Planning Commission’s reports and publications, in addition to other studies about the Syrian economy, are the main resources for the Syrian government’s investment policy direction and reforms.

4.7 Research Hypotheses

In ‘quantitative’ inquiry, a hypothesis can be defined as “a testable proposition about
the relationship between two or more concepts or variables” (Saunders et al., 2009: p.124). Bryman and Bell (2007: p.88) consider a hypothesis as a different type of research question but they still define it as “an informed speculation, which is set up to be tested, about the relationship between two or more variables”.

In the light of the previous definitions, it is not surprising that the hypotheses-testing approach is typically avoided in qualitative research. This is basically because qualitative enquiry aims to investigate the complex inter-relations between intricately specified and defined phenomena, rather than thinking in polarized ways about the relationship between variables. In addition, qualitative researchers prefer not to be tied down to pre-formulated hypothetical statements (Gibson and Brown, 2009; Meinefeld, 2004).

However, Gibson and Brown (2009: p.140) identified an alternative conceptualisation of the term ‘hypothesis’ that can be traced back to Glaser and Strauss’ (1999 [1967]) use of the same term, and fits very well with the thematic analysis of qualitative data (adopted in this study as the suitable approach for qualitative data analysis, see next chapter). According to them, a hypothesis is “a conceptual relation between two or more aspects of a given analytic framework”. In this sense, hypotheses can be generated in order to analytically investigate and test the relationships between people, attitudes, practices, events, etc. Then, data are explored and analysed in relation to the pre-identified hypotheses, which are, in turn, subject to any necessary amendment so that they fit with the collected data.

At this point, a logical question can be raised, that is: While quantitative hypothesis-testing procedures are clear and well described, what are the procedures that we should follow for qualitatively testing our hypotheses?

Yin (2009 [2003]) identified two specific analytical procedures that answer the previous
question and that can be applied to qualitative data analysis from a deductive perspective. These two procedures are pattern matching and explanation building.

**Pattern matching** involves developing analytical or conceptual frameworks through utilising an existing theory. In other words, the researcher first develops theoretical propositions that show what she/he expects to find. Then, she/he compares the pattern of the collected data with the predicted pattern to find out whether they match, and in this case, whether the theoretical proposition is confirmed or not. The latter means further explanation and amendment to the theoretical proposition is needed to fit with the empirical findings.

**Explanation building** is the other analytical procedure that Yin (2009 [2003]) suggested for qualitative data analysis from a deductive perspective. Although Saunders et al. (2009) refer to this procedure as just a special type of pattern matching, Yin (2009 [2003]) thinks that this technique is more difficult and requires separate attention. In this procedure, the researcher tries to build an explanation while collecting and analysing research data, instead of testing a predicted explanation. Although this approach seems to be similar to the grounded theory and the hypothesis-generating approach developed by Glaser and Strauss (1999 [1967]), Yin (2009 [2003]) differentiates his approach in two ways. First, explanation building aims to test a proposed theory, rather than inductively generating a new theory. Second, he states that his proposed analytical procedure is associated with explanatory studies, while grounded theory and the hypothesis-generating approach are associated with exploratory studies.

In brief, the explanation building approach starts with proposing theoretically based assumptions and applying any necessary amendments to them as the data is collected and analysed until a satisfactory explanation is derived.
The two previous approaches seem to overlap and complete each other, which, from a deductive perspective, makes using both for qualitative data analysis a necessity rather than an option. In other words, it seems that a researcher is applying both techniques whether:

a- She/he starts by matching the patterns of collected data with the patterns of an existing theoretical explanation in order to amend and rebuild this explanation (pattern matching technique), or

b- She/he starts by developing new theoretical propositions and then building an explanation based on these propositions through matching their patterns with the data patterns while they are being collected and analysed (explanation building technique).

This research is based on the discussion in the Literature Review (Chapter Three), but concerning Syria’s transition and its goal of improving Syria’s economy attractiveness for FDI, and starts by developing hypothetical propositions that are later tested using the approaches described above.

As discussed previously, the primary idea of economic transition is to replace the institutions of the planned economy with new ones in order to establish a market-based economy (Meyer, 2001b). Therefore, the Syrian transition toward a market-based economy has necessarily required major institutional reform. Since the literature review has revealed that this type of reform can play a role in determining the locational decision of FDI, we hypothesize that:

**H1: Institutional reforms enhanced Syria’s attractiveness to FDI and motivated foreign investors to enter its market.**

On the other hand, although institutional factors are important for FDI, it has been
argued that they are “not a sufficient host country determinant of investment” (UNCTAD, 1998: p.94). Therefore, in the Syrian context, we hypothesize that:

**H2: MNEs require not just institutional improvement, but also economic motivations when choosing to invest in Syria.**

Economic motivations for investing in a foreign location are classified into four groups: market seeking motivations, resource seeking motivations, efficiency seeking motivations, or strategic asset seeking motivations (e.g. Dunning, 2000; Johnson and Turner, 2003; UNCTAD, 2006: p.158). Due the declining role of resource-seeking strategies in determining FDI (UNCTAD, 1998), we hypothesize that:

**H3: Market seeking and efficiency seeking strategies are the major economic motivations for FDI in Syria.**

Some writers who previously explored FDI locational determinants in transition economies (e.g. Riedl, 2010) distinguished between services and manufacturing FDI in terms of the importance of various FDI locational determinants. They argued that while market size was more important for the service sector as a FDI locational determinant than for the manufacturing sector, labour cost and other efficiency factors were more significant as FDI locational determinants in the manufacturing sector than they were in service sector. Therefore, we hypothesize that:

**H4: While manufacturing FDI in Syria is more likely to be efficiency seeking investment, service FDI in Syria is more likely to be market seeking investment.**

Testing of the above hypotheses will answer the research question and reveal the extent to which the findings of the previous studies are applicable to the Syrian transition context. By doing so, the study also aims to reveal any new factors that can play a role in terms of the locational decision of FDI.
4.8 Ethical Issues

This research is people centred, and it could not be successfully accomplished without the participation of top managers and key people who were prepared to reveal their personal perspectives and perceptions during the interviews. Thus, it was crucial to treat these people and their information with honesty and respect (Punch, 2000).

This research involves some sensitive institutional and political issues that could put the participants in a vulnerable situation. Therefore, they were given an assurance of the confidentiality of their personal information and that such information would not be mentioned in the final report without their permission. This was important to avoid any harmful consequences of their participation in this research and to encourage them to reveal their opinions about these sensitive issues (Dawson, 2002).

4.9 Data Quality Issues

Research quality is commonly assessed based on two criteria: reliability and validity. These two measures have been developed mainly within quantitative research (Bryman and Bell, 2007). Nevertheless, there are issues regarding the ability to apply them in qualitative research.

To begin with, reliability is mainly concerned with assessing the replicability of research. Due to the complexity of the research context, and since it is impossible to freeze the circumstances and the social setting of the initial study within such a context, it is unrealistic to say that this research, or any other qualitative research, is replicable to the extent that the reliability criterion entails. Moreover, the tendency of qualitative research to focus on a small sample of the research population or on only a few case studies can be a problem when assessing the generalizability/external validity of a qualitative research (Bryman and Bell, 2007; Saunders et al., 2009).
Marshall and Rossman (1999) respond to the reliability problem when using a non-standardised research approach by arguing that the findings in such a case are not necessarily intended to be repeatable, as long as they reflect the reality at a certain time and under certain circumstances, which might change later. Instead, they suggest that, in any qualitative research in which the researcher uses a non-standardised approach, researchers should keep notes regarding the research design, factors that underpin the choice of research strategy and data collection methods, and the data collected.

These notes will provide better understanding of the research process and the final findings. Moreover, where it is possible, these notes may even allow other researchers to reanalyse the data collected (Marshall and Rossman, 1999), which will also help in solving the validity problem in qualitative research. “In the case of qualitative research, the issue of validity is a question of whether the researcher sees what he or she thinks or thinks what he or she sees” (Kirk and Miller, 1986: p.21). Therefore, such transparency in the qualitative research procedures provides evidence that clearly explains how qualitative data were interpreted and allows other researchers to judge the validity of what was done (Sinkovics et al., 2008).

Therefore, following Marshall and Rossman (1999) (in addition to the information already provided within this chapter about research design, factors that underpin the choice of research strategy and data collection method), the following chapter provides a detailed description of the all procedures that were followed for collecting, analysing and interpreting the qualitative data of this research.

Such “thick description” (as it is called by Geertz, 1973) will also allow other researchers to make a judgement about the “transferability”, which parallels generalizability/external validity, of the findings to other contexts (Bryman and Bell, 2007: p.413). Basically, the current study’s focus on Syria as a transition economy
means that its findings may be transferable to similar contexts, i.e. transition economies.

4.10 Conclusion

This research is *explanatory* and *exploratory* at the same time, since it aims to study and explore the impact of various FDI locational determinants, institutional and economic, on FDI inflows within the Syrian context. However, this study is also partly *descriptive*, due to the need to portray a clear picture of the research context. This descriptive aspect is important, especially as Syria has neither been studied properly regarding FDI inflows, nor explored as a transition economy before this study.

The research is mainly deductive, and a set of research hypotheses regarding FDI locational determinants have been designed based on the previous literature. Moreover, the understanding of MNEs’ locational choice as a human decision, which is based on the decision makers’ interpretation and perceptions regarding FDI locational determinants, shapes the research philosophical basis for the overall methodological approach. Therefore, the research ontological position is *subjectivism*, and *interpretivism* is the proper epistemological position for this study. These philosophical backgrounds underpinned the choice of qualitative research as the research strategy and the semi structured interview as the data collection method. Such an approach raises concerns regarding reliability and generalizability. These quality considerations, however, can be addressed by detailed description and explanation of the procedures followed in the research. Such a description is provided in the next chapter.
5 Chapter Five:

Data Collection Process and Data Analysis

5.1 Introduction

The aim of this study is to investigate to what extent the institutional reforms taken by the Syrian government as a fundamental part of the transition to market-based economy has played in determining the locational decision of FDI in Syria. However, the literature review revealed that a number of economic factors have also had an influence upon the locational decision of FDI. Hence, the impact of these economic factors on the locational decision of FDI in the transition economy of Syria will also be explored in this study.

In order to achieve the above objectives, the subsequent exploration needed to follow a framework that focused on both types of factors: institutional and economic determinants of FDI. Fortunately, the UNCTAD (1998) classification of host country locational determinants of FDI, illustrated in Figure 5.1, provided a comprehensive classification of the locational determinants of FDI that contained both types of factors. Therefore, this classification provided a suitable conceptual framework, and was used as a template/guide for collecting and analysing the qualitative data in this study. For this reason, before explaining the steps and procedures that were followed for data collection and data analysis, it is necessary to explain the various elements included in the adopted conceptual framework. Therefore, the next section (Section 5.2) provides this explanation. Thereafter, Section 5.3 provides a description of the steps that were carried out for data collection. Finally, Section 5.4 explains the stages that were followed during the analysis of the collected data.
5.2 The Research Conceptual Framework

This section provides an explanation of the various institutional and economic determinants of FDI listed in the adopted conceptual framework (Figure 5.1). Therefore, this section is divided into two sub-sections:

Section 5.2.1 explains the institutional determinants of FDI included in the framework.
Section 5.2.2 explains the economic determinants of FDI included in the framework.

This explanation is necessary to understand the factors under investigation. This explanation is also necessary to understand the different steps and procedures followed during the data collection (Section 5.3) and the data analysis (Section 5.4). This is because these steps and procedures were mainly based on this conceptual framework.

---

**Figure 5.1 Host Country Determinants of FDI**

<table>
<thead>
<tr>
<th>Host country determinants</th>
<th>Type of FDI classified by motives of TNCs</th>
<th>Principal economic determinants in host countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Policy framework for FDI</td>
<td>A. Market-seeking</td>
<td>• market size and per capita income</td>
</tr>
<tr>
<td>• economic, political and social stability</td>
<td>• market growth</td>
<td></td>
</tr>
<tr>
<td>• rules regarding entry and operations</td>
<td>• access to regional and global markets</td>
<td></td>
</tr>
<tr>
<td>• standards of treatment of foreign affiliates</td>
<td>• country-specific consumer preferences</td>
<td></td>
</tr>
<tr>
<td>• policies on functioning and structure of markets (especially competition and M&amp;A policies)</td>
<td>• structure of markets</td>
<td></td>
</tr>
<tr>
<td>• international agreements on FDI</td>
<td>B. Resource/asset-seeking</td>
<td>• raw materials</td>
</tr>
<tr>
<td>• privatization policy</td>
<td>• low-cost unskilled labour</td>
<td>• skilled labour</td>
</tr>
<tr>
<td>• trade policy (tariffs and NTBs) and coherence of FDI and trade policies</td>
<td>• technological, innovatory and other created assets (e.g. brand names), including as embodied in individuals, firms and clusters</td>
<td></td>
</tr>
<tr>
<td>• tax policy</td>
<td>C. Efficiency-seeking</td>
<td>• physical infrastructure (ports, roads, power, telecommunication)</td>
</tr>
<tr>
<td>II. Economic determinants</td>
<td></td>
<td></td>
</tr>
<tr>
<td>III. Business facilitation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• investment promotion (including image-building and investment-generating activities and investment-facilitation services)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• investment incentives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• hassle costs (related to corruption, administrative efficiency, etc.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• social amenities (bilingual schools, quality of life, etc.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• after-investment services</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: UNCTAD (1998: p.91)
5.2.1 Institutional Determinants of FDI

The UNCTAD (1998) classification of host country locational determinants of FDI, illustrated in Figure 5.1, includes the following institutional factors:

1- policy framework for FDI
2- business facilitation activities

5.2.1.1 Policy Framework for FDI

“Core FDI policies consist of rules and regulations governing the entry and operations of foreign investors, the standards of treatment accorded to them and the functioning of the markets within which they operate” (UNCTAD, 1998: p.92).

These rules and regulations can range from clear prohibition of the entry of FDI to preferential treatment of foreign investments. The reason is that a country’s FDI policy aims to achieve various objectives, such as increasing or reducing FDI inflows and attracting FDIs from certain sectors or a specific geographical origin. Therefore, these policies are important tools that host countries (Syria, in this research) can use to encourage and achieve desired contributions of FDIs to the domestic economy and to direct the ways in which such a contribution can be made. In addition to that, in order to satisfy their desired objectives, core FDI policies are usually accompanied by other complementary policies, such as trade policy, privatization policy and policies to govern the functioning and structure of the market (UNCTAD, 1996, 1998).

Since the 1980s, the most important type of FDI policy framework change, in terms of locational determinants of MNEs’ investments, has been the liberalization of FDI policies. An economy that can be considered as a liberalized one is an economy in which the market allocation of resources faces minimal policy distortions and its government is responsible for ensuring the proper functioning of the market (UNCTAD,
Liberalizing FDI policies is a dynamic process that involves three sets of actions/policies (Figure 5.2).

The first set of actions/policies, *the removal of market distortions*, includes the elimination of market restrictions on foreign investors’ activities (e.g. entry restrictions, ownership and control restrictions, operational restrictions, etc). In addition, the first set includes policies that offer foreign investors various investment incentives, such as tax and financial incentives. The second set of actions/policies includes policies that *strengthen foreign investors’ positive standards of treatment*, such as offering FDIs equitable and fair treatment compared with domestic investments. The third set of actions, *market supervision actions*, is a necessity for supporting the outcomes of the first two categories, since such actions are essential to guarantee a proper functioning of the market (UNCTAD, 1994, 1998).

*Figure 5.2 The Liberalization of FDI Policies*

As the FDI policy framework is liberalized, the broader investment context of a foreign country becomes more relevant to the locational decision of a MNE. Many important characteristics in host countries’ institutional framework are essential to give meaning and effect to the liberalization of FDI policies. For example, a comprehensive and
coherent regulatory framework for business activities and a properly functioning legal order, including well-functioning courts, are crucial to support the certainty and predictability of business operations.

It should also be noted that attracting more FDI inflows cannot be achieved only by liberalizing the FDI policy framework. Drawing other types of policies that aim at creating a friendly investment environment and promoting the investment opportunities is required too (UNCTAD, 1998, 1994). These policies are known as business facilitation activities and they are explained in the following section.

5.2.1.2 Business Facilitation Activities

All the institutional changes that were previously discussed under the policy framework theme aim at creating a friendly investment environment and a level playing field that can enable private investments, in general, to take place in a newly opening country. Such institutional changes are usually accompanied by complementary measures that facilitate foreign investment activities undertaken in the host country (UNCTAD, 1998).

For instance, developing countries and almost all transition economies have resorted to promotional actions to improve their poor image as destinations not friendly to FDI (UNCTAD, 1995). This has been mainly because liberalizing their FDI policies alone was not enough to change foreign investors’ unfavourable perceptions regarding the investment climates in these countries (Wells and Wint, 2000). This has induced governments to want to do more to gain foreign investors’ attention and enhance FDI reaction to the emerging investment opportunities in their countries (UNCTAD, 1998).

Other investment facilitation services are very important in this regard. This is because of their role in eliminating bureaucratic barriers facing foreign investors, which could discourage them from investing in a certain place. Such services include counselling, offering assistance in obtaining the required permits, accelerating the stages of the
approval process and provision of after-investment services. In most cases, these efforts led to the creation of one-stop shops to handle all issues related to foreign, as well as domestic, investments (Wells and Wint, 1991, cited in UNCTAD, 1998, p.101).

5.2.2 Economic Determinants of FDI
As discussed before, FDI locational choice is a strategic decision that reflects the company’s overall strategy intended from investing in a foreign location (Piteli, 2010). Such strategies have been classified into four groups: market seeking strategy, resource seeking strategy, efficiency seeking strategy, or strategic asset seeking strategy (e.g. Dunning, 2000; Johnson and Turner, 2003; UNCTAD, 2006: p.158)

5.2.2.1 Market seeking or demand oriented internationalization strategies
Market-seeking foreign investors try to take advantage of local demand for goods and services in a particular foreign market, or group of markets. Since the early 1990s, the large and rapidly growing emerging markets have provided organizations with great opportunities to invest and benefit from the vast demand for various goods and services that local firms fail to offer.

In this regard, Mottaleb and Kalirajan (2010) and Anyanwu (2011) argue that market seeking foreign investors might think of exporting products that they have initially produced to sell to their host country domestic market. Hence, opening up trade policies and integrating with the world economy through signing international trade agreements can give small economies the opportunity to become more attractive to FDI by facilitating exports and, therefore, expanding the market opportunities that these small economies offer to FDI.

Market seeking FDI has many other advantages and motivations to invest in certain markets. For example, by being close to their customers, MNEs have the opportunity to better understand local market needs, tastes and customs. Moreover, some organizations
move their operations to foreign economies tempted by the various investment
incentives that these economies offer. Furthermore, sometimes, suppliers try to protect
their relationship with their key customers by following them and investing in the same
location where those customers invest (Johnson and Turner, 2003; UNCTAD, 1998).

5.2.2.2 Natural Resource seeking or supply oriented internationalization strategies
Using a resource-seeking strategy, firms try to gain access to a certain location’s natural
resources and raw materials. For example, “much of the FDI by European, United
States and Japanese firms was prompted by the need to secure an economic and
reliable source of minerals, primary products for the (then) investing industrializing
nations of Europe and North America” (Dunning, 1993: p.57; Dunning and Lundan,
2008: p.69).

However, natural resource abundance has not always been sufficient as a locational
determinant by itself. For example, it is commonly perceived that FDI in African
countries has been driven mainly by these countries’ endowments of natural resources
UNCTAD, 1998; Asiedu, 2006). On the other hand, many studies carried out in
African countries (e.g. Morisset, 2000; Asiedu, 2002, 2006; Moreira, 2010) argued that
FDI locational decisions in these countries was subject to the influence of a longer list
of factors (e.g. availability of good infrastructure, market size, and human capital costs
and skills), although the importance of each individual factor varied among cases. In
addition, UNCTAD (1998) argued that natural resources as a locational determinant of
FDI have been important mainly for host countries lacking the necessary infrastructure,
capital and technical skills needed for their extraction and sale to other countries.

However, since the end of the Second World War, and especially since the 1970s, the
importance of host country endowment of natural resources as a locational determinant
of FDI started to decline (UNCTAD, 1998). Dunning (2000) attributes this to a number
of reasons, such as the miniaturisation of product components, better recycling techniques, product innovation and use of synthetic materials as substitutes for natural ones.

5.2.2.3 Efficiency seeking internationalization motives and strategies

Efficiency seeking MNEs try to take advantage of each location’s characteristics in terms of various factors and resources endowments to maximize their benefits and reduce their value chain costs. This can explain why labour intensive activities are concentrated in developing countries that have cheaper unskilled/semi-skilled labour, while capital and technology extensive activities are more common in developed countries (Dunning, 2000; Johnson and Turner, 2003).

5.2.2.4 Strategic asset seeking internationalization motives and strategies

Strategic asset seeking FDI “is dependent on intellectual capital being located in more than one country, and that it is economically preferable for firms to acquire or create these assets outside, rather than within, their home countries”. In other words, this type of FDI aims to gain access to strategically important assets or to protect firms’ current strategic assets that provide them with special ownership advantages (O) (Dunning, 2000: p.173).

Finally, it should be noted that in order to secure their objectives and achieve their goals, companies may decide to invest in foreign markets following more than one of the previous strategies at the same time, i.e. “mixed motives”. Furthermore, in many cases, new strategies have evolved over time after investing in foreign markets, different from the initial strategies intended from investing in that location, i.e. “evolutionary motives” (UNCTAD, 2006: p.159).

In brief, this section explained the conceptual framework on which the subsequent exploration is based. Next, an explanation of the steps and procedures that were carried
out for collecting the qualitative data in this study, is provided.

5.3 Data Collection Process

In the following sections, the different stages that were carried out during the fieldwork are explained (Figure 5.3).

Figure 5.3 Data Collection Process

5.3.1 Designing the Interview Questions

After defining the methodological approach for this research and choosing semi-structured interviews as the major data collection method, the next step needed for data collection was to design the questions to be asked during these interviews. However, “a qualitative research interview is not based on a formal schedule of questions to be asked word-for-word in a set order” (King, 2004a: p.15). Instead, a qualitative interviewer usually uses an interview guide/protocol that includes list of topics that he intends to cover in the course of the interview.

A properly designed interview guide can guarantee a smooth flow of discussion and is very useful for keeping the interviewer on track during each interview. This role of the interview guide enhances the researcher’s ability to exploit each interview and extract valuable information for the research (Easterby-Smith et al., 2002; Yin, 2009 [2003]).

As was discussed above, UNCTAD (1998) classifies host country determinants of FDI into three groups (Figure 5.1):

1- policy framework for FDI
2- economic determinants
3- business facilitation

Following the same classification, the interview guide was initially divided into three major parts.

The first part was designed to explore the participants’ impressions of the Syrian FDI policy framework and included questions regarding the following:

- legislation and rules regarding entry and operation and tax policy;
- trade policy, international agreements and political environment;
- privatization policy;
- social and economic stability in Syria.

The second part included questions designed to capture the role of economic factors in determining the locational decisions of participants. The questions in this part were divided into three sub-sections in order to reflect the UNCTAD (1998) classification of economic locational determinants of FDI. These sub-sections were:

- market seeking motivations;
- resource/asset seeking motivations;
- efficiency seeking motivations.

The third part included questions about investment facilitation activities including investment promotion activities, efficient administration and after-investment services.

A fourth part was added later to give the interviewees the opportunity to make final comments and to add any other points they deemed relevant.

Following the methodological strategy and approach, all the questions were designed as open-ended questions as this kind of question allows a rich exploration of participants’
views regarding the context of the research. Moreover, such questions had a broader focus that covered many elements and themes that were useful for this study (Saunders et al., 2009).

In addition, in order to guarantee a smooth flow of discussion during every interview, two levels of questions were included in each part of the interview guide. Every element in the interview guide included a major question and a couple of probes/follow-up questions to be asked, according to the participant’s answer to the major question. This was necessary to obtain more details from participants (King, 2004a; Bryman and Bell, 2007). The major questions were designed to ask interviewees about their opinions regarding certain points, and based on their answers, follow up questions were asked, but only if they were needed to get further explanation when the main answers were not fully developed.

As most of the interviews were to be conducted in Arabic, the interview guide was translated into Arabic. Since the way in which an interview question is asked determines the interviewee’s answer (King, 2004a), care was taken to ensure that the questions were translated in a way that preserved the meaning and the objectives of every question.

After that, the interview guide was pilot-tested in interviews with three local investors in Syria who have a joint venture with foreign investor. The pilot test was important to reveal any problems regarding the clarity, functionality and structure of the interview questions (Maxwell, 2005).

The pilot study revealed some wording mistakes and led to some questions being rewritten in a clearer way. Most importantly, the pilot test revealed the need to move the question regarding political stability in Syria from the first part to the fourth part of the protocol due to the sensitivity of the political situation in Syria at the time the interviews
were conducted. This was necessary to make participants feel more comfortable and to build a level of trust during the interviews. In some cases, interviewees were comfortable enough to talk about this point even before it was raised by the researcher.

In addition, it was clear that an ice breaker question was needed, rather than directly starting the interviews by asking about the FDI policy framework in Syria. Therefore, interviewees were asked at the beginning of each interview to give an overview of their investments in Syria and what determined their choice of Syria as an investment location. This question was very useful and, in many cases, interviewees covered other questions in the interview guide while answering this question (Appendices 2 and 3 include copies of the final interview guide).

Although most of the designed questions were asked during the interviews, they were not asked in the same order in every case. This was because of the interest of some interviewees in talking about some factors before others. In such cases, the interview guide was very useful in keeping the discussion on track, enabling the interviewer to return to issues that had not yet been discussed.

An advantage of the flexibility in the question order and scope of responses was that, by being eager to talk about certain factors rather than others, the interviewees provided good indications regarding the priority and the degree of influence of these factors upon their investment decisions, which was useful in the analysis and findings.

On the other hand, in some cases, not every question was asked, or answered when asked. This was either because questions became unnecessary as the participant had already talked about the factors concerned, or those factors were not related to the participant’s background and/or experience. Awareness of this situation was useful during the analysis since it enabled the interviewer to understand the variation in the behaviour and the reaction of foreign investors in terms of those factors.
Finally, it should be noted here that due to the diversity of participants (explained in the following section), the interview questions were asked in different ways according to the interviewee’s position (i.e. lawyer, consultant, general manager/CEO of FDI project, foreign investor, or Syrian partner to foreign investor) and the investment sector. The way the question was asked was mainly designed to capture the perception of the foreign investors. For example, the question regarding political and social stability was asked in the following ways:

- When the interviewee was a foreign investor and/or general manager (GM):

  How did your perception of the Syrian social and political environment influence your decision to invest in Syria?

- When the interviewee was a Syrian partner:

  How did your foreign partner’s perception of the Syrian social and political environment influence his decision to invest in Syria?

- When the interviewee was a lawyer and/or consultant for FDIs in Syria:

  How did your clients’ perceptions of the Syrian social and political environment influence their decision to invest in Syria?

### 5.3.2 Choosing and Contacting Participants

Based on the discussion regarding the research population and sampling technique (section 4.6), a list was obtained from the Syrian Investment Authority that included names and contact information of foreign investors in Syria and the purpose (sector) of their investments. In addition, a supporting list of the same information was obtained from the Chambers of Industry, Trade and Tourism in Aleppo, the economic capital of Syria.
While trying to contact the people in these lists, the interviewer noticed that many of them used the phone numbers of their lawyers and consultants. After phone chats with some of those lawyers and consultants, it was clear that some investors (especially Turkish ones) relied on these people’s advice and efforts at many stages of their investments, including the decision to invest in Syria. In addition, each of these lawyers and consultants represented and provided consultation to more than one foreign investor and MNE regarding their investment decisions and the establishment process of their projects in Syria. This fact made this segment of people an important part of the research population, due to their role in the locational decision of MNEs and their ability to comment upon many FDI projects.

In addition, when it was not possible to meet the foreign investor himself, the Syrian partner (if there was one) was the best person to meet. Basically, the Syrian partner was the closest person to the foreign investor regarding the investment in Syria. In some cases, especially when the investment was made by a big MNE, the most suitable person to meet was the regional manager of this MNE project in Syria.

In brief, the research population was divided into three segments due to the variety in the nature of FDI projects. These segments were:

1- FDI’s lawyers and/or consultants (LC)
2- Foreign investors (FI) and their Syrian partners (SP)
3- The general managers of FDI in Syria (GM)

After a series of calls and negotiations to gain access to the people on the lists, interviews were conducted with the following sample (Table 5.1):
<table>
<thead>
<tr>
<th>NO</th>
<th>Category</th>
<th>Nationality of foreign investor</th>
<th>Sector</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>LC1</td>
<td>Turkey</td>
<td>MFDI</td>
<td>Syrian lawyer and consultant for many Turkish FDIs which are mainly in the manufacturing sector. Speaks fluent Turkish.</td>
</tr>
<tr>
<td>2</td>
<td>LC2</td>
<td>USA, UAE and Brazil, Kuwait</td>
<td>MFDI</td>
<td>Syrian lawyer and consultant for many important MNEs that are mainly investing in the manufacturing sector. For example the Sugar factory he is representing cost around $122 million. Another Kuwaiti real estate project cost around $25 million.</td>
</tr>
<tr>
<td>3</td>
<td>LC3</td>
<td>Turkey</td>
<td>MFDI</td>
<td>Turkish business man who is investing in, representing and providing consultations for Turkish investments in Syria. He is a partner with other Turkish investors in at least two projects in textile (jeans) and petrochemical industries, one of which cost around $10 million and the other one around $5 million.</td>
</tr>
<tr>
<td>4</td>
<td>LC4</td>
<td>France, China and Arab countries</td>
<td>MFSFI</td>
<td>Syrian lawyer and consultant for many important MNEs that are investing in the manufacturing sector + 4 foreign banks in Syria.</td>
</tr>
<tr>
<td>5</td>
<td>LC5</td>
<td>Different Investor from EU countries</td>
<td>SFDI</td>
<td>French Consultant and project manager for MNEs that are investing in the hotel sector in Syria. Speaks fluent Arabic.</td>
</tr>
<tr>
<td>6</td>
<td>LC6</td>
<td>Turkey</td>
<td>MFDI</td>
<td>Syrian lawyer and consultant for many Turkish FDIs that are mainly in the manufacturing sector. Speaks fluent Turkish.</td>
</tr>
<tr>
<td>7</td>
<td>SP-S1</td>
<td>Saudi Arabia</td>
<td>SFDI</td>
<td>Syrian partner for a Saudi/German MNE specialising in investing in the health sector. Their project in Syria includes a 300-bed hospital + medical school+ Nursing School+ Spa. The total cost of their investment in Syria is around $300 million.</td>
</tr>
<tr>
<td>8</td>
<td>SP-S2</td>
<td>France</td>
<td>SFDI</td>
<td>Syrian partner for French investors. Their project is basically a modern hospital. He also was partner to British and Jordanian investors in other projects in the same sector in Syria.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Details</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---------</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>GM-S3</td>
<td>Philippine</td>
<td>Services FDI</td>
<td>Philippine CEO of Philippine MNE specialising in managing container terminals in international ports. Their company is developing and running one of the two main container terminals in Syria. This interview was conducted in English.</td>
</tr>
<tr>
<td>10</td>
<td>GM-S4</td>
<td>Turkey</td>
<td>Services FDI</td>
<td>Syrian GM of Turkish company that runs a chain of 4 star hotels in Syria (at least 3).</td>
</tr>
<tr>
<td>11</td>
<td>GM-S5</td>
<td>UK</td>
<td>Services FDI</td>
<td>Syrian GM of British investment in Syria that has many 5 star boutique hotels in Aleppo and Damascus, worth 1 billion and 50 million Syrian pounds.</td>
</tr>
<tr>
<td>12</td>
<td>GM-S6</td>
<td>Kuwait</td>
<td>Services FDI</td>
<td>Syrian GM of Kuwaiti insurance company investing in Syria.</td>
</tr>
<tr>
<td>13</td>
<td>GM-S7</td>
<td>UAE</td>
<td>Services FDI</td>
<td>Syrian GM of UAE company that runs 5 star hotels in Syria (at least two 5 star hotels).</td>
</tr>
<tr>
<td>14</td>
<td>FI-S8</td>
<td>Italy</td>
<td>Services FDI</td>
<td>Italian investor who is investing in the transportation sector.</td>
</tr>
<tr>
<td>15</td>
<td>SP-M1</td>
<td>UAE</td>
<td>Manufacturing FDI</td>
<td>Syrian partner for investor from the UAE in Marble and Granite project.</td>
</tr>
<tr>
<td>16</td>
<td>SP-M2</td>
<td>Iraq</td>
<td>Manufacturing FDI</td>
<td>Syrian partner to Iraqi investor in project for manufacturing stoves and air conditioners.</td>
</tr>
<tr>
<td>17</td>
<td>FI-M3</td>
<td>Saudi Arabia</td>
<td>Manufacturing FDI</td>
<td>Saudi investor who has textile projects in Syria.</td>
</tr>
<tr>
<td>18</td>
<td>SP-M4</td>
<td>Germany</td>
<td>Manufacturing FDI</td>
<td>Syrian partner for German investor in textile project.</td>
</tr>
<tr>
<td>19</td>
<td>FI-M5</td>
<td>Iraq</td>
<td>Manufacturing FDI</td>
<td>Iraqi investor in manufacturing projects for producing furniture and cables.</td>
</tr>
<tr>
<td>20</td>
<td>SP-M6</td>
<td>Arab Partners</td>
<td>Manufacturing FDI</td>
<td>Syrian partner with different foreign investors in Industries Powder-Granulate &amp; Colouring</td>
</tr>
<tr>
<td>21</td>
<td>SP-M7</td>
<td>Iraq</td>
<td>Manufacturing FDI</td>
<td>Syrian partner for Iraqi investor in project for producing Sunflower oil. The project cost is 600 million Syrian Pounds.</td>
</tr>
<tr>
<td>22</td>
<td>FI-M8</td>
<td>Iraq/ Germany</td>
<td>Manufacturing FDI</td>
<td>Iraqi/German partner for Iraqi investor who is investing in Syria in project for Gasket Products who employs around 15 Syrian workers.</td>
</tr>
<tr>
<td>23</td>
<td>FI-M9</td>
<td>Iraq</td>
<td>Manufacturing FDI</td>
<td>Iraqi investor in a carpet manufacturing project.</td>
</tr>
</tbody>
</table>
Turkish investor in PVC project. This interview was conducted with a translator who is a manager of his project in Syria and speaks fluent Turkish. The project cost is $100 million.

Turkish investor in textile project. This interview was conducted with a translator who is his consultant in Syria and speaks fluent Turkish.

GM of French company investing in a food stuff manufacturing project which cost around $7 million.

GM of Egyptian construction company

Saudi partner in the Saudi/Syrian Company for Petrochemicals. The project cost is around $100 million.

Moroccan investor in project for producing olive oil

Syrian partner to Turkish investor in textile project

As shown in Table 5.2, the sample covered both manufacturing and service sectors.

Most of the interviewees (20 interviewees) were from the manufacturing sector, 9 interviewees were from the services sector and one interviewee had experience in both sectors.

Table 5.2 Participants per Sector

<table>
<thead>
<tr>
<th>Manufacturing FDI</th>
<th>Service FDI</th>
<th>Manufacturing and Service FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>9</td>
<td>1</td>
</tr>
</tbody>
</table>

The interviewee was the foreign investor himself in ten cases, the GM/CEO of the FDI project in seven cases, the Syrian partner in the FDI project in seven cases, and the lawyer and/or consultant for FDI projects in six cases (Table 5.3).

Table 5.3 Participants per Position

<table>
<thead>
<tr>
<th>foreign investor</th>
<th>GM</th>
<th>Syrian Partner</th>
<th>Lawyer and/or Consultant for FDI projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>7</td>
<td>7</td>
<td>6</td>
</tr>
</tbody>
</table>
5.4 Data Analysis

In the following sections, the various stages that were carried out during the analysis of the qualitative data are explained. First, it is explained how the data was prepared for analysis (Figure 5.4). Then the role that computer-assisted qualitative data analysis software (CAQDAS) played during the analysis is discussed. Finally, an explanation of the approach followed for qualitative data analysis is provided.

Figure 5.4 Preparing the Interviews for Analysis

5.4.1 Preparing the Interviews for the Analysis

The interviews with GM-S3 and FI-S8 were the only ones that were conducted in English since both of them spoke English and did not speak Arabic. In two other cases (FI-M10 and FI-M11) the interviewees were Turkish investors and had translators who translated the questions and the participants’ answers. All other interviews were conducted in Arabic, since the rest of the interviewees spoke fluent Arabic.

Choosing to interview the participants in Arabic was necessary to achieve effective communication during the interview, since it was the first language of most of them and all of them spoke fluent Arabic (except GM3, FI-M10, FI-S8 and FI-M11). In other words, choosing to communicate with the interviewees using a language that they spoke fluently was a guarantee that their ability to express themselves was not impaired by language barriers that could have had a negative impact on the quality of the data that was extracted from the interviews (Bryman and Bell, 2007; Twinn, 1998).

The next step after conducting the interviews was transcribing and translating them into English, since it was the language that would be used in writing the findings and final
report. Bryman and Bell (2007) suggested transcribing the interviews using the language that was used in the interview (in this case, Arabic) then translating them into the report language (in this case, English). However, after trying this process it was found to be unnecessary (since the Arabic transcripts were not going to be used for the analysis and the original records were always available to listen to again) and extremely time consuming. Therefore, the interviews were translated whilst listening to the recordings and transcribing them.

It should be noted here that translation of the interviews could have been done by a professional translator. However, translation is not simply replacing words from different languages. Instead, it is “a sense-making exercise” that requires a full awareness and understanding of the context and the materials that are being translated (Xian, 2008). Therefore, the researcher in this study, a fluent Arabic speaker, decided to translate the interviews himself. In addition, the experience of translating the interviews provided the opportunity to understand and discuss some points within the transcriptions where it was necessary to stop and think about their meanings. This process was necessary in order to provide an accurate translation which could also support the validity of the interpretation (Temple and Young, 2004; Young and Ackerman, 2001).

The final step in preparing the data for the analysis was to import it into the N-Vivo 8 computer program. This program provides a number of tools for text analysis that many researchers find useful for saving, managing and analysing texts (Bazeley and Richards, 2000). Therefore, the following section explains how this software was used during the data analysis.

5.4.2 Using the N-Vivo Computer Programme for Data Analysis

Recently, computer-assisted qualitative data analysis software (CAQDAS) has
witnessed a remarkable development. This development has been in terms of both the variety of programs that facilitate such analysis and the numbers of people using them (Bryman and Bell, 2007). Notably, N-Vivo has been one of the best software packages that can increase the efficiency and speed of qualitative data analysis (Gummesson, 2003; Sinkovics et al., 2008).

There are many benefits that can be achieved from using the N-Vivo software for analysing qualitative data (e.g. Beck, 2003; Creswell, 2007; Bazeley and Richards, 2000; Ghauri, 2004; Ghauri and Firth, 2009; Sinkovics et al., 2005, 2008). These include:

- allowing the analyst to deal with a large amount of qualitative data;
- reducing the time needed to carry out manual tasks;
- reducing human error, which increases the reliability of the results of the data analysis;
- enhancing the comprehensiveness and flexibility of data analysis;
- coding the same data under different codes;
- quickly locating the data that were coded using a particular code.

In view of these advantages, it was decided to use N-Vivo in this study. The use of N-Vivo software followed a number of steps. The first step was to create a new project within this program and giving it a suitable name. This project became a container for all the data and allowed immediate and quick access to any of its components, which saved a lot of time and brought the analyst closer to the data (Lewins and Silver, 2009).

The next step was organizing the data in a meaningful way. Therefore, three folders were created (Figure 5.5). These folders made locating and accessing the data even easier and quicker. The interviews with FDIs’ lawyers and consultants were placed in the first folder to be analysed first. This was because of the richness of the information,
as each of those interviews reflected the perspectives and the views of many projects and, in some cases, different sectors, given that each of those consultants was representing more than one FDI project. The second folder contained interviews with FDIs within the manufacturing sectors, and the third folder contained interviews with FDIs within the services sectors.

Figure 5.5 Organizing the Data Using Folders within the N-Vivo Project

Later on, the data was further organized by labelling each interview as an independent case and attaching it to suitable attribute values. Creating attributes in an N-Vivo project is very useful when searching for data within a project and conducting comparisons (Bazeley and Richards, 2000). Thus, four attributes were created for this purpose, as shown in Figure 5.6.

The first attribute concerned the type of the FDI project and had two values: 1- 100% FDI and 2- Joint venture projects. The second attribute related to the interviewee’s position and had the following values: 1- lawyer and/or consultant; 2- GM/CEO; 3- Syrian partner; 4- foreign investor. The third attribute concerned the origin of FDI and had the following values: 1- Arabic FDI; 2- Turkish FDI; 3- Iraqi FDI; 4- others. The fourth attribute concerned the sector of FDI and had two values: 1- manufacturing FDI
and 2- services FDI.

Figure 5.6 Creating Attributes using N-Vivo

This organization of qualitative data and other facilitations that were subsequently brought by N-Vivo to the qualitative data analysis in terms of categorisation and coding (following the thematic analysis of text, which will be discussed in the following section) allowed an in-depth, interactive and flexible exploration of the data. N-Vivo made it very easy to look at the data line by line and to think carefully about the meaning of each phrase and idea that was mentioned during the interviews. This would probably have been much more difficult and time consuming if computer software had not been used for this qualitative data analysis (Creswell, 2007).

It is important to point out that N-Vivo only assists and facilitates the analysis of qualitative data, and it does not undertake the thinking on behalf of the researcher (Bryman and Bell, 2007). Therefore, the intervention of the human mind during the analysis of qualitative data is necessary since “interpretation cannot be taken over by computers even if software for treating qualitative data can facilitate research” (Gummesson, 2003: p.485).
This can be further understood by describing the approach followed to analyse the qualitative data and explaining the role that N-Vivo played in facilitating this analysis. Therefore, the following sections will provide a detailed description of these points.

5.4.3 Thematic Analysis of Text

Due to the diverse philosophical backgrounds of qualitative research and the nature of qualitative data, there is no standardised set of procedures to be followed for analysing qualitative data. Instead, diverse ways/approaches have been identified in the literature that can be followed in analysing qualitative data (Saunders et al., 2009; Holloway and Todres, 2003).

Moreover, although there is agreement within the literature that qualitative research can be inductively or/and deductively based, the focus has always been on describing inductively based analytical approaches and procedures for analysing qualitative data, e.g. narrative analysis, grounded theory, discourse analysis, analytic induction, etc. Therefore, there is not enough explanation of how deductively based qualitative data can be analysed. When it comes to deductive qualitative research, writers only describe the influence of the deductive approach on the general process of qualitative data analysis (e.g. Saunders et al., 2009; Yin, 2009 [2003]; Miles and Huberman, 1994). In other words, writers have not provided a clear approach for analysing deductively based qualitative data. Therefore, following them might be risky in terms of evaluating the research and comparing it with other studies within the same field of research.

On the other hand, previous attempts made to describe how the deductive approach influences the analysis of qualitative data fit into one analytical approach for qualitative data analysis, i.e. thematic analysis. Thematic analysis is “a method for identifying, analysing and reporting patterns (themes) within data. It minimally organizes and describes your data set in rich detail. However, frequently it goes further than this, and
interprets various aspects of the research topic” (Braun and Clarke, 2006: p.79).

In this sense, the term “thematic” refers to the aim of searching for relevant themes within a data set in order to be used later by the researcher for analysing commonalities, differences and relationships across this data set (Gibson and Brown, 2009). In other words, thematic analysis of qualitative data is based on the idea of “categorisation” using themes as an approach for analysing and interpreting qualitative data (Maxwell and Miller, 2008).

Thematic analysis was considered to be the most suitable approach for analysing the deductively based data because of its flexibility, i.e. its applicability to different epistemological and theoretical approaches. This flexibility, in contrast to other approaches, makes it compatible with both deductive and inductive research. In addition, thematic analysis is a foundational approach that provides core techniques and skills that are essential for conducting any other qualitative data analysis approach (Braun and Clarke, 2006).

Table 5.4 Phases of Thematic Analysis

<table>
<thead>
<tr>
<th>Phase</th>
<th>Description of the process</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Familiarising yourself with your data:</td>
<td>Transcribing data (if necessary), reading and re-reading the data, noting down initial ideas.</td>
</tr>
<tr>
<td>2. Generating initial codes:</td>
<td>Coding interesting features of the data in a systematic fashion across the entire data set, collating data relevant to each code.</td>
</tr>
<tr>
<td>3. Searching for themes:</td>
<td>Collating codes into potential themes, gathering all data relevant to each potential theme.</td>
</tr>
<tr>
<td>4. Reviewing themes:</td>
<td>Checking in the themes work in relation to the coded extracts (Level 1) and the entire data set (Level 2), generating a thematic ‘map’ of the analysis.</td>
</tr>
<tr>
<td>5. Defining and naming themes:</td>
<td>Ongoing analysis to refine the specifics of each theme, and the overall story the analysis tells; generating clear definitions and names for each theme.</td>
</tr>
<tr>
<td>6. Producing the report:</td>
<td>The final opportunity for analysis. Selection of vivid, compelling extract examples, final analysis of selected extracts, relating back of the analysis to the research question and literature, producing a scholarly report of the analysis.</td>
</tr>
</tbody>
</table>

Source: Braun and Clarke (2006)

Braun and Clarke (2006) suggested six phases (Table 5.4) for researchers to follow in
order to thematically analyse their qualitative data. However, since this research followed a deductive approach, the data collected was based on well defined research questions and objectives, and a clear conceptual framework and propositions derived from the previous literature (as discussed in Saunders et al., 2009; Braun and Clarke, 2006). Therefore, the inductively based thematic analysis phases illustrated in Table 5.4 were not suitable for the qualitative data analysis in the current study. This is because the initial codes and themes (phase 2) were drawn up deductively, basically, following the UNCTAD (1998) classification of host country determinants of FDI in addition to the relevant literature (as will be discussed later).

Instead, following a group of techniques provided by King (2004b) for using templates in the thematic analysis of text was found to be very useful for deductive qualitative data analysis. The advantages of using template analysis are similar to the advantages of thematic analysis. This is because template analysis is not a distinct and clearly defined approach by itself; it is rather a style of thematic analysis. The strength of template analysis is that it combines inductive and deductive approaches to the analysis of qualitative data. This is because in template analysis codes are predetermined and then revised and amended as data are collected and analysed (Saunders et al., 2009).

In the template approach to the analysis of qualitative data, the researcher starts by developing an initial template using a set of codes that are hierarchically organized, with similar codes grouped together to produce more general higher-order codes (see section 5.4.3.2). Then, similar to the general approach in thematic analysis, data are coded and analysed using the initial template's codes to identify and explore patterns and relationships (Saunders et al., 2009). In the course of this process, the initial template will be subject to revision that can include the following (King, 2004b):

- As the analysis proceeds, the researcher may need to insert a new issue into
the template as a new code if he finds it relevant to his research question and objectives and there is no similar code in the template.

- The researcher may delete a code that was defined in the initial template if he has found that it is not needed or overlaps with other themes.

- The researcher may also need to change the scope of a code by re-defining it at a higher or lower level in the template hierarchy, if he has realised that it is too broadly defined or too narrowly defined to be useful.

- The researcher may also change the classification of a certain code from one category to another within the template hierarchy.

It is useful to note here that carrying out all these kinds of changes and making notes about them is usually more straightforward using computer-assisted qualitative data analysis software (CAQDAS) (Lewins and Silver, 2009). This was another important advantage of using N-Vivo software for the qualitative data analysis.

The steps that were followed for the qualitative data analysis, using the template analysis of texts, can be divided into four phases, namely:

5.4.3.1 Phase one: preparing the data for the analysis and getting familiar with them

This phase started by transcribing the interviews and importing them to the N-Vivo software (as previously described in section 5.4.1 and section 5.4.2). This step of preparation was useful for obtaining a general sense of the information included in the interviews. In addition, reading and re-reading through the interviews was necessary to become closer to the data.

The next step was developing the initial template, which included the themes and the codes that were used in coding the interview transcripts.
5.4.3.2 Phase two: developing an initial template

In the template analysis of qualitative data, a template is “a list of codes or categories that represent the themes revealed from the data that have been collected” (Saunders et al., 2009: p.505). Miles & Huberman (1994: p.57) suggest three strategies that researchers can follow for creating codes. These are:

- “Creating a provisional start list of codes prior to fieldwork. That list comes from the conceptual framework, list of research questions, hypotheses, problem areas, and/or key variables that the researcher brings to the study.

- A more inductive researcher may not want to pre-code any datum until he or she has collected it, seen how it functions or nests in its context, and determined how many varieties of it there are.

- Partway between a priori and inductive approaches, is that of creating a general accounting scheme for codes that is not content-specific but that points to the general domains in which codes can be inductively developed.”

Following the first strategy, the initial template was developed using the UNCTAD (1998) classification of host country locational determinants of FDI illustrated in Figure 5.1. Based on this classification, the initial template included three major themes:

1- policy framework
2- economic determinants
3- business facilitation activities

These three major themes contained many other sub-themes/codes that were discussed in Section 5.2.

1- Policy framework

Based on Figure 5.1, Figure 5.2 and the discussion provided in Section 5.2, the policy
framework theme included the following sub-themes/codes:

a. Social and political stability  
b. Trade policy  
c. Privatization policy  
d. Improving international relations  
e. Creating investment friendly environment  
f. Corruption  
g. FDI liberalization policies  
   i. Removal of market distortions  
      1. Restrictions  
         a. Restrictions on entry and establishment  
         b. Restrictions on ownership and control  
         c. Operational restrictions  
         d. Authorisation, registration and reporting  
      2. Incentives  
         a. Tax policy incentives  
         b. Other financial incentives  
   ii. Strengthening of positive standards of treatment of foreign affiliates  
      1. Transparency of laws, regulations and administrative practices  
      2. Transfer of funds  
      3. Recourse to international means for the settlement of investment disputes  
      4. Fair and equitable treatment  
   iii. Market supervision  
      1. Prudential supervision  
      2. Monopoly regulations  
      3. Disclosure of information  
      4. Competition rules

2- Economic determinants

Following the discussion provided in Section 5.2.2, which basically explained the
economic motivations for FDI as illustrated in Figure 5.1, this major theme included the following sub-themes and codes:

a. Market seeking motivations
   i. Market size
   ii. Market growth
   iii. Access to regional and global markets
   iv. Consumer preferences

b. Resource/asset seeking motivations
   i. Raw materials
   ii. Low-cost unskilled labour
   iii. Skilled labour
   iv. Technological innovatory and other created assets
   v. Physical infrastructure

c. Efficiency seeking motivations
   i. Cost of resources and assets listed under the last sub-theme
   ii. Other input costs, e.g. communication and transport costs.
   iii. Membership of regional integration agreements

3- Business Facilitation activities

Based on Figure 5.1, business facilitation activities included the following measures:

a. Investment promotion activities
b. Investment incentives
c. Efficient administration
d. Social amenities
e. After investment services

5.4.3.3 Phase three: coding, analysing and amending the initial template

To code is “to create a category that is used to describe a general feature of data; a category that pertains to a range of data examples” (Gibson and Brown, 2009: p.130). Therefore, a code can be defined as “a label attached to a section of text to index it as
relating to a theme or issue in the data which the researcher has identified as important to his or her interpretation” (King, 2004b: p.257). Similarly, Miles & Huberman (1994: p.56) define codes as “tags or labels for assigning units of meaning to the descriptive or inferential information compiled during a study. Codes usually are attached to chunks of varying size-words, phases, sentences or whole paragraphs, connected or unconnected to a specific setting”.

It can be noticed from the previous definitions that coding is a process that entails reducing a large amount of raw qualitative data by analytically categorising its content into smaller, manageable and meaningful groups (Neuman, 2010). In other words, this process is simply based on pulling out and clustering certain parts of qualitative data that are related to a specific aspect of the research, so they can be quickly located and interpreted (Miles and Huberman, 1994).

On the other hand, it seems that it is difficult, and might be unreliable to continue the analysis using the same initial codes without any changes. For example, Miles and Huberman (1994: p.60) supported this point and indicated that “some codes do not work; others decay, no field material fits them. Other codes flourish, sometimes too much so. Too many segments get the same code, thus creating the familiar problem of bulk. This problem calls for breaking down into sub-codes”.

This is why Gibson and Brown (2009: p.130) identify two types of codes: a priori codes and empirical codes. A priori codes are created prior to the examination of data and derive from one’s main research aims and objectives. However, the empirical exploration of the data may reveal that some of these codes are not relevant, hard to gather data on, not particularly revealing, or simply not interesting. In addition to that, the early examination of the data using the initial set of codes may reveal new interesting issues that should be explored and, therefore, “empirical codes” emerge.
The dropping of a priori codes and creation of new ones are supported by Corbin and Strauss’ (2008) assumption that qualitative research should always reveal something new; and if everything about the topic were already known there would be no need to carry out a qualitative research.

Hence, it was necessary to allow new themes/codes to inductively emerge while the analyst was coding and analysing the data. As a result, new elements were found that were related to the research question and objectives and were, consequently, added to the template. In addition to that, many changes to the initial template, which King (2004b) assumed would take place as the analysis proceeds, were also made.

To begin with, it was realised that FDI liberalization polices as a sub-theme was quite linked to the economy openness sub-theme. Therefore, it was relisted under the economy openness as one of its sub-themes. In addition to that, creating a friendly investment environment as a sub-theme was simply an objective of the economy openness and FDI liberalization policies. Therefore, it was deleted from the list and its findings were merged with the economy openness theme.

Moreover, it was found that the interviewees stressed the role that banks’ liberalization polices and the transition decision played in terms of enhancing the investment environment. Therefore, they were considered as sub-themes under the economy openness and FDI liberalization policies theme as just features of economy openness.

Furthermore, in the course of coding and analysing the data, it appeared that corruption as a sub-theme was linked with other aspects of the policy framework major theme. This made shedding light on it within those aspects (such as the efficient administration sub-theme) more interesting and necessary to avoid repetition. Consumer preferences, technological innovatory and after investment services sub-themes were deleted, since there were no interesting findings about them.
It was also realised that presenting the findings regarding the availability of a properly functioning and well regulated infrastructure and suitable workforce was more interesting under the *business facilitation activities* than under the *resource/asset seeking* sub-theme. Therefore, it was moved up from the resource/asset seeking sub-theme and was included as a sub-theme under the *business facilitation activities* theme.

The data also revealed two other factors that had an important impact upon the locational decision of FDI in Syria. The first one was the clear political vision and strong will for economy openness and market liberalization. The second one was the previous experience of the foreign investor in Syria or similar economies and the cultural distance between home and host country (i.e. Syria) of FDI. These two factors are included under the policy framework because the analysis revealed that they had a mediator role that influenced the role of other policy framework factors regarding the locational decision of FDI (as it will be explained in the following chapter).

By the end of this phase of the analysis, the template became as follows (Appendix 4, p.286):

1- Policy framework
   a. Economy openness and FDI liberalization policies
      i. Liberalizing the banking sector
      ii. Taking the transition decision
      iii. FDI liberalization policies
         1. Removal of market distortion
            a. Restrictions
               i. Restrictions on entry and establishment
               ii. Restrictions on ownership and control
               iii. Operational restrictions
               iv. Authorisation, registration and reporting
            b. Incentives
i. Tax policy incentives
ii. Other financial incentives

2. Strengthening of positive standards of treatment of foreign affiliates
   i. Transparency of laws, regulations and administrative practices
   ii. Transfer of funds
   iii. Recourse to international means for the settlement of investment disputes
   iv. Fair and equitable treatment

3. Market supervision
   i. Prudential supervision
   ii. Monopoly regulations
   iii. Disclosure of information

b. Trade Policy
c. Political and social stability
d. Improving international relation
e. Privatization policy
f. Clear political vision and strong will for economy openness and market liberalization
g. Previous experience of similar economy and cultural distance

2- Economic determinants
a. Market seeking motivations
   i. Market size
   ii. Market growth
   iii. Access to regional and global markets
b. Resource/asset seeking motivations
   i. Raw materials
   ii. Low-cost unskilled labour
   iii. Skilled labour
c. Efficiency seeking motivations
   i. Cost of resources and assets listed under the last sub-theme
   ii. Other input costs, e.g. transport and communication costs.
iii. Membership of regional integration agreements

3- Business Facilitation activities
   a. Investment promotion activities
   b. Investment incentives
   c. Efficient administration
   d. Infrastructure, social amenities and suitable workforce

During coding the data using the initial template, the N-Vivo software was a very useful tool that facilitated and simplified this task. For instance, coding the same part of the data using different codes, quickly retrieving parts of data that were coded under certain codes and rearranging codes were much easier using N-Vivo than carrying out these tasks manually. In addition to that, the above major themes and their sub-themes will form the structure of the Findings Chapter, as will be explained later.

5.4.3.4 Phase four: producing a report

“Since analysis is not analysis until it is written down” (Gibson and Brown, 2009: p.194), it was necessary to represent the analysis’ findings in a written report.

In terms of thematic analysis of qualitative data, this phase represents analysts' attempt to tell the story of their findings using sufficient evidence to demonstrate the prevalence of the themes they have used for this purpose. This entails selecting key extracts from their data and representing their conceptual and theoretical relationships in addition to explaining their links to the large set of data that is under exploration (Braun and Clarke, 2006).

Gibson and Brown (2009: p.196) indicated that there are three common approaches for telling the story and presenting the findings of a thematic analysis. These approaches are:

- Structuring the analysis around particular concepts

Under this approach, researchers try to “tell the story of their data” using their
researches’ key themes as independent section titles for their data discussion.

- **Analysis and cases**

Researchers might also structure their written report using their studies’ units/cases, which may be individual participants, companies, sites of investigation, etc. In this approach, researchers analytically compare the characteristics and the findings of their different cases in order to find out the relevant differences and similarities.

- **Organizing analysis around particular research questions**

Instead, researchers may use their research questions as subsections for structuring the finding sections of their analysis reports and organizing these sections around answering those questions.

This study is exploring the interviewees’ perceptions regarding various factors that have an impact upon their investment locational decision. In order to be able to focus on each factor that was covered in this study and to determine its impact on the locational decision of FDI among other factors, presenting the findings of the qualitative data analysis by following the first approach seems to be the most suitable one. Therefore, the next chapter of this study presents the research findings and it is structured following the main themes and codes presented in the final analytical template.
6 Chapter Six:

Research Findings

6.1 Introduction

As discussed in Chapter Two, attracting more FDI inflows into Syria is of special concern. In addition, the Literature Review (Chapter Three) reveals that the institutional environment plays an important role in attracting FDI inflows. Therefore, this study aims to find out the extent to which the Syrian economic transition and the Syrian government’s institutional reforms have been effective in enhancing FDI inflows into Syria. Furthermore, since institutional factors are not the only FDI locational determinant, as discussed in Chapter Three, this study identifies the impact of other FDI locational determinants on FDI inflows into Syria.

Hence, in this chapter, following the discussion provided in the Literature Review and the analytical template (Section 5.4.3.3) developed based on the UNCTAD (1998) classification of host country FDI locational determinants (Figure 5.1), the findings from the semi-structured interviews are presented. The report is organized in two main sections.

The first section concerns the institutional determinants of FDI; it presents the findings regarding the role of the policy framework for FDI and business facilitation activities as FDI locational determinants. The second section presents the findings regarding the role of economic factors as FDI locational determinants. In other words, the findings cover the two major groups of factors (institutional factors and economic factors) that were previously explored by other researchers as the locational determinants of FDI, as discussed in the Literature Review.

The chapter is structured using the main themes and codes presented in the final
analytical template (Gibson and Brown, 2009). This is necessary for the reliability of the findings and very important for the consistency of the study (as discussed in the previous chapter, Section 5.4.3.4). This is because, “a qualitative research interview is not based on a formal schedule of questions to be asked word-for-word in a set order” (King, 2004a: p.15). Instead, a qualitative interviewer usually uses an interview guide that includes list of topics that he intends to cover in the course of the interview (Saunders et al., 2009; Bryman and Bell, 2007). Therefore, the findings of each factor are not limited to the relevant question/s included in the interview guide, but are coded and analysed wherever they were found within the interview text. In addition, such a structure is necessary to provide a focus not only on a priori codes/themes, which are created prior to the examination of data, but also on empirical codes, which inductively emerge as a result of the qualitative data analysis (Gibson and Brown, 2009; Corbin and Strauss, 2008).

Even so, each sub-section in this chapter will refer to the question/s in the semi-structured interview guide relevant to the sub-theme presented in this sub-section. In addition, a systematic presentation (based on the sector and the origin of the FDI) of the main interviews in which the relevant factor/theme was coded or discussed will also be included within the relevant section.

6.2 Institutional Factors as FDI Locational Determinants

As discussed above, this section presents the findings of the interviews analysis regarding the role of the following factors:

1- policy framework for FDI

2- business facilitation activities
6.2.1 Policy Framework for FDI

The analysis of the interviews revealed that the policy framework, as a major theme, included many other sub-themes (Chapter Five, Section 5.4.3.3). These sub-themes are:

1. Economy openness and FDI liberalization policies
   a. Liberalizing the banking sector
   b. Taking the transition decision
   c. FDI liberalization policies
2. Trade Policy
3. Political and social stability
4. Improving international relation
5. Privatization policy

Therefore, the findings related to the policy framework as a locational determinant of FDI in Syria are presented in the following sections, which are structured using the sub-themes illustrated above.

6.2.1.1 Economy Openness and FDI Liberalization Policies

During the interviews with FDI lawyers and consultants, it was apparent that they all believed that the Syrian government has been working on creating a friendlier investment environment since 1991 when it started liberalizing and opening up the Syrian economy for private investments. The most noticeable change in the investment environment since that time was the enactment of the first private investment law, i.e. Law no.10 of 1991, which allowed private investments to take place in Syria and aimed to encourage the expansion of the private sector for the first time since the Communist Ba’ath Party took control of the country in 1963.

In addition, it was clear from their discussions that the pace of the Syrian government’s steps in this regard, i.e. creating a friendlier investment environment, had accelerated
since the appointment of President Bashar Al-Assad in 2000.

The key issues that the interviewees highlighted in this regard were the liberalization of the banking sector since 2001 and other FDI liberalization policies introduced since the transition decision in 2005. Therefore, in the following sections, the interviewees’ impressions of these issues are presented.

6.2.1.1 Liberalizing the banking sector

This sub-theme was addressed in the interview guide using the following question:

Q: In April/2001, the government enacted Law No.8, which allows the establishment of private banks for the first time since banks were nationalized in 1963. Since then, many other reforms to the Syrian financial market have taken place.

To what extent have these reforms influenced your decision to invest or to expand your investment in Syria?

Moreover, the importance of the liberalization of the Syrian banking sector was coded and discussed within the following interviews:

<table>
<thead>
<tr>
<th>Liberalizing the banking sector</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Origin</strong></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

The analysis of the above interviews revealed that private banks played an important role in creating a friendlier investment environment in Syria. These interviews indicated that investors need efficient banks to manage their money or receive the funds needed to invest their ideas and bring them to the real world.

For example, LC2 commented that “a smoothly functioning market needs private
banks”. In addition, LC1 gave another example of why private banks are important by saying that:

“Allowing private banks in Syria made foreign investors more confident regarding the Syrian economy conditions. Basically because this allowed them to pay in all their profits in their private bank account and transfer them very easily to Turkey when they wanted. In addition to that, this allowed them to transfer their money from Turkey to Syria very easily too”.

LC3, who is another consultant and representative of many Turkish investors in Syria, gave another example by saying that:

“An investor might be bidding on a contract somewhere in the world and he needs to transfer the deposit internationally and immediately. But if he had to deal only with the Syrian state banks, it would take him more than a week to transfer the money, which is inconvenient. Currently, private banks in Syria and their agreements with the Turkish banks in Turkey have made such things much smoother and faster. This made many Turkish investors change their negative perceptions regarding investing in Syria”.

Highlighting the importance of the reforms, the interviewed investors (FI-M3, FI-M5, FI-M8, FI-M9, FI-M14 FI-M15, SP-M4, SP-M6, and SP-M7) indicated that they had been uncomfortable with being able to deal only with state banks before the reforms were made in the banking sector. This was because they felt unprotected regarding the confidentiality of their financial information when they dealt with state banks. However, the new banking regulations protected the confidentiality of both private and public banks clients’ financial information. This protection was important for FDI projects in Syria, as was confirmed by the majority of the interviewees. For example, FI-M3 commented on this point by saying:

“People felt more comfortable when they started dealing with private banks and their worries regarding the confidentiality of financial information disappeared. This made the business life in Syria more active and more alive”

Nevertheless, private banks were seen to have drawbacks also. FI-M5, FM-M15, SP-M1, GM-M12, GM-S4, GM-S6, GM-S7, SP-M6, SP-S1, SP-S2, and LC4 pointed out that
private banks in Syria imposed very hard conditions on lending money to private investment, which they considered as a disadvantage in the Syrian investment environment that could prevent many FDIs that need such lending services from taking place in Syria. In the interviewees’ opinion, private banks in Syria seemed to be interested only in a quick return. Therefore, they focused only on retail loans, such as mortgages, rather than loans to industry. For instance, SP-M6 explained this situation by saying that:

“From my experience, private banks in Syria don’t like to fund industrial investments. They believe that an industrialist would keep expanding his investment within the same circle while private banks want their clients to buy new real estate in order to use them as guarantees for their loans”.

Another criticism was that the interest rates that private banks charge on private investments in Syria were very high. For example, FI-M5 said that:

“It is not encouraging at all the fact that if an investor needs a loan to buy machines or raw materials, he has to pay 10% interest in addition to many other uncomfortable procedures that these banks ask for as guarantees for these loans”.

It was not only industrialists who complained regarding the high interest rates that private banks in Syria imposed on their loans; investors in the service sector (SP-S2 and FI-S8) were also dissatisfied. For instance, SP-S2, who is a Syrian partner in French and British investments in the health sector in Syria, said that:

“In Turkey banks offer loans for doctors for only 2.5 per cent interest rate for a period of 10 years, while here in Syria such loans would be exhausting because of the high interest rate that private banks in Syria ask for. This issue would definitely hinder many investors from investing in Syria”.

Hence, as was concluded in Chapter Two, the liberalization of the Syrian banking sector and all other incremental reforms, which were discussed in the same chapter, failed to achieve any significant improvement in the Syrian economy, which was running under the same Socialist ideology. Therefore, in 2005, the Syrian government initiated a
transitional era in the Syrian economy from Socialism to a Social Market economy. In the following section, the finding regarding the role of this decision in enhancing the investment environment in Syria is presented.

6.2.1.1.2 Taking the transition decision

This sub-theme was mainly addressed in the interview guide using the following question:

\[ Q: \text{In 2005 the Syrian government decided to abandon central planning and to move towards the social market economy.} \]

\[ \text{In your opinion, to what extent has this decision made the Syrian economy a more attractive destination for investment?} \]

Moreover, this sub-theme was mainly coded and discussed within the following interviews:

<table>
<thead>
<tr>
<th>Taking the transition decision</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Origin</strong></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

The analysis of the above interviews revealed that the Syrian investment environment had improved since the transition decision was taken in 2005. This new direction of the Syrian economy presented a friendlier face to private investors compared with the previous period. This might be due to the fact that, as a result of this direction, private investors felt that they were more welcome to enter the Syrian market. This was because, in order to move on in the transition process, the Syrian government enacted new legislation that aimed to liberalize the Syrian economy.
For instance, LC1 said that:

“Most of the Turkish investors invested in Syria after issuing the investment law no8 in 2007. This was basically because of the fact that this law gave them the right to own the investment land, while before they couldn’t. In addition to that, the new legislation offered private investors more exemptions. For instance, they now have the ability to import investment equipment duty free”.

Similarly, FI-M9 recalled that:

“We had been doing business with Syria for around 6 years and I started my real investment only 3 years ago when we noticed that Syria was stepping forward towards a more market-based economy”

In addition, SP-S1 indicated that the new legislation enacted as a result of the transition made them feel safer regarding their investments. For instance, he said:

“We felt that the decision to move from a centrally planned economy to a market based economy provided better protection for our rights. This was because of the fact that under the previous economic ideology, Syrian citizens had a stronger position in any conflict with any foreigner. However, moving to a market-based economy meant there was better protection for everyone’s rights, no matter whether they were Syrians or foreigners”.

GM-S7 expressed similar impressions of the transition in Syria and said that:

“Liberalizing and opening up the Syrian economy (after 2005) was the most important factor in our decision to invest in Syria. This was because of the fact that without allowing us to invest and without offering us the required facilities, including the necessary regulations, we wouldn’t be able to invest in Syria”.

Due to this emphasis on the role of liberalizing and opening up the Syrian economy in shaping the foreign investors decision to invest in Syria, the following sections are dedicated to presenting the findings regarding the various FDI liberalization policies, which were previously defined in Chapter Five, Section 5.2.1.1.

### 6.2.1.1.3 FDI Liberalization Policies

As was explained in Chapter Five (Figure 5.2), FDI liberalization policies include three sets of activities:
a. Removal of market distortions

b. Strengthening positive standards of treatment of foreign investors.

c. Market supervision activities

These activities were addressed by the interviewees, mainly, but not only, during answering the following questions:

Q: Since issuing the investment Law No.10 in 1991, the Syrian government has been trying to provide the legislation that can encourage domestic and foreign investment to take place in Syria. The most recent Investment Law was the Decree No.8 in 2007 that dedicated its second chapter to offer incentives to private investment, including exemption from income tax. In addition to that, the Legislative Decree No. 4 for the year 2009 granted ten years exemption from income tax for all kinds of private investment projects in the eastern provinces.

➢ To what extent has this new legislation influenced your decision to invest in Syria?

➢ In your opinion, to what extent have the Decree No.8 for 2007 and other similar recent legislations enhanced the Syrian economy’s attractiveness to FDI?

Q: Do you feel that the new legal framework creates a regulatory level playing field for the foreign and domestic (both private and public) organizations operating in Syria?

➢ If so, how has that feeling influenced your decision to invest in Syria? And does that feeling encourage you to expand your investment?

➢ If not, why do you think it is not the case? And how would that be reflected in your decision for further investment in Syria?

The findings about FDI liberalization activities are now presented. This will also include a systematic presentation of the interviews in which each type of activity was coded and discussed.

a. Removal of Market Distortion activities

The removal of market distortions includes the elimination of market restrictions on foreign investors’ activities and those policies that aim to give foreign investors the opportunity to take advantage of various investment incentives, such as tax and
financial incentives. There is no single economy in the world that grants unrestricted right of entry to FDI. However, it is clear that host countries, in general, have considerably reduced the number of activities in which FDI in any sector is barred or restricted (UNCTAD, 1998).

<table>
<thead>
<tr>
<th>Withdrawal of market distortions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector</strong></td>
</tr>
<tr>
<td>---------</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Origin</strong></th>
<th>Turkey</th>
<th>Iraq</th>
<th>Other Arab Countries</th>
<th>Other Origins</th>
</tr>
</thead>
<tbody>
<tr>
<td>LC1, LC3, F1-M10, F1-M11, SP-M16</td>
<td>F1-M5, F1-M8, F1-M9, SP-M7</td>
<td>LC2, SP-M6, GM-M13, GM-S6, SP-S1, SP-M1</td>
<td>LC2, LC4, LC5, GM-S5</td>
<td></td>
</tr>
</tbody>
</table>

Similarly, the analysis of the interviews listed in the table above revealed that there had been a trend within Syrian policy to reduce the barriers facing inward FDI since the 1990s, and this had become even more obvious after the transition decision in 2005. The interviewees discussed mainly the role of removing the following market distortions in creating a friendlier investment environment that can attract more FDI:

- restriction on entry;
- restriction on ownership;
- withholding investment incentives.

The findings regarding the first two sets of restrictions are presented in the following sections, while the importance of investment incentives, including tax incentives and other types of fiscal incentives is discussed in depth later, in the section on business facilitation, in order to avoid repetition of ideas.

➢ **Restrictions on entry**
FI-M9, GM-M13, GM-S5, GM-S6, SP-M4, LC1, LC2, LC3, LC4, LC5 and LC6 mentioned various examples of the Syrian government’s efforts towards removing the restrictions on the entry of FDI. In particular, they focused on the role of the new Syrian legislation that removed the restrictions on the entry of private investment in general, or in a specific sector.

For instance, as discussed above, before 2001, private banks had not been allowed to enter the Syrian market since 1963. However, since legislative Decree no.28 was enacted in 2001 and authorised private banks in Syria, many private banks have been operating in Syria. Similarly, no other form of private investment was able to enter the Syrian market before the enactment of the investment law No.10 of 1991.

Moreover, the interviewees noted that the Syrian government’s decision to move towards a market-based economy allowed both domestic and foreign private investors to invest in sectors that were previously monopolised by the state, such as paper, cement, sugar, metal and motor industries. In some cases, this was in the form of BOT (build, operate, transfer) and PPP (private public partnership) contracts, which reveals the role of the privatization policy in this regard (this will be discussed in more depth later, under the privatization policy sub-theme).

The positive role of this trend in the Syrian economy after the transition decision, in terms of the FDI decision to invest in Syria, was confirmed by many of the interviewees such as GM-M13 who said that:

“In the past, our company couldn’t think about investing in Syria because of the government control of the cement sector. However, opening up the Syrian economy brought us this good investment opportunity when the Syrian government announced that it was not dominating this sector anymore”.

This could explain why many of the foreign investments did not take place until the most recent changes in the institutional environment. For instance, GM-S5 and LC5
(who is a consultant of FDIs in the hotel sector) said that:

“All these traditional historic buildings (that could be used as boutique hotels) were in Syria for decades and they were so interesting for foreign investors in the tourism sector. However, they became available only after enacting new legislation based on the Syrian government transition decision that was taken in 2005”.

In addition, the interviewees noted that many further efforts had been taken by the Syrian government after the transition decision to consolidate and facilitate liberalization within the Syrian economy (i.e. removing restrictions on entry). This was clear from the interviews with FDI lawyers and consultants, since they had experience regarding this point with many other FDI projects. For instance, they mentioned that authorising new FDI and registering them with the relevant Syrian authorities became much easier after 2005. In their opinion, this removed other obstacles to FDI entry and made foreign investors feel more welcome. For instance, LC6 gave an example of these simplified procedures for authorising new FDI and registering them when he said:

“Joining the Chamber of Industry or the Chamber of Commerce is much easier for foreign companies nowadays than before”.

➢ Restrictions on ownership

The analysis of the interviews with FIM-10, FI-M11, FI-M5, FI-M6, FI-M8, FI-M9, GM-S5, SP-M4, SP-S1, SP-M2, SP-M16, LC1, LC4, LC5, and LC6 also revealed that expanding foreign investors’ ownership rights had a positive impact upon their decision to invest in Syria. Many foreign investors were encouraged to invest in Syria after being allowed to own their investment land by law No. 8 of 2007.

For example FI-M10 said:

“Foreign investors are now allowed to buy and own land for their projects. This encouraged me and many other Turkish investors to invest in Syria”.

On the other hand, this law limited foreign investors’ ownership to the industrial cities
only. Most of the interviewees were of the opinion, articulated by LC5, that:

“This fact prevented many FDI from taking place, especially in the tourism sector. This was because of their inability to own the properties which they wanted to use for their projects if they were outside the industrial cities borders”.

Similarly, FI-M9 said that:

“I can’t buy a shop to sell my product, which is not fair and this has prevented me from expanding my investment in this sector or in the real estate sector that I have been interested in”.

Similar perceptions were reported by many of the interviewees, such as SP-M2 who recounted:

“When we wanted to expand our investment, we realised that we were only allowed to build our new factory in the industrial city. This was a huge expense, because we had to pay for the land and we had to build the required facilities. I already had another building somewhere else and I wanted to use it for this purpose.”

Moreover, FI-M8 said that:

“It was a shock for me when I realised that I could not even buy a car or a house unless it was 200 square metres or more”.

Another example is FI-M5, an Iraqi investor who entered the Syrian market in a joint venture with a Syrian partner. After a few years, he bought his Syrian partner’s share. However, for five years, he had been trying to get the whole project registered under his name but he was unable to do so since he is not Syrian and he is not allowed to own real estate outside the industrial cities/zones. Therefore, he decided to transfer the ownership of the share to his Syrian wife in order to keep his investment running.

It is clear from the findings discussed above that removing restrictions on investment is important for FDI locational decisions, because of the complications that such restrictions usually cause for foreign affiliates. However, the interviewees indicated that further efforts to support positive standards of treatment of foreign affiliates and to exercise better supervision on market activities are still needed to enhance the
The attractiveness of the Syrian economy to FDI. These points were taken into consideration during the analysis of the interviews and the findings in this regard are presented in the following sections.

b. **Strengthening of Positive Standards of Treatment of Foreign Affiliates**

The impact of this set of FDI liberalization activities was detected within all the conducted interviews (as illustrated in the table below).

<table>
<thead>
<tr>
<th>Strengthening positive standards of treatment of foreign investors</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector</strong></td>
<td><strong>Manufacturing FDI</strong></td>
</tr>
<tr>
<td><strong>Origin</strong></td>
<td>Turkey</td>
</tr>
<tr>
<td></td>
<td>LC1, LC3, LC6, FI-M10, FI-M11, GM-S4, SP-M16</td>
</tr>
</tbody>
</table>

For example, LC1, who is lawyer and a consultant for many Turkish investors, highlighted the importance to prospective investors of a country’s good reputation for the way it treats foreign affiliates. He commented:

> “Before they (Turkish investors) take their decisions to invest in Syria, they ask us as their consultants about their rights in Syria as foreign investors according to the Syrian Laws. Their impressions have always been positive and pushed them to go on with their decisions to invest in Syria”.

In other words, the interviews revealed that foreign investors’ thought that local authorities in Syria were supposed to offer them equal treatment to domestic investments and that this equal treatment was protected by law. These were encouraging factors for them to take their decision to invest in Syria. However, this intention of the local authorities to provide equal treatment was not always translated into practice. This
was mainly, as it appeared from the interviews, because of the lack of transparency of laws, regulations and administrative practices, in addition to the incapable public sector staff who did not appreciate the important role that such investments could play for Syria.

Therefore, and similar to what almost all of the interviewees mentioned, “The practical application of the new laws was very difficult and prevented any new investor from thinking of expanding his investment” (LC1).

FI-M5 gave an example of the lack of transparency in administrative practices when he explained how his experience with the investment authority in Syria pushed him to cancel his plan for establishing a transportation project. He said:

“They (the investment authority in Syria) refused to give me a licence for my project and I did not receive an explanation for why they refused to give me this licence and I didn’t even receive any advice on how I could have a successful application”.

In order to cope with such ambiguities, in almost all cases, foreign investors relied on people who knew how to deal with such a situation and how to negotiate with a similar mentality to that of the relevant officials, in order to be able to start or to go on with their investments. It was not only lawyers and consultants that could solve such problems, but in many cases, especially in big investments, a strategic Syrian partner was essential.

For example, a real estate company from Kuwait started an investment worth $25 million. However, after four years, “they realised that they wouldn’t be able to move forward without someone who was influential or had relations with state officials in Syria” (as was discussed with LC2).

This lack of transparency of laws, regulations and administrative practices also led to different interpretations of rules by different Syrian authorities and their branches over
the country. This created many other consequences for business activities, such as the inability of foreign investors to estimate their business expenses. FI-M10 was one of those who raised this point, which he emphasised by comparing Syria unfavourably with his country, Turkey. He said:

“In Turkey, when I want to import any kind of goods, I can estimate precisely how much it will cost me. However, it is not possible to do the same in Syria. It is even different from city to city. All these cities in Syria are under the same regulations. However, the implementation is different in each place. This is so exhausting and it is basically because of individuals’ different interpretation of the same law”.

In addition to the transparency problems, the rigid routine and the complicated procedures that investors and their representatives were facing in Syria have been very depressing factors for them. For instance, in almost all cases, getting and renewing work licences and residential visas in order to be able to start/carry on their investments in Syria was very complicated.

For example, LC3 explained his experience when he first came to Syria and wanted to establish his own investment:

“I wanted to open a bank account in order to receive my money from Turkey in order to start establishing my project. But I realised that I couldn’t open a bank account unless I had a residential visa. But getting a residential visa in Syria takes at least 6 months. I was an investor and this was a long time for me to wait. Anyway, after managing to solve this problem, we wanted to withdraw the money we transferred from Turkey in order to pay the land price. However, the bank told me that we couldn’t unless I proved that I was using this money for paying the project land price!!”

FI-M9 reported similar difficulties, and their discouraging effect:

“Basically, I was worried about moving all my money into Syria since I couldn’t even buy a car in Syria. In addition to that, visa procedures for me and my family were so depressing. This has always prevented me from expanding my investment”.

The interviewees showed a high level of sensitivity towards such problems, since every investor had a certain level of hesitation regarding his investment decision and his
investment location. Such complications seemed to play a strong role in feeding this hesitation and preventing investors from going on with their investment decisions.

Therefore, smoother procedures are necessary to encourage and support new foreign investors at the early stages of their investments. This is because smoother procedures give foreign investors a supportive experience that could promote new and further foreign investment projects (this point will be further explored later under the efficient administration sub-theme, Section 6.2.2.3). However, the results of similar efforts that aim at removing market distortions and strengthen the positive standards of treatment of FDI depend greatly on the availability of a good level of supervision of the various market actions. This is because such supervision is essential to guarantee a proper functioning of the market. Therefore, the findings regarding this point are presented in the next section.

c. Market Supervision

The interviewees listed in the table below criticised the Syrian Authorities’ inefficiency in providing sufficient supervision of market practices by domestic investors that were harmful to the investment environment.

<table>
<thead>
<tr>
<th>Market supervision activities</th>
<th>Manufacturing FDI</th>
<th>Service FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Origin</td>
<td>Turkey</td>
<td>Iraq</td>
</tr>
</tbody>
</table>

They also related some scenarios in which these practices had negative consequences for their competitiveness and, in many cases, pushed them to withdraw their investments or at least stopped their expansion plans.
The main idea in all these scenarios was that many local producers were not registered and not monitored by the Syrian authorities, which means that they did not pay any taxes or other expenses that the legal businesses pay. In other cases, many domestic businesses reduced their product costs by not registering the real conditions or actual type of their product, in order to avoid the higher expenses (i.e. taxes and other fees and duties) that their real products would entail.

Both these scenarios exerted a negative impact on the competitiveness of legal private investments in general and of FDI in particular. For example, FI-M14 explained his experience of such activities by saying:

“*The public sector agencies should respond to investors’ complaints regarding the small workshops that produce similar products with low quality and without being subject to any governmental control since they do not officially exist and their harmful side-effects are underestimated by the responsible authorities. Many industrialists closed their factories due to such irresponsibility of small workshops and the inefficiency of the responsible public sector agencies in tackling them*”.

FI-M3 gave another example by saying that:

“*Some business men or traders import rolls of blankets as rolls of cloths, and then they cut it and sell it as blankets made in Syria. This reduces their customs duties since blanket duties are higher. No one watches such violations. And when I complained, my concerns were not taken seriously by the responsible employees in the relevant public agency*”.

Similarly, FI-M8, a German/Iraqi general manager and partner in a gasket products factory, who came to Syria to invest with his Iraqi partner, faced the same situation in his industry. He explained this problem by saying:

“I recruit between 12-14 employees and I am responsible for their insurance in addition to many other extra expenses, such as tax, transportation, construction and equipment. On the other hand, we realised that some people were producing similar products in their small shops in some residential areas. These people don’t pay any extra expenses that we pay (e.g. corporate tax and insurance) and they sell their products cheaper than us. This reduced the expected size of our market and prevented us from thinking of any expansion in the Syrian market”
Another example was provided by SP-M6 who said:

“In Aleppo, the biggest Syrian industrial city, the number of licensed projects in Aleppo Chamber of Industry is around 20% of the real number. Many other projects are not licensed and not registered. These unlicensed projects are located in many remote areas and the Syrian authorities should find a solution for them. These projects are also not registered in the Ministry of Finance or in the National Insurance Authority. Therefore, they don’t pay any extra fees which make them more competitive in the Syrian market. Therefore, this makes us feel unprotected and prevents us from expanding our investments and we are even thinking of withdrawing our current investments”.

Similarly, SP-M7 realised that they were unable to compete with some competitors in the Syrian market. At the beginning they were bewildered since they did not know how their competitors could sell their products for these cheaper prices. However, after a while they found the explanation. He said:

“Later, we realised that there were some small projects within residential houses that steal electricity and use children for their production. Such projects didn’t pay tax or any other similar expenses and competed with us. These problems again caused the withdrawal of our investment”.

Interviewees who had suffered from such practices condemned the fact that the Syrian society and the local traditions do not accept complaints about these practices and see no reason to take action against the people who engage in such practices in managing their business and making profits.

In addition, the demand for better market supervision of the activities discussed above was more noticeable in the manufacturing sector than in the service sector, but it was still thought to be needed for the success of some investments in the service sector. For instance, the GM-S3, the CEO of the Philippine company running one of the two container terminals in Syria, complained about the fact that although both major Syrian ports were operating under the same rules and regulations, clients’ impressions were always that dealing with customs in the other operator (their competitor) was easier. Therefore, GM-S3 said:
“I don’t know if they are violating the Syrian law or not, but a lot of traders don’t use our terminal for this reason. And of course, we cannot ask the customs to do for us what they do in the other port if they were violating the law. We raised our concerns regarding this problem to the Syrian authorities and asked them to make sure that the customs procedures and rules are the same in both ports”.

The main difference between services and manufacturing FDI investments in this regard was the ability of manufacturing FDIs to export their products to other Arab countries and benefit from trade agreements to reduce the negative consequences of such weak supervision on the Syrian market activities. On the other hand, this would not help investments in the service sector, since in many cases services cannot be exported. This reveals an important role that trade policy can play in enhancing an economy’s attractiveness to FDI. Therefore, the findings about the impact of the Syrian trade policy on the decision of foreign investors to directly invest in Syria are explored in the following section.

6.2.1.2 Trade Policy

This sub-theme was addressed in the interview guide using the following questions:

Q: Since the early 1990s the Syrian government has taken many trade liberalization initiatives, such as customs duty concessions, streamlining of customs procedures, reducing customs tariffs and lifting foreign exchange restrictions.

➢ What has been the role that these initiatives played regarding your decision as a foreign investor to invest in Syria?

➢ What do you think the Syrian government could do better regarding this point?

Q: Recently Syria signed bilateral free-trade agreements with Turkey, India, the Czech Republic and Romania. Moreover, in 1997, Syria joined the Greater Arab Free Trade Area (GAFTA) and trade is nearly fully liberalized with other Arab countries since the beginning of 2005.

➢ To what extent have such agreements influenced your decision to invest or to expand your investment in Syria?

➢ Is there any particular bilateral free-trade agreement that has had special influence on your decision to invest or expand your investment in Syria? If yes, why is it important?
Q: The negotiations for the association agreement with the EU were concluded in late 2004, but the European Parliament has refused to ratify the pact owing to Syria’s continued sponsorship of Hamas and Hezbollah, its continued interference in Lebanon and its refusal to introduce meaningful political reforms.

- Do you think signing the association agreement with the EU will enhance the Syrian economy’s attractiveness to FDI? And how?
- Will the failure to sign this agreement have a negative impact on your plans to expand your investment in Syria? And why?

Q: In April 2008, Syria stepped up its efforts to gain membership in the WTO. However, it seems that the imposition of US sanctions against Syria is affecting Syria’s relations with countries other than the US, leading to added pressure on the balance of payments that will discourage a significant easing of remaining trade restrictions.

- Do you think that the delay in joining the WTO has reduced the likelihood of foreign investments to take place in Syria or likelihood for expanding your investment in Syria? And why?

Moreover, the answers for these questions and the trade policy sub-theme were mainly coded and discussed within the following interviews:

<table>
<thead>
<tr>
<th>Trade Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector</strong></td>
</tr>
<tr>
<td><strong>Manufacturing FDI</strong></td>
</tr>
<tr>
<td>FI-M3, FI-M5, FI-M8, FI-M9, FI-M10, FI-M11, FI-M14, FI-M15, GM-M12, GM-M13, SP-M1, SP-M4, SP-M6, SP-M7, SP-M16, LC1, LC2, LC3, LC4, LC6.</td>
</tr>
<tr>
<td><strong>Origin</strong></td>
</tr>
<tr>
<td><strong>Turkey</strong></td>
</tr>
</tbody>
</table>

The analysis of the above interviewees’ answers revealed that the most remarkable contribution of the Syrian trade policy in terms of FDI inflows into Syria was its impact upon market size as well as upon FDI efficiency plans.

For instance, the interviews with FI-M10, FI-M11, SP-M16, LC1, LC3 and LC6 revealed that Turkish investors in the Syrian manufacturing sector benefited from the Greater Arab Free Trade Area (GAFTA) and the bilateral free trade agreement between
Syria and Turkey by being able to export their Syrian products to Turkey and other Arab countries duty-free.

For example, LC1 said:

“All my Turkish clients knew that investing in Syria would allow them to export their products to other Arab countries duty-free. Most of them didn’t only focus on the Syrian market, but they also considered their investments in Syria as an investment in all other Arab countries”.

In addition, trade policy liberalization activities and trade agreements seem to encourage not only market seeking investments, but also efficiency seeking investments. For example, Turkish manufacturing investors in the sample moved their investments to Syria not only to take advantage of the cheaper Syrian energy and workforce (since they would be able to export their Syrian production back to Turkey duty-free because of the bilateral free trade agreement with Turkey), but also they could import their raw materials and other needed component for their investments from other Arab countries and Turkey with lower customs duties, or, sometimes, duty-free.

For instance, LC6 reported:

“When Turkish investors realised that they could import their machinery equipments from Turkey duty-free, and they can export their production from Syria back to Turkey duty-free too, they found it an excellent opportunity to take advantage of the Syrian cheaper energy and cheaper workforce. Therefore, they were able to enhance their competitiveness by reducing their production costs”.

In addition, expanding the potential market size by liberalizing trade policy not only attracted new FDI into Syria, but also encouraged existing FDIs in Syria to expand.

For example, FI-M11 told us that:

“At the beginning I was only interested in the Syrian and the Turkish market. However, these trade agreements widened the horizon of our business since it opened new markets for us. Basically, if I continue to feel as safe as I am now in Syria, in terms of myself and my investment too, I will definitely expand my investment in order to export my production to other Arab countries and to take advantage of these
Moreover, the influence of trade policy liberalization activities on the market size was also noticed in terms of FDI in service sectors. However, it was still limited compared with the observation of this factor within the manufacturing sector.

For instance, as appeared from the interviews’ analysis, trade agreements and other trade liberalization initiatives enhanced the trade between Syria and many other countries. This enhancement brought new demand for services needed for the import and export of goods, such as transportation, shipping and insurance. In addition, market seeking investments that took place in Syria as a response to these trade agreements and liberalization initiatives (as discussed above), also created higher demand for these services, since they are needed for running these investments.

Moreover, investors in the service sector gained further advantage from the new trade policies. For instance, the interviewees who were investing in the hotel sector (GM-S4, GM-S5, GM-S7 and LC5) mentioned that the liberalization of Syrian trade policies helped them establish their projects in Syria, since they were easily able to import the materials and equipment necessary to establish their projects. For instance, GM-S7 said:

“We imported our carpets from Egypt for our branch in Syria. We were very satisfied by being able to smoothly import the materials needed for establishing our project [a 5star hotel] in Syria”.

In the light of the above findings, the negative impact of the delay in signing the partnership agreement with the EU and the delay in joining the WTO with regard to FDI inflows was obvious. The main reasons for this delay are still the same as those given in negotiations with the EU Parliament in 2004 when the later refused to approve on agreement with Syria because of Syria’s refusal to introduce meaningful political reforms, its continued interference in Lebanon and its continued sponsorship of Hezbollah (PRS, 2009). For example LC2 explained his opinion about the Syrian/EU
partnership agreement by saying:

“This agreement is simply a door to the markets of the 27 EU countries. In addition to that, Arab countries’ share of global trade is very small compared with EU’s trade trends. As we know, liberalizing the Syrian trade with Arab countries caused a noticeable growth in the Syrian economy and made it more attractive to FDI. Therefore, liberalizing trade with the EU bloc and signing the partnership agreement with the EU should be even more relevant and more important for FDI in Syria”.

In addition, FI-M3, FI-M5, FI-M9, FI-M10, FI-M14, SP-M4, SP-M6, SP-M7 and the consultants who were interviewed in this study assumed that signing the EU partnership agreement and joining the WTO could give foreign investors positive indications regarding the political situation in Syria and could reduce the risk of more sanctions on the Syrian economy from the international community. Furthermore, the analysis revealed that these memberships could also play an important role in enhancing the quality of the Syrian production due to the required EU and the WTO production standards. “Achieving this level of quality for the Syrian production will encourage many investors, who were concerned regarding their production quality, to think again about Syria as their investment location” (SP-M4).

It should be noted here that production quality was not the concern of manufacturing FDI only, but also of services FDI. For instance, GM-S4 said that:

“The quality of the services provided by the hotels in Syria depends in many cases on the quality of the Syrian production in the manufacturing and other service sectors, such as transportation and catering”

Similarly, GM-S7, also from the hotel sector, said:

“I wish that this agreement had been signed earlier. This is because such an agreement would have improved the Syrian products’ quality which could have helped us a lot in our projects.”

Moreover, SP-M4, GM-S5, LC3, SP-S2 and SP-M7 suggested that the partnership agreement with the EU could bring European financial institutions to Syria. They thought that the entry of such institutions could play a critical role in attracting more
FDI inflows by providing the necessary financial assistance.

Furthermore, GM-S5 suggested further ways in which the agreement could benefit foreign investors:

“Signing the Syrian/EU partnership agreement and more bilateral trade agreements can attract more FDIs due to the role of these agreements in building bridges for delivering the voices of foreign investors to the local authorities in the host countries that are part of these agreements. In addition to that, such partnership can play a role in narrowing down the gap between foreign investors’ mentalities and Syria”.

On the other hand, FI-M15, GM-M13, SP-M1 and GM-M12 were not optimistic regarding the role that the Syrian/EU partnership could play regarding attracting FDI from the EU countries, since EU countries focus only on advanced and technological industries and they rely on China for producing most of their products. Therefore, they thought that this agreement would only have a negative influence on the Syrian economy, as its natural resources would be consumed by being exported to EU countries, rather than bringing in advanced FDI.

Moreover, industrialists from all sectors covered in the sample stressed that receiving fiscal support (subsidies) from the Syrian government for their exports would be more important than any new trade agreement. In this respect, Syria was compared unfavourably with other countries that were believed to subsidise domestic industries’ exports up to 12% of the exports’ value which, in respondents’ opinion, reduces the Syrian exports competitiveness relative to these countries exports (This point is discussed in more detail in the investment incentives section). For example FI-M3 said:

“Exporting the Syrian production has not received the needed support from the Syrian government yet. Many countries give back their local industries that export their productions between 10 and 12% of the goods’ value. This increases the competition power of these products because they are cheaper after this support. Therefore, we are not able to compete in many cases because our exports are not supported by the Syrian government despite the fact that there are many Syrian products that are even similar to the EU products in terms of quality”.
Another way in which industrialists investing in Syria were disadvantaged was that even when exempted from customs fees, they had to pay 2% of every imported material as deposit tax. For this reason, SP-M6, LC1, LC3, FI-M8 and SP-M7 thought that industrialists in Syria are being treated like traders, although traders are very different, since they do not recruit people, do not produce their exported goods and, therefore, they do not have the production expenses that industrialists have. For example, SP-M6 explained his opinion on this point by saying:

“They have only been liberalizing the trade without giving trade incentives or providing real reduction in the customs’ tariffs, especially in terms of raw materials. Moreover, it is not fair to be treated as traders while we are industrialists who have other production expenses that traders don’t have. This fact increases our production costs and reduces our competitiveness especially when we consider that tax collectors estimate our tax based on our total investment size, while traders don’t have such extra expenses”.

6.2.1.3 Political Stability

This sub-theme was addressed during the interviews using the following question:

Q: How did your perception of the Syrian social and political environment influence your decision to invest in Syria? And in what way, if any, has the recent instability in the region and in Syria in particular, influenced your further FDI plans in Syria?

In addition, this sub-theme was mainly coded and discussed within the following interviews:

<table>
<thead>
<tr>
<th>Political Stability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Origin</strong></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
All the above interviewees mentioned that the level of political stability and safety in Syria was very important in terms of their decision to invest in Syria.

“Political stability was so encouraging to any investor in the tourism sector” (LC5).

FI-M9 made a similar point illustrating how it had influenced his choice among alternative locations:

“My investment would be very profitable in many African countries, but the security and the political situation in these countries were so depressing which made me change my mind regarding investing in one of them and choose Syria as my investment location”.

The importance of political stability as a locational determinant of FDI was most evident when the Iraqi investors and their partners in the sample were interviewed (i.e. FI-M5, FI-M8, FI-M9, SP-M2 and P-M7). At the beginning, they chose to invest in Syria because the uncomfortable political situation in Iraq made Iraqi investors very sensitive regarding political stability and they were looking for an investment location that could make them feel safe and secure.

However, it looks as if the political position of Syria in the front line of the Arab-Israeli conflict hindered some big investments from taking place in Syria. For instance, FI-M3 explained that the South Korean company that invested with him in Syria in the mid-1990s had been very concerned regarding the political stability in Syria due to what they had heard in the news. However, these concerns vanished later when they realised that their Saudi partner was experienced in the Syrian market and did everything needed to provide assurance on this point. This shows the role of previous experience in the Syrian market in eliminating concerns regarding the investment environment (as will be discussed later in the final sub-theme under the policy framework). In addition, they consulted a logistic company in Bahrain that specialised in investment projects within the Arabic countries, which encouraged them to continue with their investment.
Further supporting the importance of safety and stability, most of the interviewees, including Iraqi ones, declared that they had frozen all their future investment plans due to the recent unrest in Syria. LC6, for instance, said:

“The recent unrest in Syria caused the stopping of any further investment plans, at least until the situation becomes better in Syria”.

The negative impact of the recent political instability on FDI inflows can be considered as another proof of the importance of political stability as a locational determinant of FDI. However, SP-M1 saw the possibility of solution, as he indicated that the recent unrest in Syria was an opportunity for investors to take advantage of the trade agreements to which Syria was a party, in order to find new markets that could replace the shortage in Syrian market demand caused by the unrest. This reveals another advantage of the trade agreements and other liberalization efforts that were explained in the previous section.

For example, SP-M1 told us that:

“Our ability to export our production to other customers in neighbouring countries reduced our loss and encouraged us to find more substitute markets to overcome our loss that resulted from the recent unrest in Syria”

6.2.1.4 Improving International Relations

The role of improving Syria’s international relations was mainly, but not only, coded and analysed within the interviewees’ discussion of the role political stability in Syria and Syria’s trade agreements with other countries.

The analysis of the interviews also revealed that international relations could play a role as a FDI locational determinant. A good example of the role of better international relationships in attracting FDI to Syria was the Syrian/Turkish relationship. Having a good relationship with Turkey encouraged Turkish investors to consider Syria as their investment location. This warm relationship played an important promotional role for
the Syrian economy as an investment location for Turkish investors. The role of this political relationship was mentioned in all the interviews with Turkish investors or their representatives in Syria. For example, LC3 said:

“There is a brotherhood between Syria and Turkey politically, economically and socially. The efforts of the leaderships in Syria and Turkey and the agreements they signed made everything easier. Therefore, Syria, including the people and the government, support Turkish investors, the thing we were waiting for”.

On the other hand, the interviews’ analysis showed that the relatively poor relationship between Syria and the West in general, and with the USA in particular, due to the Syrian government’s political direction and its continued support for Iran, Hamas and Hezbollah, had a negative impact on FDI inflows into Syria.

For instance, the analysis of the interviews revealed that this tense situation affected foreign investors’ perceptions regarding the political stability in Syria. In addition, the Syrian government’s political directions caused the imposition of various sanctions by the USA and the EU. Such sanctions had a direct negative impact upon FDI inflows into Syria, especially from Western countries. This was basically because these sanctions affected business transactions and operations, especially when dealing with Western markets and institutions. Hence, the risk of being affected by such sanctions would deter foreign investors as long as there is no improvement in the relationship between Syria and the West in general and the USA in particular.

These sanctions also negatively influenced the expansion plans of established FDI in Syria. This is because these sanctions reduce the competitiveness of Syrian production by increasing its cost. For example, SP-M6 said:

“I am not thinking at all of expanding my investment in Syria. This is because the cheapest exporter for our raw material is the USA. But due to the USA sanctions, I can’t import my raw materials from USA. Therefore, I import my raw materials from China or Korea, which are more expensive than the USA + 1% custom duty + deposit tax 2%. On
the other hand, the investor in Egypt buys his raw materials from USA at least 2% cheaper than me + doesn’t have the 2% deposit tax+ doesn’t have custom duty + another banking facilitation especially in terms of loans interests. In addition to that, these Egyptian investors are exporting their production to Syria as not manufactured material (while they are manufactured ones) and sell it to the Syrian market, which makes them more competitive than me”.

6.2.1.5 Privatization Policy

The impact of the Syrian government privatization policy on FDI inflows into Syria was discussed with interviewees during answering the following question:

Q: It is clear from government announcements that they are not interested in privatization. Dr. F. E. Aljouni, the Syrian Minister of Industry, in an interview with Reuters news agency on 05th November/2010 said, “Syria is trying to attract private investors to help in developing the weak industrial sector, but privatization is not one of the options”. Aljouni attributes this strong rejection of privatization to the government’s intention to protect workers’ rights and, alternatively, he offers private investors BOT (Build, Operate, Transfer) contracts if they are interested in this kind of public-private partnership (PPP)

- As a foreign investor, how does this intention affect your decision to invest or expand your investment in Syria?
- What do you think will be the effects of this intention regarding the likelihood of FDI taking place in Syria?

Moreover, the impact of privatization policy on FDI inflows into Syria was mainly highlighted within the following interviews:

<table>
<thead>
<tr>
<th>Privatization Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector</strong></td>
</tr>
<tr>
<td>FI-M5, FI-M9, FI-M10, FI-M15, GM-M12, SP-M1, SP-M2, SP-M4, LC1, LC2, LC3, LC4</td>
</tr>
<tr>
<td><strong>Origin</strong></td>
</tr>
<tr>
<td>LC1, LC3, FI-M10, GM-S4, FI-M5, FI-M9, SP-M2</td>
</tr>
</tbody>
</table>

The analysis of the above interviews revealed that, despite the Syrian government’s expressed rejection the idea of privatizing the Syrian public sector, many privatization activities have been undertaken recently under BOT and PPP contracts. For example,
the two main Syrian ports’ container terminals are running under the management of private companies after signing BOT contracts with the Syrian government. Another example is the two mobile operators in Syria (Syria-Tel and MTN) which are BOT contracts too.

Therefore, LC2 said that:

“I believe that these announcements (about the Syrian government’s rejection of privatizing the Syrian public sector) are nothing but political promotions for internal and political reasons”.

The interview with GM-S3 also revealed that these types of FDI (i.e. BOT and PPP) seemed not to be affected by the Syrian officials’ announcements regarding privatization. This was because these contract opportunities were promoted through a variety of international channels regardless of the Syrian government announcements at the domestic level.

Nevertheless, the analysis of the interviews revealed that if the Syrian government had not offered these contracts to private investors in the first place, they would not have been able to take these investment opportunities and they would not have invested in Syria. In other words, the Syrian government’s willingness to sign BOT and PPP contracts played a role in bringing some important FDIs to Syria. In addition, due to the fact that most of these BOT contracts required huge capital and big financial institutions, such as major international banks, to fund them, and due to the fact that such institutions are not available in Syria, FDI was the only option in this case.

Welcome though these arrangements were, LC2, LC3 and FI-M5 thought that a more clear direction towards privatizing the Syrian public sector might give the Syrian government more time to focus on enhancing the investment environment. They also thought that when private investments respond to these opportunities, they would absorb any unemployment that could result from privatization. However, they indicated
that, in order to achieve this goal, the Syrian government should also work on providing a suitable regulatory framework and the needed mechanisms that could encourage Syrian workers to work for private investments, instead of following the current direction, focused on protecting public sector workers.

In contrast to this school of thought, however, the majority of the interviewees did not think that a more extensive privatization policy would attract more FDI to Syria, since, in their opinion, foreign investors would prefer to build their own projects rather than buying the collapsing and out of date Syrian state owned enterprises. For example, GM-S4 said that:

“Foreign investors prefer to build their projects and make new contracts with new skilled employees. Thus privatizing the Syrian public sector would not be important for investment opportunities”.

In addition, GM-S3, SP-S2 and GM-S4 thought that BOT contracts were not always encouraging for FDI, especially if the contract duration was not long enough. This was because investors would not be willing to modernize their facilities during the last few years of their contracts; as it would not be profitable for them to do so, due to the short time available after the modernization.

For example, SP-S2 gave an example from his experience with an important Jordanian investor in the health sector. He explained the reasons for withdrawing from their BOT contract by saying:

“After a certain time, such as 15 years, you might need to replace your main machines and equipment. However, this would not be a sound investment since a few years later you will leave this project”

This also means that, at the end of the BOT contracts, BOT projects will be transferred to the state in a condition that needs intensive spending on modernization and maintenance. The BOT contract that was signed with a South Korean company for upgrading the Syrian railways using new trains is a good example. From the author’s
own experience, passengers were very pleased with the fast and convenient service the new trains provided under South Korean management. However, once the whole project was transferred to the Syrian public sector, trips started to be slower and passengers became uncomfortable with the service provided by the public sector operator. On one trip, the author met one of the Syrian railways engineers, who told him that the reason behind all these problems is the fact that the new trains needed huge maintenance after the South Korean company handed the project to the Syrian railways.

### 6.2.2 Business Facilitation Activities

The institutional changes previously discussed under the FDI policy framework aim at creating a friendly investment environment and a level playing field that can enable private investments to take place in a newly opening country (such as Syria). Such institutional changes are usually accompanied by complementary measures that facilitate foreign investment activities undertaken in the host country (UNCTAD, 1998).

Business facilitation activities were mainly addressed in the interview guide using the following questions:

**Q:** Do you think that investment opportunities in Syria are well promoted?

- If yes, explain why, and how does this fact encourage FDI inflows into Syria.
- If not, what improvement would you like to see in order to promote FDI in Syria?

**Q:** Since issuing the investment Law No.10 in 1991, the Syrian government has been trying to provide the legislation that can encourage domestic and foreign investment to take place in Syria. The most recent Investment Law was the Decree No.8 in 2007 that dedicated its second chapter to offer incentives to private investment, including exemption from income tax. In addition to that, the Legislative Decree No. 4 for the year 2009 granted ten years exemption from income tax for all kinds of private investment projects in the eastern provinces.

- To what extent has this new legislation influenced your decision to invest in Syria?
In your opinion, to what extent have the Decree No.8 for 2007 and other similar recent legislations enhanced the Syrian economy’s attractiveness to FDI?

Q: The Syrian Investment Authority, established by Article III from the Decree No.9 in 27/January/2007, is expected to play a vital role in implementing the new investment policies and achieving their goals in enhancing the investment environment.

To what extent has the establishment of the Syrian Investment Authority enhanced the investment environment attractiveness to FDI?

From your own experience, has the Syrian Investment Authority made the investment procedures more straightforward?

If yes, has that positively influenced your decision to invest in Syria and to consider further investment?

If not, what are the changes to SIA that can be made in order to simplify the investment procedures and enhance the attractiveness of the Syrian investment environment to FDI? And why?

However, highlighting the role of each business facilitation activity was not limited to the interviewees’ answers to the above questions; but was analysed wherever it was found within the interview text.

As illustrated in the final analytical template (Section 5.4.3.3), the analysis of the interviews revealed that business facilitation activities include the following measures:

a. investment promotion activities;

b. investment incentives;

c. efficient administration;

d. social amenities.

6.2.2.1 Investment Promotion Activities

The UNCTAD (1998: p.99) stated that “it is one thing to change a policy, and quite another thing to get the information to FDI decision makers – let alone convince them to make an investment”. Similarly, the analysis of the interviews revealed that the Syrian government’s new attitude towards FDI and reforming the Syrian FDI policy
framework was not enough, and additional efforts were needed to support the role of these reforms in attracting more FDI. In other words, drawing the attention of foreign investors and changing their perceptions regarding the investment environment in Syria required intensive promotional activities. Promotional activities “consist of providing information to potential investors, creating an attractive image of the country as a place to invest, and providing services to prospective investors” (Wells and Wint, 2000: p.1).

Investment promotional activities, as a sub-theme, were mainly coded during the analysis of the following interviews:

<table>
<thead>
<tr>
<th>Investment Promotional Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector</strong></td>
</tr>
<tr>
<td><strong>Origin</strong></td>
</tr>
<tr>
<td>LC1, LC3, LC6, FI-M10, FI-M11, SP-M16</td>
</tr>
</tbody>
</table>

The above interviews supported the important role that promotional activities can play in attracting FDI, and a variety of factors were observed to play a promotional role in terms of the FDI locational decision.

For instance, in respect of Turkish investors, the improvement in the Syrian/Turkish political relationship (which was discussed in more depth within the policy framework theme) played an important role in attracting them. Moreover, the availability of private consultants and lawyers who spoke fluent Turkish was a great relief for them whenever they had inquiries about the Syrian investment environment (as was discussed with the Turkish interviewees and their consultants).

For example, LC1 witnessed the important role of communication with Turkish...
investors using the Turkish language when he said that:

“Many Turkish investors decided to invest in the industrial city in Homs due to the role of its manager (who was a public sector employee, since industrial cities in Syria were established and managed by the state) in encouraging them. For instance, he recruited an employee that spoke fluent Turkish to communicate with his Turkish clients”.

FDI consultants thought that investors from other parts of the world would also feel more comfortable and, therefore, encouraged if they could communicate with the Syrian authorities using their native language or a language that they are comfortable with, such as English.

The availability of private banks that have a global reputation also played a promotional role. As found in most of the interviews, foreign investors felt more confident when they realised that banks with a global reputation were investing in their investment location, i.e. Syria. This situation gave them more assurance regarding the stability of the economy and the financial services they could expect.

For instance, FI-M9 said that:

“The existence of private banks gave me a clue about the Syrian economy and the Syrian government credibility in its new economic directions”.

In addition, foreign investors and companies seemed to consider the existence of other FDIs, in general (not only foreign private banks), as a sign of less non-business risk, especially political risk. For instance, GM-S3 said that:

“The more FDI that Syria has, the less the political risk will be in the minds of foreign investors”.

Moreover, it was noticed that the prior experience of FDI projects in Syria has an important promotional role for the Syrian economy as a destination for FDI, especially in terms of FDI from the same home countries. For example, LC3 told us that:

“Investors undertake studies regarding every potential location including
the perceptions of other investors who have invested before in the same 
location and the problems they faced”.

In addition, he said:

“When a Turkish investor thinks about investing in Syria, he starts by 
visiting other Turkish investors and learning from their experiences”

In this sense, the negative experience of early investors in Syria will negatively 
influence further inflows of FDI into Syria. Most of the interviewees expressed such a 
view. For instance, SP-M7 said:

“If any foreign investor asked me regarding investing in Syria I wouldn’t 
encourage him to do so. And I think it would be the same for any foreign 
investor who faced the same problems I faced”.

GM-S3, as a foreign investor in the service sector, also supported the importance of the 
promotional role of other investors’ experiences in the investment location when he said:

“Our experience in Syria as a PPP contract will be watched by some 
international organizations, such as the International Finance 
Corporation (IFC), and it will be a reference regarding the success or 
the failure of this experience under this policy (i.e. PPP). Therefore, the 
failure of our experience would become a failure for Syria as our partner 
and for the economy in terms of attracting more FDI”.

Joining international organizations could also play an important role in promoting Syria 
as a FDI destination. For example, FI-M5, FI-M9, FI-M10, SP-M4, SP-M7, LC1, LC2, 
LC3 and LC6 agreed that signing the EU partnership agreement and joining the WTO 
and any similar organization will show that the Syrian economy is integrating more with 
the global economy and not only with neighbouring countries. In addition, they thought 
that joining such organizations meant that Syria would be following more international 
rules and regulations, which would reduce foreign investors’ perception of hazard and 
confusion regarding the investment environment in Syria.

6.2.2.2 Investment Incentives

The importance of investment incentives in the locational decision of FDI was 
highlighted during the analysis of the following interviews:
Unfortunately, the new investment law, i.e. Law No.8 of 2007, cancelled the 5-7 year tax holiday that the previous investment law, i.e. Law No.10 of 1991, offered to new investments. This was disappointing for the majority of the above interviewees, especially FDI consultants, who thought that the tax holiday was important for FDI projects, especially in the early stages of the investments, when they would not be making any profit. They also thought that such an exemption could reduce the negative influence of the routine and other procedural problems during the process of establishment of the investment in Syria and therefore could make foreign investors more willing to continue with their investments.

For example, LC3 said:

“They should have provided a better law than law no. 10 of 1991, but they didn’t. For instance, investment law no. 10 offered new foreign investors a 5-year tax holiday + 2 years more if he had a Syrian partner. In addition to that, Law no10 offered foreign investors another 2 years tax holiday in addition to customs fees exemptions in case he exported 50% of his production. On the other hand, Law no. 8 cancelled all these exemptions and decided to treat foreign investors and domestic investors equally!!”

Tax policy incentives are not limited to the tax holiday only. For example, SP-M7 is a Syrian partner and general manager in a factory producing sunflower oil. Due to the fact that they had to pay 5% custom duty on their imported raw materials from Ukraine and
15% consumer spending tax, they were not able to compete in Syria with cheaper Turkish or Saudi products. In addition, the low average Syrian income made other cheaper products more attractive, even if they were not as good as the Syrian product.

SP-M7 said:

“When we added all these taxes and all other expenses that we had to pay as fees and duties, we reached 30% extra cost on every unit we produced. So, how would we be competitive?”

For these reasons, all the interviewees who were investing in agro-industries projects in Syria (SP-M7, GM-M12 and FI-M12) claimed they were not competitive. One reason for this, they believed, was that many other imports to Syria, such as those from Turkey, were financially supported (subsidised) by their governments to at least 10% of their value, which made them more competitive than the Syrian production. Therefore, as was discussed with many of the interviewees, some investors took advantage of the inefficiency of the Syrian tax system and other authorities to avoid paying some taxes and fees that they regarded as unfair.

Similarly, in the hotel sector, GM-S5 considered the fees for transferring real estate ownership or to merge two buildings to be too high. Moreover, he thought that it was not logical that investors should have to pay extra fees if they increased their investment capital (for each 500 million they pay 300 thousand Syrian pounds).

For instance, GM-S5 said:

“No investor would be convinced to pay such charges. He is increasing his capital. Therefore, he should be encouraged and rewarded, not fined”.

On the other hand, SP-S1, GM-S7, and SP-M1 claimed that many other incentives alleviated the negative influence of the tax holiday cancellation and similar disadvantages. For instance, foreign investors are allowed to import their projects’
equipment duty-free. In addition, and due to the fact that Syria is a member in the GAFTA, foreign investors in Syria are also able to import their raw materials and export their products to other Arab countries duty-free. Similarly, due to the bilateral free trade agreement with Turkey, Turkish investors are investing in Syria to take advantage of cheaper energy, a cheaper workforce, and lower tax rates, to enhance their competitiveness when they export their production back to Turkey or to other markets (all these points were discussed before in more detail in the trade policy section).

However, in many cases, the time consuming bureaucracy needed for these exemptions to be granted has prevented many FDIs from taking advantage of them. For example, LC5 explained his experience with this situation, saying:

“As a five star hotel private investment we should have received many exemptions from tax and custom duties. However, it took us around six months to get the papers needed for these exemptions to be granted. By that time, we had already imported our equipment and installed it. In other words, this was a foreign investment that couldn’t wait for six months to get such exemptions. So, we paid all the taxes and all the customs duties in order to start our investment as soon as possible”.

Similarly, GM-S5 said that:

“According to the Syrian investment Law, we should have received an exemption from customs tax on everything we needed to import for the purpose of establishing our hotels. Our hotels are mainly located within the old town whose streets are very narrow and can’t therefore be reached using normal cars. Thus, we decided to import small electric cars to be used for this purpose. First, we had to struggle to get the needed permissions for importing them. Then we started working on getting the exemption for the custom fees on importing these cars. However, we found out that there was no specific office that was responsible for offering such exemptions and we had to work on this exemption within many public sections, such as the tourism ministry and custom department, etc.”

In addition, the following manufacturing investors: FI-M5, FI-M9, FIM15, GM-M12, SP-M2, SP-M4, SP-M6, SP-M7 and LC3 criticised the Syrian government for not providing enough support for exporting their output. They believed that signing bilateral trade agreements would be useless in terms of creating new markets for the Syrian
production unless they received fiscal support (subsidies) from the Syrian government that could make them competitive within these markets. For example, FI-M15 said that:

“I would love the Syrian government to stop looking for new markets for us. We need them only to support the Syrian production and support the establishment of new investments instead of spending time and efforts for new agreements. This will make me more competitive, and we can find our markets ourselves. For instance, when the state supports the production of olives in order to make sure that industrialists can always find their raw material, and financially supports our exports, this will bring a competitive raw material and competitive production in return. This will create markets for us and give us immunity against other competitors regarding price and quality”.

This reveals another way of supporting the export of Syrian products, which is by guaranteeing the availability of Syrian raw materials required in some investments taking place in Syria. For example, in agro-industries, the Syrian government can stop the export of some products, such as tomatoes and olives, so industrialists can always be sure that such materials are available for their industries. Otherwise, investors in agro-industries will need to import them at higher prices, which will reduce their competitiveness in other markets.

### 6.2.2.3 Efficient Administration

This sub-theme was mainly coded within the following interviews:

<table>
<thead>
<tr>
<th>Efficient Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Manufacturing FDI</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Origin</strong></th>
<th><strong>Turkey</strong></th>
<th><strong>Iraq</strong></th>
<th><strong>Other Arab Countries</strong></th>
<th><strong>Other Origins</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>LC1, LC3, LC6, FI-M10</td>
<td>FI-M5, SP-M7, SP-M2</td>
<td>FI-M3, FI-M14, FI-M15, SP-M1, SP-S1, LC2, SP-M6, SP-S1</td>
<td>LC2, GM-M12, SP-M4, GM-S3, SP-S2, LC4, LC5, GM-S5</td>
<td></td>
</tr>
</tbody>
</table>

The analysis of the interviews presented in the table above indicated that the Syrian government has provided many rules and regulations for enhancing the efficiency of
public sector agencies that foreign investors have to deal with during establishing and running their projects in Syria. This appeared very promising and encouraging for FDI in Syria. The interviewed investors reported feeling very relieved when they heard about this direction within the Syrian public sector, since most of them had been concerned about the routine and the bureaucracy of the Syrian public sector authorities when they were considering choosing Syria as their investment location.

However, the reality proved to be very different from the rhetoric. The practical implementation of these new rules and regulations was both cumbersome and time consuming and deterred new investors from expanding their investments. The strict routine and the complicated procedures they faced were the most depressing factors for investors (as was explained by LC1). Many other interviewees supported this point. For instance, LC4 said:

“There is not any procedure in Syria that you might finish in less than one month. Therefore, sometimes, we have to pay bribes in order to get our work done. We have to pay these bribes not to break the law, but in order to make the public sector employee more committed to the law. This has always made our clients suspicious regarding the extra expenses of our bills”.

The interviews revealed that the new regulations and rules are not well activated or implemented due to the inability or the unwillingness of the public sector officials and employees to do so. The interviewees attributed this fact to two main reasons.

First, they indicated that most of those officials and employees are not qualified enough and they do not have previous experience for applying such a management style or for dealing with such important investments. For example, LC2 told us:

“There are not qualified people in the public sector agencies that can professionally activate them (i.e. the new policies)”.

In other words, the implementation and the activation of the governments’ new policies are carried out by public sector employees at the bottom level of the administrative
hierarchy. Therefore, all the efforts to enhance the investment environment through providing new policies will not achieve their objectives if the public sector staff and officers are not competent enough to apply these new policies appropriately. This view was echoed by GM-M12 who said:

“We deal with the bottom line of the public sector that forms the basis of the Syrian investment environment. As far as this basis is not improved, every decision that is taken by the government is irrelevant and will not be helpful”.

Second, several of the interviewees felt that these officials and employees are even unwilling to apply the new regulations and rules, as they are not convinced regarding the value of these FDI projects and the importance of such administrative practices.

For instance, GM-M12 said:

“Opening up the Syrian economy without developing the people’s mentality and removing the old customs will not generate a better investment environment”.

LC2 explained the current mentality in the public sector by saying that:

“As a consultant to important FDI projects, when I had to meet any public sector official regarding these projects, he dealt with me like I was his enemy”.

Similarly, LC1 was uncomfortable with the way public sector employees acted and he gave an example of their improper behaviour, saying:

“They keep telling us ‘come tomorrow’. This is time consuming and they (i.e. foreign investors) would decide to stop their investments if they could”.

Many similar impressions were noted during the interviews with foreign investors or their regional managers. For instance, FI-M3 said:

“Despite the fact that the Syrian government has always tried to simplify our investment procedures, there have always been obstacles, especially in terms of putting these laws into action.... I heard from many Arab investors that they wanted more simplified procedures. These demands require better training for the public sector employees to improve the
The Syrian Investment Authority can be considered a good example of the inefficiency in the public sector in Syria. This Authority was established in 2007 in order to play an important role in implementing the new investment policies and in achieving the goals of enhancing the investment environment. Although it simplified the investment licence procedures, the Authority failed to achieve any further simplifications in the investment procedures or after investment services (a point raised in almost all the interviews).

For example, LC2 explained the reason for this failure by saying:

“I consider this Authority as nothing but cosmetic. At the end of the day, they are not being creative and they are not able to find the required level of cooperation among the different public sector agencies”.

Similarly, LC3 said:

“The investment authority made the first steps for establishing any investment much easier and more straightforward. However, after getting the project permission/license, we still need to do a lot of paperwork for buying the land, building the required facilities, importing my equipment, etc.”

In addition to the main causes of the public sector inefficiency that were explained above, the interviewees attributed the inefficiency of the Syrian Investment Authority to uncreative and unqualified staff and its failure to find the required level of cooperation among the different public sector authorities.

As was explained before, the interviewees indicated that some factors, such as their experience in a similar situation or having a local partner, helped them overcome the above obstacles when establishing their projects. However, they later realised that other factors were important for running their projects and could influence their expansion plans in Syria. These factors were the availability of the needed social amenities, properly functioning infrastructure and a suitable workforce that could be relied upon to run their investments in Syria. The findings about these factors are presented in the
following section.

6.2.2.4 Infrastructure, Social Amenities and Suitable Workforce

The importance of this sub-theme for the locational decision of FDI was mainly highlighted in the following interviews:

<table>
<thead>
<tr>
<th>Infrastructure, Social Amenities and Suitable Workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector</strong></td>
</tr>
<tr>
<td>Manufacturing FDI</td>
</tr>
<tr>
<td>FI-M3, FI-M5, FI-M8, FI-M11, FI-M14, FI-M15, GM-M12, SP-M6, SP-M7, LC2, LC3, LC4</td>
</tr>
<tr>
<td>Service FDI</td>
</tr>
<tr>
<td>GM-S3, LC4, LC5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Origin</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
</tr>
<tr>
<td>LC3, FI-M11</td>
</tr>
<tr>
<td>Iraq</td>
</tr>
<tr>
<td>FI-M5, FI-M8, SP-M7</td>
</tr>
<tr>
<td>Other Arab Countries</td>
</tr>
<tr>
<td>FI-M3, FI-M14, FI-M15, SP-S1, LC2, SP-M6</td>
</tr>
<tr>
<td>Other Origins</td>
</tr>
<tr>
<td>LC2, GM-M12, GM-S3, LC4, LC5</td>
</tr>
</tbody>
</table>

The analysis of the above interviews indicated that the Syrian government should further work on making sure of the availability and the proper functioning of the infrastructure needed for manufacturing, distributing and exporting Syrian production. For instance, FI-M15, GM-M12, SP-M6 and SP-M7 complained about the Syrian ports and expressed the view that such facilities should be able to ship every international order on time and avoid any delay. This is because delays can cost the exporter a fine for late delivery. Such an experience will definitely influence the investors’ perception regarding the Syrian investment facilities in a negative way.

For example, the container terminal operator in Lattakia is busier than the one in Tartous. One reason for this is that Lattakia is the location of Teshreen University and the container station operator uses the university laboratory to test imported goods. In contrast, the operator in Tartous has to send its samples to Homs or Damascus to be tested, since the laboratory in Tartous is inadequate. This is time consuming and reduces the competitive power of the Tartous container terminal operator. This reveals the
importance of such facilities for any investor in a similar sector (as was discussed with GM-S3).

On the other hand, when the market opportunity is highly profitable, some types of infrastructure were not as important for big investors as for smaller investors in the sample. For instance, when the French company Lafarge realised the profitability of their project in Syria as a result of the market size and the availability of their raw materials, they built their own electricity generating station, which even supplied the nearby villages with electricity (as was discussed with LC4). Similarly, when SP-M7 realised that the electricity provided by the state was not enough and was causing problems, CAT electricity generators were bought to support the project with the needed electricity (as was discussed with SP-M7).

However, the analysis of the interviews showed concern regarding two other related issues that can have an impact upon the ability to invest in Syria.

First, foreign investors might need to run their investments themselves or use foreign experts. In both cases, as it appeared from the interviews, the availability of suitable schools, universities, accommodation and similar social amenities are important for supporting the everyday lives of those who are responsible for running the FDI projects.

For example, LC2 said:

“When a CEO or an investor wants to invest in Syria, he needs good schools and good universities for his children. In addition to that, even if I finished my procedures in one day, I would still need to find an office to rent. However, there are no proper trade centres and buildings all over Syria”.

Second, the interviews showed that the lack of semi-skilled workers was a disadvantage for FDI, especially in the service sector. However, other cultural characteristics of Syrian workers moderated this disadvantage. For example, Syrian hotel workers were
regarded by almost all the interviewees in the service sector as friendly in a way that pleased the hotels’ customers, even if they did not deliver the service up to the expected standards. Such views were expressed by LC5, a consultant for many investors in the hotel sector, who said:

“Unfortunately, in Syria there are many engineers and many low skilled workers, but there are few semi-skilled workers. Therefore, we have had to train many of our staff using a Lebanese company. On the other hand, the Syrians are so friendly in a way that can make any tourist happy even if they made mistakes while serving him. This has made some of my clients less concerned regarding the unavailability of well trained staff”.

On the other hand, experienced low skilled workers played an important role in the locational decision for many foreign investors in industries that depend on this type of workforce, such as the textile sector. For instance, FI-M3 explained his feelings while he was choosing between Syria and Egypt as a location for his investment:

“After a five day visit to Aleppo, we were amazed by the number of factories and the availability of skilled and experienced workforce in the textile industry. In addition, my partners appreciated the Syrian production quality (regarding blankets). My Spanish partner even admitted that one of the velvet materials he saw in Syria was better than the production of the same material in his factory in Spain”.

Recalling how he had gone with his partners to Egypt to explore his investment opportunities in the same sector, he said:

“We didn’t find the same industrial base needed for our production, nor did we find a workforce similar to the experienced Syrian workers. In addition, we realised that Syrian workers were more creative and committed to their job and their production volume was far better than the Egyptian one. In addition, we felt that the Egyptian factories didn’t take things as seriously as the strong industry in Syria”.

This was the experience of all the interviewees in the textiles sector. For example, FI-M11 also said that:

“The experienced workers in Aleppo in the textile sector were important regarding our investment decision”.

However, the interviewees noted that the Syrian economy lacked the highly skilled
workforce that many advanced industries needed in order to be able to run their investments. In many cases, relying on foreign staff for running investments, at least in the early stages, and training the Syrian staff, were the only available solutions. However, foreign investors were facing a problem in this regard too. The problem was the limited ability of foreign investors to use foreign experts for running the advanced machines they needed for their production. This is because the Syrian Ministry of Labour and Social Affairs, in addition to the other conditions in the Syrian Labour Law No.17 of 2010 (The Syrian parliament, 2010), allows the use of foreign experts only when similar expertise is not available in Syria; a condition that seems to be difficult to fulfil.

For instance, LC3 said:

“If an investor wants an expert in electricity who has experience in a certain field, he wouldn’t be able to use a foreign one since there are many electrical engineers in Syria. This restriction is not logical and not necessary, especially when we notice that if we were able to use a Syrian expert for about $400 why would we use a foreign expert for at least $4000? Is it logical that I establish a project with a cost of € 10 million and I am not able to use foreign experts? This is funny!!”

In addition, FI-M5 said:

“Getting a work licence for experts is much more difficult than getting a work licence for a foreign housemaid”.

Therefore, some investors had to follow some indirect ways to be able to use the needed foreign experts, such as having them as tourists and renewing their visas every three months.

6.2.3 Clear Political Vision and Strong Will for Economy Openness and Market Liberalization

The previous sections presented the interviewees’ perceptions regarding the various institutional reform measures that the Syrian government took to move towards a
market based economy and for enhancing the Syrian economy’s attractiveness to private investment in general and FDI in particular. However, the interviews also revealed two important interrelated factors that must exist in order for the above reforms and the newly enacted legislations to be effective. These factors were the availability of a clear political vision for the transition process and a strong political will for economy openness and market liberalization in Syria.

These two factors were mainly arose within the interviewees’ answers to the following question:

*Q: In 2005 the Syrian government decided to abandon central planning and to move towards the social market economy. In your opinion, to what extent has this decision made the Syrian economy a more attractive destination for investment?*

Many interviewees, especially FI-M5, FI-M15, GM-M12, SP-M6, SP-M7, LC2 and LC3, did not think that the Syrian government had a clear and coherent plan for its transition. For instance, LC3 said that:

“Unfortunately, the Syrian government doesn’t seem to have a clear and comprehensive strategic plan for providing the required strong base for market based economy, a fact that is depressing for us as foreign investors' consultants”.

The interviewees also stressed the point that designing a clear plan for providing a more attractive environment for FDI projects that can guarantee their success in the long run is more important than offering them temporary exemptions from tax or other financial duties. This is basically because, as many of the interviewees indicated, industrial projects usually need a long time to earn back the invested capital and then start yielding profit.

In addition, FI-M3 and FI-M14 argued that foreign investors who entered the Syrian market as first movers to take advantage of the demand in the Syrian market for their
products will lose this advantage, sooner or later, when many other investors enter the Syrian market. At this point, the need for a coherent institutional framework that provides reliable investment conditions could be crucial for their survival, since this framework will decide their alternative plans. Such an institutional framework will not be possible unless the Syrian government has a clear vision and plan for the Syrian economic transition.

Moreover, the interviews revealed that the success of economic openness and the efforts to create a friendlier investment environment depend, not only on having a clear political vision for economic liberalization and transition, but also on the existence of a strong political will to support this vision. Many of the interviewees, especially lawyers and consultants, explained this by arguing that such a strong and honest will would eliminate corruption and similar negative distortions in the investment environment that private investors in general and FDI in particular have to deal with when they enter Syria.

LC2 highlighted the progress in this area, saying that:

“Before this recent unrest in Syria, we used to have one of the highest levels of corruption compared with any country in the world. However, when the president showed in his last speech that he had a strong will to fight corruption, a lot of things changed in practice. For instance, it is not easy anymore to find a corrupt policeman who takes a bribe or who blackmails a citizen, as was the situation before” (which the author of the current study personally witnessed during the field work in Syria).

In addition to eradication of corruption, LC1, LC2, and FI-M5 believed that a strong political will can be helpful in enhancing the efficiency of the public sector agencies and strengthening positive standards of treatment of foreign affiliates.

However, as it appeared from the experience of the interviewees, since the transition decision was taken, nothing has changed regarding the way that the public sector staff dealt with private investors in general and foreign investors in particular. “The lack of a
strong will to fight such harmful practices made many of the government announcements regarding creating better investment environment look like logos without any practical implication in reality” (GM-M12).

6.2.4 Previous Experience in a Similar Economy, the Local Partner and Cultural Proximity

It is apparent from the findings presented above that the absence of a coherent plan for economic openness in Syria and the various negative consequences resulting from the incomplete Syrian policy framework created obstacles to incoming FDI. The analysis of the interviews listed in the table below revealed some factors that enabled FDI in Syria, to a certain extent, to overcome these negative consequences and obstacles.

<p>| Previous Experience in a Similar Economy, the Local Partner and Cultural Proximity |
|------------------------------|-----------------|-----------------|-----------------|-----------------|</p>
<table>
<thead>
<tr>
<th><strong>Sector</strong></th>
<th><strong>Manufacturing FDI</strong></th>
<th><strong>Service FDI</strong></th>
<th><strong>Other Arab Countries</strong></th>
<th><strong>Other Origins</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Origin</strong></td>
<td><strong>Turkey</strong></td>
<td><strong>Iraq</strong></td>
<td><strong>Other Arab Countries</strong></td>
<td><strong>Other Origins</strong></td>
</tr>
<tr>
<td>------------------------------</td>
<td>-----------------</td>
<td>-----------------</td>
<td>-----------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>LC1, LC3, LC6, GM-S4</td>
<td>FI-M5, FI-M8, FI-M9, SP-M7, SP-M2</td>
<td>FI-M3, FI-M14, FI-M15, SP-M1, SP-S1, LC2, SP-M6, GM-M13, GM-S7, SP-S1</td>
<td>LC2, GM-M12, SP-M4, GM-S3, LC4</td>
<td></td>
</tr>
</tbody>
</table>

Basically, in each case, the foreign investor had one or more of the following characteristics:

- previous experience of in Syria or in a similar economy;
- the availability of a local partner;
- cultural and social proximity.

These strategies and characteristics were exemplified by FI-M3, a Saudi investor in the textile sector, who said:
“I used to visit Syria yearly for more than 30 years as a tourist. In addition to that, I built a good network of friends and I became familiar with this country. My experience and my social relationships in Syria made me confident regarding my decision to invest in the Syrian market and I had nothing to be worried about”.

In other words, due to the fact that FI-M3 was familiar with the Syrian economy, he was able to invest in Syria and to take advantage of being among the first movers into Syria at the early stages of its economic openness.

Another example was a German investor, who was described by his Syrian partner SP-M4 as very confident regarding his ability to succeed within the Syrian investment environment, primarily for two reasons. The first reason was his previous experience within the Romanian economy, which he considered as not better than the Syrian economy, and which even had more social problems. The second reason was his Syrian partner, who had been able, through his experience and his personal relationships in Syria, to solve many fundamental problems stemming originally from the inefficiency of Syrian governmental agencies.

Similar examples occurred in the service sector. For instance, GM-S3 was not comfortable with the long time needed to finish paperwork and other procedures required for starting his firm’s business. However, this was not an unexpected situation for them because of their previous experience with other similar contexts. This was clear when he said:

“From our experience, we understood that this was the first experience of the Syrian government with such investment. In other words, we expected to face such challenges and we tried to be prepared for them. Therefore, we did not consider it as a factor that could prevent us from expanding our investment in Syria”.

He also said:

“We have experience from all over the world and even in many places that are worse than Syria, so we were prepared for the situation in Syria, which was better than we expected”.
Relying on Syrian partners seemed to be the strategy that foreign investors followed in order to avoid many problems they might face due to their lack of experience in the Syrian market. Even those who have such experience have found that having a Syrian partner is an efficient strategy for avoiding time consuming bureaucracy and other cultural complications. For example, when SP-M1 was asked if the new Syrian legal framework creates a regulatory level playing field he said:

“I don’t think that my foreign partner believed so. However, this was not a problem for him since he was confident that I was able through my experience to overcome any problem by following the arrangements we are used to following in Syria”.

Finally, with regard to Turkish and Iraqi investors, it was noticed that their feeling that they were socially, culturally, and even geographically close to the Syrian people made them very confident regarding their ability to adapt to the Syrian investment environment. For instance LC3 said that:

“As a Turk, I can get my things done even faster than the Syrians themselves. This is basically because of the historical and social relationship between Syria and Turkey. In addition to that, we are treated as guests in Syria and the Syrians treat their guests very well”.

On the other hand, some Iraqi investors in the sample had Syrian partners, but this was basically when the Iraqi investor had poor experience in business in general or in doing business abroad.

6.3 Economic Determinants

This section explains the interviewees’ economic motivations to invest in Syria. As was illustrated before in the main conceptual framework (Figure 5.1), which was followed when designing the analytical template, FDI can take place in a certain location following one or more of the following strategies:

- market seeking strategies;
- efficiency seeking strategies;
resource/asset seeking strategies.

Therefore, this section contains three subsections that explain our findings regarding each of these economic strategies.

### 6.3.1 Market Seeking

This sub-theme was addressed in the interview guide using the following question:

*Q: What market opportunities are, and remain important, to your investment in Syria? And why?*

The impact of various market opportunities and market motivations on FDI inflows into Syria was highlighted during the analysis of the following interviews:

<table>
<thead>
<tr>
<th>Market Seeking Motivations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector</strong></td>
</tr>
<tr>
<td>Manufacturing FDI</td>
</tr>
<tr>
<td>Service FDI</td>
</tr>
<tr>
<td>GM-S3, GM-S4, GM-S7, SP-S2, LC4, LC5, GM-S5, GM-S6, SP-S1.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
</tr>
<tr>
<td>FI-M5, FI-M8, FI-M9, SP-M7.</td>
</tr>
<tr>
<td>Iraq</td>
</tr>
<tr>
<td>LC1, LC3, LC6, FI-M10, FI-M11, GM-S4, SP-M16.</td>
</tr>
<tr>
<td>Other Arab Countries</td>
</tr>
<tr>
<td>FI-M3, FI-M14, FI-M15, SP-M1, SP-S1, LC2, SP-M6, GM-M13, GM-S7, GM-S6, SP-S1.</td>
</tr>
<tr>
<td>Other Origins</td>
</tr>
<tr>
<td>LC2, GM-M12, SP-M4, GM-S3, SP-S2, LC4, LC5, GM-S5.</td>
</tr>
</tbody>
</table>

The analysis of the above interviews indicated that the fact that the Syrian market had not been liberalized to this extent before, has made it an attractive destination for private investors who are seeking new markets. The analysis revealed that the transition decision has created many investment opportunities for private investors. These opportunities became more attractive after the trade liberalization initiatives that were taken by the Syrian government and the trade agreements that Syria signed. This is because of the enhancement that these initiatives and agreements brought to market size.

Moreover, the analysis of the interviews with FI-M11, FI-M9, FIM8, FI-M15, GM-M12, GM-S3, GMS6, GM-M13, LC1, LC2, LC3, LC4 and SP-M16 revealed that the
geographical location of Syria also played an important role in this regard and added more value to these agreements. Because of its location, Syria was regarded by many of these interviewees as a doorway to other markets in the Middle East. Among all trade initiatives and agreements, membership of the GAFTA and the Syrian/Turkish bilateral trade agreement has special value (this point was discussed before within the section that discussed trade policy findings, i.e. Section 6.2.1.2).

For instance, FI-M9 said that:

“I made my decision to invest in Syria since there wasn’t any foreign investor before me in this sector. Many of my friends hesitated to invest in Syria and they preferred to wait in order to see how things would go with me. However, the Syrian market was a newly opened one and virgin in terms of private investment within many sectors. In addition to that, Syria is a gateway to many other countries in the region. For instance, I have customers from Libya, Tunisia, and many other African countries”.

“Syria is a virgin market” is a statement that was repeated by almost all the interviewees. The majority of the interviewees invested in Syria after the transition decision was taken in 2005 to take advantage of being first movers in the Syrian market.

For example, FI-M10 said that:

“We came to Syria because there weren’t investors in PVC technology in Syria before 2005 and there were only aluminium doors and windows”.

A similar reaction to the market opportunities in Syria was observed in the service sector, particularly in hotels and tourism. As it appeared from the interviews with LC5, GM-S4 and GM-S7, the increase in the numbers of tourist that visited Syria between 2002 and 2010 attracted the attention of many foreign investors in boutique hotels and other kinds of 4-5 star hotels who are now able to invest in Syria according to the new regulations. Moreover, various historic locations in Syria, especially those in Aleppo, have been listed by the UNESCO since 1986 and have started to become well known to foreigners since the early 1990s. This gives the Syrian tourism market potential for further growth, which also enhances the Syrian market’s attractiveness to FDI in the
tourism sector.

Similarly, the interviews with SP-S1 and SP-S2 revealed that market opportunity was the main motivation for investments in the health sector. For instance, SP-S2 explained how the size of the Syrian market in general, and in the city of Aleppo in particular, motivated his partners to establish their hospital. He said that:

“Private hospitals’ total capacity in Aleppo is only 620 beds. In Aleppo, a city with a population of 5 million, this number is very small and more hospitals are needed. In addition to that, Syria in general and especially Aleppo needs good professional hospitals. Until 01/01/2010, the statistics showed that Aleppo has around 120 hospitals. Around 70% of them will be closed or become only for GPs or for simple medical help due to the Ministry of Health’s new standards. This shows the extent to which Aleppo needs new hospitals”.

For the same reasons, SP-S1 decided with his Saudi partner to establish their hospital in Damascus. He said:

“We decided to invest in Syria because we considered our investment as a profitable one, since the number of the hospitals in Syria was small compared with the available market”.

In other words, the market opportunity from the available market size in the service sector in Syria was the main attractive factor for the interviewees. In addition, the analysis of the interviews with LC5, SP-S1, SP-S2, GM-S7, GM-S3, GM-S4 and GM-S5 revealed that the number of FDI projects in the service sector was relatively small due to the lack of big financial institutions in Syria able to fund and support big FDI investment projects in this sector. This has made the Syrian market even more attractive for private investments in the service sector that have enough funding capability, even if they are relatively smaller projects. For instance SP-S2 said that:

“Syria doesn’t have a suitable institution that can establish and manage such projects [i.e. big modern hospitals]. Usually in Syria, a few people invest small capital to establish a small hospital. This is not enough. For instance, in Jordan there are huge institutions that fund such projects and similar ones are needed in Syria”.
Another example of the positive reaction of FDI to market opportunities in Syria can be found within the banking sector. For example, LC4 who is a lawyer and a consultant for many FDI projects in various service and manufacturing sectors, including four foreign private banks in Syria, said:

“The Syrian market is a virgin market that provides a lot of investment opportunities. In many sectors, new investors would not face a strong competition, or even would not face any competition at all due to the fact that the Syrian economy was not that open to private investment before. For instance, the first movers in the banking sector are still the strongest in Syria, despite the fact that many other banks entered the Syrian market later. For example, QNB as a strong global bank is still weaker than the first movers, some of which are not even globally famous. This is basically because the first movers provided new services to Syrian customers that they didn’t have before, which made them loyal to these banks”.

All in all, it seems that for both service and manufacturing FDI projects that have taken place in Syria so far, first mover advantage, in addition to market size, have been the major motivations for them.

Finally, FI-M5, SP-M7, FI-M8 and FI-M10 from the manufacturing sector stressed that it is important that the Syrian people have a sufficient income level to be able to buy their products. Otherwise, foreign investors in Syria would not be able to sell their products in the Syrian market and therefore they would not be interested in investing in Syria unless they were efficiency seeking investors and their production was intended for export to other markets (as discussed in the following section). In terms of the service sector, the interviews’ analysis revealed that FDI in the service sector is also sensitive to the Syrian income levels, especially in the health sector. For instance, SP-S2 said that:

“The Arab Gulf countries are small markets compared with Syria, even though big institutions invested huge capital in these countries health sector. This was because the individual income in these countries is so high compared with the Syrians’ income. Therefore, such projects’ feasibility studies in Syria would not be promising or at least they would need a long time to make profit. While in the Gulf countries these
projects could make profits much quicker because of the high income of these countries citizens”.

6.3.2 Efficiency Seeking

This sub-theme was addressed in the interview guide using the following question:

**Q:** Was your decision to invest in Syria predominantly based upon locational efficiency factors which would improve your competitiveness, and which made you invest in Syria instead of simply investing in your country (or somewhere else) and then exporting your products into Syria and other markets?

- If yes, which locational efficiency factors were key to your investment decision? And why?
- If no, to what extent (if any) were locational efficiency factors influential on your decision to invest in Syria?

Efficiency factors as a motivation for FDI in Syria were discussed and coded within the following interviews:

<table>
<thead>
<tr>
<th>Efficiency Seeking Motivations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector</strong></td>
</tr>
<tr>
<td>Turkey</td>
</tr>
<tr>
<td>Iraq</td>
</tr>
<tr>
<td>Other Arab Countries</td>
</tr>
<tr>
<td>Other Origins</td>
</tr>
</tbody>
</table>

Although market seeking strategies provided very important motivations behind the interviewees’ decision to invest in Syria, they were not the only ones. It was clear from the interviews with Turkish investors and their consultants, for example, that Turkish industrialists who were investing in Syria were mainly motivated by Syria’s cheaper (compared with Turkey) workforce and cheaper resources, particularly energy and water. This situation is important for them since it reduces their production expenses.
and enhances their competitiveness among their domestic competitors, especially considering that Syrian corporate taxes are much lower than Turkish ones. In addition, the Syrian/Turkish bilateral trade agreement makes the export of Syrian production back to Turkey much easier. Moreover, Turkish investors in Syria became more competitive, not only within the Turkish market, but also among other competitors in the Syrian market and in other Arab countries markets, since they could take advantage of the GAFTA to access these markets using their Syrian production (as discussed earlier).

However, there was no noticeable influence of the above efficiency factors upon the investment location decision in the service sector. In addition, in the interviews with FI-M3 and FI-M14 from the manufacturing sector, neither a cheap workforce nor cheap resources (as efficiency factors) were as important as the market and first mover opportunities that were generated after the Syrian economy began to be liberalized. For instance, FI-M3:

“To be honest, the Syrian workforce is not cheap anymore. In Saudi Arabia I could have used workers from East Asia much cheaper. But there are many similar projects in Saudi Arabia and, therefore, our project wouldn’t be competitive there”.

In these cases, the competitive advantages of these projects were based on factors other than cheap raw materials or workforce. For instance, FI-M14 explained how locating his petrochemical project in Syria instead of Saudi Arabia, for example, made his product more competitive.

“First, due to safety concerns, petrochemical products imported from other countries are less concentrated and have higher transportation costs. Second, most of the time, importing these products from other countries reduces their quality due to the transportation conditions. Third, buying petrochemical products in Syria doesn’t need foreign exchange, while importing them needs foreign exchange. Fourth, when a project needs to import these products, it needs to import big amounts and can’t import small amounts. All these issues make Syrian industrialists think that buying our production domestically from us is more convenient since they can order our products on the phone in any amount and it will be delivered to him in very good time without paying
any extra expenses. Even the public sector in Syria buys our products and it doesn’t import it anymore”

In brief, it seems that MNEs need markets for their products, but they are more likely to directly invest in these markets if they find that this will enhance their efficiency and competitiveness. This is basically because, if they have these advantages, their investments are more profitable within their markets.

6.3.3 Resource/Asset Seeking

This sub-theme was addressed in the interview guide using the following question:

Q: Were Syrian assets/resources influential on your decision to invest in Syria? If so, which were important and why?

The analysis of the interviews illustrated in the table below highlighted the impact of the availability of certain natural resources on the locational decision of FDI in both manufacturing and services sectors.

<table>
<thead>
<tr>
<th>Resource/Asset Seeking Motivations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Sector</strong></td>
</tr>
<tr>
<td><strong>Origin</strong></td>
</tr>
<tr>
<td><strong>Other Arab Countries</strong></td>
</tr>
<tr>
<td><strong>Other Origins</strong></td>
</tr>
</tbody>
</table>

In terms of the manufacturing sector, the analysis of the interviews revealed that the availability of certain natural resources was important for the locational decision of FDI in certain industries, primarily agro-industries, cement and other mining industries.

As is apparent from the interviews with investors in the agro-industries (FI-M15, GM-M12 and SP-M7), it is the abundance of Syrian agricultural production that has encouraged them to choose Syria as their investment location. For instance, one of the
interviewees, GM-M 12, is the general manager of a French factory investing in Syria that specialised in food manufacturing. He said:

“*The first motivation for our investment in Syria was the information we received regarding the Syrian production of certain crops that we use as raw materials for our production, such as tomatoes*."

Similarly, FI-M15 was basically encouraged to invest in Syria because of Syrian official figures about the domestic harvest of olives, the main raw material for his production of olive oil.

However, it can be seen from the interviews’ analysis that the availability of needed resources was not a sufficient motivation by itself to make the locational decision. For example, the availability of raw materials was not important for many other projects in the sample, due to the possibility of importing raw materials easily from other countries, especially from other Arab countries and from Turkey, due to the trade agreements to which Syria is a party. In addition, as the interviews’ analysis show, resource seeking projects did not follow purely resource seeking strategies; their strategies were always accompanied by another economic motivation, primarily efficiency considerations.

In terms of the service sector, the interviews with LC5 and GM-S5 showed that the influence of the availability of resources/strategic assets on the locational decision of FDI is most obvious in the tourism sector, especially with regard to boutique hotel projects. The traditional and historic buildings, in which a large proportion of the tourists who visit Syria like to stay, are the main motivation for much FDI in this sector. Therefore, some MNEs have restored many of these houses, especially in Damascus and Aleppo and offered them as 4-5 star boutique hotels (as the interviewees in this sector agreed).

For example, LC5 told us that:
“Many tourists prefer to stay within the old town rather than staying in the Sheraton Hotel, for instance. Therefore, the Syrian traditional houses were very influential in my client’s investment location decisions”.

However, it was clear from the interviews that these projects would not take place if the tourist numbers in Syria were not increasing in a way that made these projects profitable. This is additional evidence that service FDI is mainly market seeking investment.

In summary, FDI seems not to have taken place in Syria following purely resource/asset seeking strategies. Resource/asset seeking strategies are always accompanied with market and/or efficiency advantages in the case of manufacturing projects, and mainly with market seeking in the case of service projects.

6.4 Conclusion

This chapter has presented the interviewees’ perceptions regarding the role that the different elements within the analytical framework played in influencing their investments’ locational choice. The diversity in characteristics and backgrounds within the sample was very useful for evaluating the importance and the success/failure of the Syrian government’s efforts to enhance the investment environment. This was also very useful in terms of evaluating the role of other factors that were not related solely to the Syrian government’s efforts.

In the following chapter, the above findings are summarised and discussed in the light of the literature review presented in Chapter Three. While doing so, the patterns of these findings are compared with the patterns of the research hypotheses to test the validity of the theoretical propositions in this study.
Chapter Seven: Discussion and Hypothesis Testing

7.1 Introduction

On account of the important role that FDI could play within the transition economy of Syria, Syrian policy makers have been actively enhancing the attractiveness of the Syrian investment environment by implementing institutional reforms, as described in Chapter Two. However, Syrian policy makers should be aware that institutional change, while essential, is not the only host country determinant of FDI (UNCTAD, 1998). Thus, they need to understand the range of factors MNEs consider when choosing their foreign investment location in order to formulate the right investment policies that can enhance the Syrian economy’s attractiveness to FDI.

Hence, this research aims (among the other objectives explained in Chapter One) to draw the attention of the Syrian policy makers to these factors and to advise them regarding the development of the most suitable investment policies that can enhance the attractiveness of the Syrian economy to FDI. Therefore, and after reviewing previous studies that explored FDI locational determinants (with special reference to research that focused on developing and transition economies), the following four hypotheses were proposed:

**H1:** Institutional reforms enhanced Syria’s attractiveness to FDI and motivated foreign investors to enter its market.

**H2:** MNEs require not just institutional improvement, but also economic motivations when choosing to invest in Syria.

**H3:** Market seeking and efficiency seeking strategies are the major economic
motivations for FDI in Syria.

H4: While manufacturing FDI in Syria is more likely to be efficiency seeking investment, service FDI in Syria is more likely to be market seeking investment.

This chapter discusses the research findings, presented in Chapter Six, in the light of the previous literature reviewed in Chapter Three. In doing so, the patterns of the findings are compared with the patterns found in the literature review, which enables the adequacy of the hypotheses to be tested.

The structure of the chapter follows that of the literature review and the UNCTAD (1998) classification of host country FDI locational determinants. It is as follows: The first section discusses the findings regarding the institutional factors investigated in the research, namely, the policy framework for FDI and business facilitation activities. This enables the first hypothesis, which is related to these factors, to be tested. The second section discusses the research findings related to the economic determinants of FDI, thereby enabling the remaining hypotheses, H2, H3 and H4, to be tested.

7.2 Institutional Factors as FDI Locational Determinants

Since the late 1990s, much research has tried to explain the link between institutional development and FDI inflows into transition economies. This focus in the research has been basically because of the positive contribution of FDI within such economies. In almost all cases, authors agreed that economy openness and better institutions have had a positive impact on FDI inflows into transition economies through enhancing the certainty of higher expected returns. In addition, various institutional factors (e.g. legal institutions, corruption, bureaucracy and banking sector reforms, etc) appeared in the literature as important determinants of inward FDI (e.g. Bénassy-Quéré et al., 2007; Bevan and Estrin, 2004; Bevan et al., 2004; Botrić and Škuflić, 2006; Estrin et al., 2000; Li and Park, 2006).
Similarly in this study, the analysis of the interviews revealed that institutional reforms made by the Syrian government played an important role in the locational decision of FDI in Syria. Thus, in this part of the chapter, the findings regarding the various institutional factors covered by the interview analysis within Chapter Six are discussed. Therefore, the following sections are structured following the major institutional themes employed in the analysis and illustrated in the final analytical framework (section 5.4.3.3). Specifically:

- Economy Openness, FDI liberalization Policies, Trade Policy, Political Stability and improving International Relations, Privatization Policy, Business Facilitation Activities.

### 7.2.1 Economy Openness

In the following two sections, the research findings in relation to the liberalization of the Syrian financial and banking sector and the Syrian economy transition decision in 2005, as economy openness activities undertaken by the Syrian government, are discussed.

#### 7.2.1.1 Liberalizing the Syrian banking and financial sector

Botrić & Škuflić (2006) and Focarelli & Pozzolo (2001) found that liberalizing and developing the financial and banking sector were important for attracting FDI. In relation to transition economies, Bevan et al. (2004) found that the reform of the financial and banking sectors within such economies was associated with greater FDI inflows. They suggested that this was due to the role that an advanced financial and banking sector might play in reducing transaction costs and providing access to local funds, which could also reduce FDI exposure to exchange rate volatility risk. Many other recent studies within similar contexts supported these findings (e.g. Kinda, 2010; Ramirez, 2010).

The findings of the current study confirm the above and reveal that the reform of the Syrian banking sector not only allowed and encouraged foreign private banks to enter
the Syrian economy, but also played an important role in encouraging FDI from other sectors to enter the Syrian market. The interviewees attributed this to the role that these reforms played in creating a friendlier investment environment through providing better banking services, such as faster transfer of money and the provision of protection of bank clients’ personal and financial information (i.e. confidentiality protection).

In addition to that, the interviewees believed that the reform of the Syrian banking and financial sector provided better opportunities of access to local funds. On the other hand, the interviewees indicated that the high interest rates and the hard conditions on private loans hindered the positive reaction of private investment to the financial and banking reforms in Syria. However, it should be noted here that, consistent with the findings of Bevan et al. (2004) and Ramirez (2010), this was not a problem for those FDI projects that were able to fund their projects relying on their own financial resources.

7.2.1.2 The Syrian economy transition

The transition process of an economy from a centrally planned to market based economy entails a fundamental reform of its institutions (Gelbuda et al., 2008; Meyer and Gelbuda, 2006). Therefore, positive FDI reaction to the transition to a market-based economy provides evidence for the role of institutional factors in enhancing an economy’s attractiveness to FDI.

Consistent with the findings of other studies that shed light on the impact of the transition process on FDI inflows into transition economies (e.g. Resmini, 2000; Riedl, 2010), the current study reveals a positive reaction of FDI to Syria’s transition to a more market-based economy. This was mainly attributed to the fact that the decision to move to a more market-based economy has opened the Syrian market to private investments in sectors that were previously monopolised by the state. This has created interesting opportunities for FDI in both manufacturing (for example, cement and other mineral
industries) and service sectors (for example, hospitality).

In addition to that, the findings revealed a further reason for FDI’s positive reaction to the economic transition in Syria.Simply, foreign investors felt more protected under the institutions of the market-based economy than under the former Socialist economy. For example, as discussed in Chapter Two, the new Syrian investment law No.8 of 2007 provided more protection to private investment against expropriation and nationalization, and many recent efforts to provide proper protection for Intellectual Property Rights (IPR) have been made since 2000 (PRS, 2010, 2011).

These findings are in agreement with the argument of Méon and Sekkat (2007), Blonigen (2005) and Henisz (2000) that better institutions enhance the attractiveness of the investment environment by protecting private investments against many types of risk, such as the risk of nationalization and expropriation. Moreover, these findings are in line with the conclusion of Ali et al. (2010) that among all other institutional factors, property rights security was the most important one in terms of the locational decision of FDI. Finally, these findings are also consistent with those of Javorcik (2004) who found that weak protection of IPR negatively affect FDI inflows into transition economies.

On the other hand, similar to all other transition experiences (Peng, 2000; Svejnar, 2002), the Syrian economy transition process was not smooth enough and added higher transaction costs on FDI compared with investing within an already developed institutional framework. As it appeared from the qualitative data analysis, the main reasons for these findings were:

- The Syrian economic transition lacked a clear and coherent plan that could offer clear expectations regarding the future of the Syrian economy. The interviewees indicated that a clearer vision for the Syrian economy transition, which they...
could rely on for their future plans, was needed.

- The Syrian economic transition was not accompanied or supported by a strong political will for change. The interviewees thought that such a political will was necessary to eliminate corruption and other concerns in the investment environment and to accelerate the transition process. In addition, such a political will could have enhanced the efficiency of the public sector agencies and could have strengthened positive standards of treatment of foreign affiliates.

In summary, despite the above-mentioned limitations, the research found that economy openness in Syria, characterised by the reform of the banking sector and the enactment of new market-based legislations, has created a friendlier investment environment; better protection for private investment in general and for FDI in particular; and has expanded private investment and FDI opportunities. Therefore, it can be said that economy openness and the transition process in Syria (i.e. reforming formal institutions and enacting more market-based legislation) have enhanced the attractiveness of the Syrian economy to FDI, which supports the research hypothesis H1.

### 7.2.2 FDI Liberalization Policies

The findings cover the three aspects of FDI liberalization policies that were stated in Chapter Five and Figure 5.2. These are the removal of market distortion activities, strengthening foreign investors’ positive standards of treatment activities and market supervision activities. The following sections discuss the research findings related to these three sets of activities and compare their patterns with those of the relevant literature, which enables the adequacy of the first hypothesis to be tested.

#### 7.2.2.1 The removal of market distortion activities

In a transition economy, the new policies reflect the decision makers’ attempts to overcome the various obstacles and inherited aspects of the previous communist era and
represent their efforts to build up free market interactions from scratch. This includes offering a system for private ownership and establishing an appropriate legal framework. The significance of such attempts in terms of attracting FDI is obvious since they not only determine the ability of FDI to enter the economy, but also have an impact upon the investment success and the alternative investment strategies that can be followed (Bevan et al., 2004; Ali et al., 2010; Estrin and Meyer, 2004).

Similar attempts by the Syrian government were observable with regard to the Syrian economy’s transition experience. Since the transition decision in 2005, the Syrian policy makers have been trying to reduce the barriers facing inward FDI. This is clear from the policies explored in Chapter Two and the interview findings presented in Chapter Six. For instance, the interviewees indicated that enacting new legislations that remove the restrictions on the entry of private investment in some sectors was crucial for FDI to take place (e.g. the Legislative Decree No. 28 of 2001 which authorized private banks in Syria, and the Investment Decree no.8 of 2007). The interviewees also pointed out that, after 2005, the simplicity in registering their investments and getting the required authorisations and licences made them feel more welcome and made it easier for them to integrate into the Syrian economy.

Allowing foreign investors in Syria to own their projects’ land is another example. Law No.8 of 2007 guaranteed foreign investors the right of ownership of their projects’ land, which provided better protection of their property rights. This also helped to guarantee, at least to a certain extent, the value of their investments. These findings seem to be in line with those of Ali et al. (2010), who found that property rights security was the most important institutional factor in terms of the locational decision of FDI.

However, the interviewees in the current study emphasised that, while taking the investment locational decision, they considered not only the role of property rights in
terms of designing their investment strategies, but also the impact of these rights on their personal lives. In other words, the ability of foreign investors and their foreign staff to own houses and similar property needed for their everyday life might influence their decision to invest in Syria. This is because such factors have an impact on their personal lives and their experience of living in Syria.

**7.2.2.2 Strengthening foreign investors’ positive standards of treatment activities**

Svejnar (2002) and Peng (2000) argue that, in almost all cases of transition economies, establishing efficiently operating markets has been slow, complicated, sporadic and unpredictable. This situation created incomplete institutional frameworks during the transition period within these economies and has led to the emergence of blurred legal frameworks, underdeveloped juridical systems, rigid bureaucracy and corruption.

The findings of this study confirm the above in respect of the Syrian transition experience. This reveals that the Syrian economy transition experience is not different from that of other transition economies. Moreover, the interviews revealed that the ineffectiveness of the Syrian transition in creating the desirable market-based economy was attributed to the fact that the implementation of the institutional reforms proved to be difficult in practice. This was due to the absence of a coherent economic reform plan and a strong political will for change (discussed in the previous section), as well as the lack of transparency of laws, regulations and administrative practices.

In addition, the incompetent and careless public sector employees made it more difficult to improve the standards by which foreign investors in Syria were treated. This point seems to be in line with the argument of Martinez and Williams (2012) that informal institutions (e.g. cultures, norms, customs, attitudes, values and conventions) have a much slower pace of change compared with formal institutions (e.g. regulations, written rules, laws and contracts), and cannot easily be changed by issuing new laws.
7.2.2.3 Market supervision activities

In addition to the problems discussed in the previous two sections, the analysis of the interviews revealed another challenge in front of FDI in Syria. This challenge was the inefficiency of the Syrian government in providing a sufficient level of supervision of market activities. This is due to the negative consequences of weak supervision of market activities on the quality of Syrian products and because the illegal practices of some local producers had a direct impact on the market size and competitiveness for many industries (as discussed in section 6.2.1.1.3). These findings seem to match the argument of the UNCTAD (1998) that supervision of market activities is necessary to ensure the complete implementation of the new liberalization policy and to achieve a proper functioning of the market.

In some cases, investors were able to avoid the side effects of weak market supervision by exporting their products to other markets. In these cases, FDIs were primarily efficiency seeking investments that intended to benefit from the efficiency factors and trade agreements that Syria is party to in order to have access to other markets in the region (as discussed in the following section).

In summary, the market liberalization activities discussed within the previous three sections have an impact on foreign investors’ perceptions of the Syrian investment environment. Therefore, designing and properly applying sufficient FDI liberalization policies (which can remove the various market distortions, provide better supervision of market activities, and improve positive standards of treatment of foreign investors) seem to enhance the attractiveness of the Syrian investment environment to FDI. Hence, it can be said that the findings regarding FDI liberalization policies as institutional factors are consistent with the first hypothesis (H1).
7.2.3 Trade Policy

The previous studies that explored FDI locational determinants within transitional economies and emerging markets indicated that economy integration agreements and liberalizing trade policies have a positive impact on FDI inflows, especially in smaller size economies, since FDI has a higher propensity to export under such policies (e.g. Vijayakumar et al., 2010; Mohamed and Sidiropoulos, 2010; Bevan and Estrin, 2004; Asiedu, 2002; Bevan et al., 2004; Botrić and Škuljić, 2006; Erdal and Tatoglu, 2002; Asiedu, 2006).

The findings of the current study are in agreement with the findings of the previous research. The interviews revealed that Syria’s trade liberalization initiatives, regional integration activities (i.e. Syria’s membership of regional trade associations, e.g. GAFTA) and signing bilateral free trade agreements (e.g. with Turkey) have expanded FDI’s market opportunities in Syria and also have provided access to efficiency factors from which FDI in Syria can benefit.

For instance, export duty exemptions and other trade facilitations provided by trade agreements and the Syrian government trade policy initiatives made Syria, in relation to FDI, a gateway to all other Arab countries’ markets. In addition, these agreements enabled foreign investors to take advantage of Syria’s low-cost workforce and cheaper energy, while they were able to keep their markets (as in the case of Turkish investors).

The interviews showed that this situation has encouraged foreign investors to invest in Syria in order take advantage of the above market opportunities and efficiency factors. The interviews also revealed that the reaction to the market opportunities and efficiency factors derived from trade agreements and initiatives was remarkably clear in terms of Turkish and Arab investors. These findings support the argument of Stein and Daude (2001) who found that trade integration activities had an important impact upon FDI
inflows. They argued that MNEs prefer to locate themselves within countries that are partners in free trade agreements with their home countries.

It should be noted here that the findings regarding the positive impact of trade agreements and trade policy liberalization were not limited to manufacturing and export oriented FDI, and a similar positive impact was observable in relation to FDI in the service sector. Particularly, the interviewees from the insurance and transportation sectors indicated that the positive impact of the Syrian trade policy liberalization initiatives and trade agreements on the level of trade between Syria and other countries brought higher demand for many kinds of services (e.g. insurance, transportation, etc). They also stated that this situation has created an interesting investment opportunity to take advantage of this demand, since present companies are not capable alone to fulfil this high level of demand. Hence, these findings seem to support the ideas of Yin (2011) who argued that enhancing international trade, as an indicator of economy openness, would make transition economies more attractive for FDI in the service sector.

In summary, it can be said that the Syrian trade policy liberalization initiatives and trade agreements that Syria signed have enhanced the attractiveness of the transition economy of Syrian to FDI. In this sense, the patterns of the findings regarding trade policy as institutional factor match and confirm the proposition of the first hypothesis in this study (H1).

7.2.4 Political Stability and Improving International Relationships
Pusterla and Resmini (2007) and Noorbakhsh et al. (2001) failed to find any significant impact of political instability/risk on the locational decision of FDI. Ali (2010) and Busse (2004) argued that the insignificance of political instability/risk as a locational determinant of FDI is due to the fact that FDI in primary sectors, e.g. oil, is highly profitable even after considering the political risk factors. Therefore, they assumed that
MNEs neglected political freedom and even supported repressive regimes. To support these ideas, Ali (2010) gave examples of United Fruit in Guatemala, Uncoal in Myanmar, British Petroleum in Columbia, and Shell in Nigeria.

On the other hand, Asiedu’s (2002, 2006) disagreed with the idea that, in the case of political instability, higher returns meant more FDI. She argued that the risk-adjusted return of investments in a politically unstable environment could be too low. In her opinion, the main risk in this case is the uncertainty of government policy, particularly, the risk of policy reversal, especially when it is taken under consideration that the costs of FDI are basically irreversible and generally high (WB, 1994).

The findings of the current study support the significance of the political instability/risk as a determinant of FDI locational decision. The interviewees showed that they were very sensitive to the political instability in Syria. Syria’s ongoing conflict with Israel and its political relationship with Iran, Hamas and Hezbollah in Lebanon have caused the imposition of many international economic sanctions, and affected its political relationship with many countries, especially with the USA. The interviewees argued that this situation deterred many other FDIs from taking place in Syria. This is because these sanctions would have a negative impact upon FDI operations and transaction costs.

On the other hand, the interviews revealed that Syria’s economic transition and opening up activities made foreign investors optimistic regarding the future of their investments in Syria and the future of the Syrian political and economic situation. However, the recent unrest in Syria since March 2011 caused the withdrawal of many FDI projects in Syria. This was even clearer in the case of foreign investors who had not yet started to establish their projects. For example, recently, a mobile company from the United Arab Emirates called *Etisalat* cancelled its $12 billion bid, citing unrest as one of the reasons. Moreover, Qatar Electricity Company froze its plans to build a plant in Syria because of
the current situation (UNCTAD, 2011).

In summary, the discussion above clearly indicates that political instability and poor international relations (especially with important economies and influential political powers, such as the USA and EU) have a negative impact on the Syrian transition economy attractiveness to FDI. In other words, the enhancement of political stability and international relations in the transition economy of Syria (as aspects of its institutional framework) seems to improve Syria’s attractiveness to FDI, which confirms the proposition of the first hypothesis (H1).

7.2.5 Privatization Policy

Botrić and Škuflić (2006) argued that privatization did not always have a positive impact on FDI inflows in transition economies and FDI was most likely to be more interested in small-scale privatization within these economies. On the other hand, Uhlenbruck & De Castro (2000) found that privatization in transitional economies created new opportunities for acquisitions, which can be considered as an interesting motivation for FDI entry to these economies. In addition, Bevan et al. (2004) found that privatization of all kinds encouraged FDI in transition economies. Li and Park (2006) attributed such results to the role of privatization in determining the degree of market openness and providing fair competition and a dynamic labour market.

The findings of the current study seem to be consistent with the findings of the above studies. On the one hand, and in tune with the findings of Botrić and Škuflić (2006), the interviews in this study revealed that the Syrian privatization policy is not likely to play an important role in attracting FDI. The interviewees attributed this to the out of date conditions of SOEs, which would require huge expenses to be upgraded and modernized. This makes the option of starting new projects from scratch preferable. In addition to that, the Syrian government tendency to protect the workers of the SOEs
limits the foreign investors’ freedom regarding laying off the unneeded workforce, which is another discouraging factor for private investment in general and FDI in particular. This is consistent with the findings of Bénassy-Quéré (2007), who argued that employment protection tends to reduce inward FDI.

On the other hand, and consistent with Bevan et al. (2004), the interviews revealed that the Syrian government’s willingness to offer BOT and PPP contracts to private investments created interesting investment opportunities that attracted new FDI, such as the mobile companies and the port terminal operators in Syria. Yet, the interviewees revealed a major concern in relation to the duration of the BOT and PPP contracts which they argued should be long enough to allow FDI the needed time to achieve the desirable profit and to make any further upgrade to the project facilities worth being undertaken.

In summary, the interviews revealed that the privatization activities in Syria have a role (albeit not very strong) as a locational determinant of FDI. Therefore, the findings regarding privatization policy as an institutional factor confirm the first hypothesis (H1).

### 7.2.6 Business Facilitation Activities

As previously mentioned, liberalization policies are increasingly supported by complementary activities that aim at facilitating FDI business in the host country (UNCTAD, 1998). The main business facilitation activities are:

- a) Investment promotion activities
- b) Investment incentives
- c) Efficient administration
- d) Social amenities and infrastructure

The interviews highlighted the role that business facilitation activities can play as
locational determinants of FDI inflows. This section discusses the findings regarding the role of these activities in this regard. In order to avoid repetition, this section is divided into two parts. The first part discusses the findings related to the role of the promotion activities, efficient administration and social amenities and infrastructure. The second part discusses the findings related to the role of investment incentives in determining the locational decision of FDI.

7.2.6.1 Promotion activities, efficient administration and social amenities and infrastructure

Emerging markets and transition economies offer foreign investors interesting investment opportunities after liberalizing their FDI policy frameworks, but they still need to work on building a new image for their investment environment, which used to be perceived as unfriendly for FDI (UNCTAD, 1995, 1998). Therefore, Wells and Wint (2000) argued that countries that sought better responses of FDI to their FDI policy liberalization efforts needed to carry out promotional activities, especially under the recent intense competition to attract FDI that was caused by the entry of new players, i.e. emerging and transition economies.

Similarly, the interviewees in the current study indicated that opening up the Syrian economy and carrying out all the reforms discussed in the previous sections must be accompanied by promotional activities that can draw the attention of foreign investors to these efforts. They attributed the necessity of these activities to the need to change the general impression of foreign investors regarding the Syrian economy as closed and unfriendly to FDI, in order to make them interested in investing in Syria. In addition to that, the interviews also revealed the important promotional role of the following:

1. Better international relations (as was discussed in section 7.2.4). For example, Turkish investors met in this study emphasised the fact that the improving
political relationship between Syria and Turkey draw their attention to Syria as a prospective location for their FDI.

2. Consistent with the argument of Wells and Wint (2000), the findings of the current study highlighted the promotional role of providing investment counselling services. In addition, the interviewees pointed out the contribution that could be added by providing such a service in the language of the foreign investors. To be precise, the availability of lawyers and consultants who speak the language of the investor (especially Arabic and Turkish) played an encouraging role in relation to promoting Syria as a destination for FDI. The interviewees explained this by saying that answering the inquiries of the foreign investors in their own language made them feel more reassured regarding any confusing issue. In other words, this service enhances the transparency of regulations and administrative practices and reduces the confusion among foreign investors. These findings are consistent with those of Blonigen and Piger (2011) who identified common language as an indicator of cultural proximity between FDI host and home country that had a positive impact on FDI inflows.

3. In agreement with the research of Li et al. (2012), the findings of this study supported the promotional role of the presence and the experience of other foreign investors in Syria, such as major banks and well-known MNEs. This is basically because of the positive signs that such presence and success gives regarding the certainty of the investment environment in general, risk levels and the financial services offered for FDI. In contrast, it would not be encouraging for a prospective foreign investor to receive poor feedback from a present or former investor in Syria. In other words, the success in attracting foreign investors and giving them a good experience in the Syrian economy would have a snowball effect in terms of attracting other foreign investors.
In relation to the above argument, other business facilitation activities (i.e. efficient administration, social amenities and infrastructure) play an important role in this regard since they have a clear impact on the experience of foreign investors in Syria.

In terms of efficient administration, the interviewees in the current study indicated that the failure of the Syrian Investment Authority in facilitating the investment procedures and the improper behaviour of incompetent public sector staff, for example, had a direct impact on their experience and impression about the investment environment in Syria. These findings support the argument of other studies (e.g. Young and Hood, 1994; UNCTAD, 1995, 1998), that host countries are increasingly advised to make more efforts regarding after investment services including day-to-day operational matters.

In regard to infrastructure, it is clear from the findings of the current study that incomplete infrastructure also influences the experience of FDI in Syria. This is because of the extra costs that incomplete infrastructure can cause for both manufacturing and service FDI. For example, as it is clear from the interview with the food manufacturer GM-M12, that unsuitable roads or port facilities mean delays in goods’ shipping and transportation dates, which in turn can cause fines for late delivery. These findings support the results of previous studies that explored FDI locational determinants within different contexts and sectors (e.g. Asiedu, 2002, 2006; Li and Park, 2006; Pusterla and Resmini, 2007; Kinda, 2010; Mottaleb and Kalirajan, 2010; Vijayakumar et al., 2010; Villaverde and Maza, 2011; Yin, 2011; Groh and Wich, 2012).

4. The interviews also revealed that joining international organizations, such as joining the WTO and signing the EU partnership agreement, has a promotional role in relation to Syria as a destination for FDI. They attributed this role to the
idea that joining such organizations could be considered as a positive sign regarding the investment environment, political situation and risk level in Syria. In addition, they argued that joining such organizations would show that the transition economy of Syria is achieving further integration within the global economy and following more international rules and standards. This means achieving a more standardised and less confusing regularity framework in the Syrian economy.

Finally, the findings suggest that Syria’s membership or partnership with international trade entities and organizations would improve the Syrian product quality and standards to match international standards, as these agreements require. In other words, this would lead to achieving standardised product quality, which is important for FDI.

7.2.6.2 Investment incentives

UNCTAD (1998) indicated that there was considerable evidence (e.g. Guisinger et al., 1985; Guisinger, 1992; HUallachain and Satterthwaite, 1992) that investment incentives had only a minor role as a locational determinant of FDI relative to other locational advantages, such as economic stability, market size and production costs. This is because these studies revealed that MNEs usually make their FDI locational decisions based on long-term strategic considerations concerning markets and production costs, while investment incentives might not even be considered. Similar findings were also revealed by other recent studies that focused on developing and transition economies (e.g. Pusterla and Resmini, 2007; Cleeve, 2008). In fact, UNCTAD (1998) assumes that the role of investment incentives is limited to the specific locational choice within a region or a country that was chosen previously, based on other locational determinants.

The findings of the current study appear to disagree with the above argument. They revealed a clear influence of fiscal incentives (e.g. exemptions from import duties,
reduction of the standard corporate income-tax rate and tax holidays) and financial incentives (e.g. government grants) on foreign investors’ decisions to choose Syria as location for their investments. For example, the interviewees asserted that the tax holiday offered to new investments by the Law No.10 of 1991 was useful to overcome routine and other procedural problems in the early stages of these investments when they would not be making any profit. Consequently, the interviewees were very disappointed when the new Syrian investment law, i.e Law No.8 of 2007, cancelled the tax holiday.

The findings of the current study revealed that the role of financial and fiscal incentives as FDI locational determinants was clearer in the manufacturing sector compared with the service sector. This was basically because these incentives contributed more to the final product cost in the manufacturing sector, and, therefore, determined the competitiveness of these products. For example, the interviews revealed that the various taxes and custom duties that foreign investors in the agro-industries in Syria had to pay reduced the competitiveness of their products and, in some cases, forced them to withdraw their investments. This argument not only supports the proposition of H1, but also the proposition of H4. In other words, the above discussion provides evidence that manufacturing FDI in Syria is efficiency seeking investment and service FDI in Syria is more likely to be market seeking investment.

In summary, business facilitation activities discussed in this section have influenced foreign investors’ decision to choose Syria as their investment location. This is because of their impact on the foreign investor’s experience, the simplicity of the project establishment process and the investment transaction costs, in addition to their promotional role. Therefore, it can be said that business facilitation activities as institutional factors can enhance the Syrian transition economy’s attractiveness to FDI,
which confirms the first hypothesis (H1).

To sum up the above discussion of the findings regarding the role of institutional factors as determinants of FDI inflows to the transition economy of Syria, it can be said that all institutional factors discussed above (economy openness, FDI liberalization policies, trade liberalization policies, political stability, improving international relations, privatization policy, and business facilitation activities) have had an important impact on the attractiveness of the transition economy of Syria to FDI.

These trends are consistent with and support the first hypothesis, \textit{H1: Institutional reforms enhanced Syria’s attractiveness to FDI and motivated foreign investors to enter its market.}

7.3 \textbf{Previous Experience and Cultural Proximity}

Investing in a transition economy while it is being liberalized is a challenge that not every foreign investor is willing to take. Administrative practices inherited from the previous Socialist economy and the rapid change in the institutional environment could be very frustrating for foreign investors (Bevan and Estrin, 2004; Bevan et al., 2004; Estrin and Meyer, 2004; Estrin et al., 2005; Estrin et al., 2000). Peng (2000) employed Dunning’s (1988) eclectic paradigm to find out what determines the failure and the success of an MNE in a transition economy. He argued that a MNE that had expertise in dealing with transition economies would have a stronger position within these economies. He also stated that institutional and cultural characteristics of MNEs’ home countries were most likely to influence how they did business abroad.

In the current study, the findings discussed so far revealed the ineffectiveness of the Syrian economic transition in creating the desirable market-based economy that could attract more FDI. Similar to other transition experiences, the efforts of the Syrian government in this regard have been slow, complicated, sporadic and unpredictable.
This situation created incomplete institutional frameworks and has led to the emergence of blurred legal frameworks, rigid bureaucracy and corruption.

On the other hand, consistent with the findings of Peng (2000), it was obvious that the conditions of the transition economy of Syria were less daunting when foreign investors had previous experience in the Syrian economy or in an economy with similar conditions. This was basically because of their better ability to form realistic expectations about the investment environment and what they might face during establishing and running their projects. Therefore, those foreign investors with such experience were well prepared and had developed suitable skills to deal with an investment environment that was similar to that of Syria, or even worse.

Having a Syrian partner was the main strategy that seemed to be followed when foreign investors did not have such previous experience, as discussed before. In some cases, foreign investors found having a strategic Syrian partner a necessity even when they had previous experience in the Syrian economy. In this case, the strategic Syrian partner was the key solution for many administrative problems through his personal experience and connections within the investment location.

The above is in line with the findings of previous research that explored FDI entry strategies in transition economies (Clarke et al., 2012; Ahsan and Musteen, 2011). For example, Li and Meyer (2009) proposed that local partners were very helpful in many ways for running and managing an investment in a foreign location. Meyer et al. (2009) argued that when MNEs wanted to have access to local resources, especially intangible ones, in transition economies, they preferred joint venture as their entry strategy because of the underdeveloped local institutions in these economies. On the other hand, Estrin et al. (2009) argued that the previous experience that a foreign investor might have in a transition economy, especially in the case of previous local presence, made having a
local partner less important, and the challenges of managing such a relationship unnecessary.

The difference here, in terms of the findings of this study, is that the previous research about FDI entry modes discussed when and why a local partner/joint venture entry mode was preferable. This research, however, highlighted the role that local partner could play in encouraging a foreign investor to invest in a certain location in the first place, in addition to why and when this role was most needed. The findings indicated that when the institutional reforms in a transition economy had deficiencies and were not enough to encourage FDI to take place, the previous experience of the investor in dealing with similar circumstances moderated these deficiencies and their negative influences. However, when this previous experience was lacking, the presence of a local partner formed a substitute for the previous experience, especially when the local partner could bring extra funding and access to other resources when needed.

Recently, some writers have noted that cultural and geographical proximity played a similar role to that of having previous experience in the Syrian economy or in an economy with similar conditions. Procher (2011) found that the distance between the FDI home country and the host country (measured by cultural and geographical proximity) influenced the locational decision of FDI. She argued that this was due to the impact that those factors had upon the risk and transaction costs associated with FDI. Blonigen and Piger (2011) also found that FDI host- home countries’ cultural distance variables in their model (common official language, common language overlap and colonial relationship) had an impact, albeit a weak one, upon FDI inflows into their sample of host countries. Du et al. (2011) applied Hofstede’s (1994) cultural values to measure the cultural diversities and distance between the transition economy of China as a host for FDI and the source countries of that FDI. Then, they studied how the
interaction of economic institutions’ characteristics in various Chinese regions with the cultural distance from the source countries influenced the inflows of FDI into these Chinese regions between 1993 and 2001. At the end of their study, they found that FDI from sources with greater cultural distance from China exhibited stronger aversion to Chinese provinces with weaker economic institutions. However, they indicated that this reaction was weaker in the case of joint ventures compared with fully foreign invested enterprises.

On the other hand, Shi and Hoskisson (2012) argues that an MNE’s choice to expand to countries that are geographically and culturally close to its home country can negatively affect the advantages of foreignness. For example, when an American MNE invests in South Korea it can take advantage of the so called ‘gender arbitrage’ by breaking the prevalent social prejudices against working women in South Korea and hiring talented female employees who usually earn 37% less than males in South Korea. In contrast, this will not be possible if the American MNE chooses to invest in Canada, due to the geographical and cultural proximity between the two countries.

In this study, it was found that cultural and social proximity between the host country (i.e. Syria) and some home countries in the sample (e.g. Turkey and Iraq) played a similar role to that of having previous experience. To be precise, it was noticed from the interviews that these factors reduced the negative influence of some deficiencies in the institutional framework such as the ambiguity in the policy framework. It was also found that cultural and social proximity played a role in reducing the hesitation of foreign investors when taking an investment decision by positively influencing their anticipation regarding the level of risk associated with the investment. This was basically by making them feel more familiar with the investment context and more confident of their ability to deal with the investment conditions in the new location.
However, when social and cultural factors were not strong enough, and when a foreign investor did not have enough experience in Syria or a similar economy, the Syrian partner played a strategic role in reducing institutional barriers in general.

Nevertheless, the findings in the current study show that the influence of social and cultural factors and previous experience on the locational decision of FDI varies according to the nature and the size of the foreign investor, which is now explained.

In terms of the nature of the foreign investor, the interviews revealed that the influence of these factors on the locational decision of FDI is stronger and more important when the foreign investor is an individual rather than as a MNE. This may be due to the fact that the characteristics and the mentality behind each of these two types of investors are different. To be precise, the research findings indicate that individual investors are likely to give up quicker than MNEs if they face ambiguity or bureaucratic problems at the early stages of their investments. This is because individual investors’ hesitation and fear of non-business risk seem to be more sensitive to such problems compared with MNEs. However, when such individual investors have previous experience with such situations and/or are culturally and socially close to the investment location, their sensitivity to such problems is reduced.

These findings are consistent with the argument of Shi and Hoskisson (2012), who argued that compared with individuals, MNEs are usually larger, have broader investment strategies and usually develop skills and routines to manage complexities and to overcome procedural problems. In addition, Aharoni and Ramamurti (2011: p.129-130) stated that “established MNEs have learned how to manage across national borders, and how to adapt to different markets and cultures. They have also learned how to collaborate in strategic alliances rather than seeking to be stand-alone superstars”.

203
As regards the size of the foreign investor, the findings also reveal that social and cultural factors and previous experience seem to be less important for large firms than smaller firms, in relation to their FDI locational decisions. This is because large firms are more willing and have better ability to overcome various obstacles in the investment environment, compared with small firms. These findings confirm the argument of Hashai (2011: p.336) who argues that “large firms have more resources to establish and coordinate internationally dispersed activities and are well-positioned to develop global brand names and exploit economies of scale and scope globally”.

In brief, based on the discussion above, the findings revealed that foreign investors’ previous experience in Syria or in an economy with similar conditions to Syria’s economy encouraged them to invest in the transition economy of Syria. On the other hand, the findings also revealed that it was not necessary for foreign investors to have such experience in order to invest in the transition economy of Syria. This was because the interviews revealed that having local partners replaced foreign investors’ need for previous experience in Syria or in an economy with similar conditions. In addition, the findings also showed that when the foreign investor was from a country that was culturally close to Syria, the need for a local partner as well as the need for the previous experience became less important. Finally, the findings revealed that the type and the size of the foreign investors influenced the significance of all these factors (foreign investor previous experience, local partner and cultural proximity) in relation to their decisions to invest in Syria (as discussed above).

### 7.4 Economic Determinants of FDI

This section discusses the findings regarding the three categories of FDI economic locational determinants illustrated in the analytical template in section 5.4.3.3 (Appendix 4, p.286). These categories are:
- Market seeking motivations
- Efficiency seeking motivations
- Resource/asset seeking motivations

### 7.4.1 Market Seeking Motivations

The majority of previous studies concerning developing countries, emerging markets and transition economies agreed that, market factors and efficiency factors (especially low labour cost) were the dominant motivations for FDI (e.g. Procher, 2011; Moreira, 2010; Asiedu, 2006; Vijayakumar et al., 2010; Mottaleb and Kalirajan, 2010; Ramirez, 2010; Walch and Wörz, 2012).

In terms of market seeking motivations, rapidly growing economies, such as India, China, and those economies which were in course of transition to market based economies provided MNEs with very tempting market opportunities. The huge demand for various goods and services that local firms failed to offer was a main driver for FDI in these economies (Wild et al., 2010). This may explain why Pusterla and Resmini (2007) found that manufacturing FDI in their sample of transition economies was demand driven rather than cost efficiency seeking. In addition to that, they found that the role of country risk factors and fiscal and financial incentives in this regard was marginal.

Similarly, the findings of this study revealed that the majority of the interviewees, in both manufacturing and service sectors, invested in Syria to take advantage of the various market opportunities that emerged after the economic liberalization efforts undertaken by the Syrian government. This was more noticeable in the case of investors who started their investments after the transition decision was taken in 2005 (who constituted the majority of the sample). The opening up of the Syrian economy and the decision to adopt a market-based ideology created an opportunity for FDIs to take
advantage of the Syrian market growing demand for many products and services.

In addition, Syrian trade policy liberalization efforts, bilateral free trade agreements and Syria’s geographical location for countries that were parties to these agreements provided significant expansion of market opportunities from which FDI could benefit. This matches Mottaleb and Kalirajan’s (2010) and Asiedu’s (2006) suggestions that opening up trade policy and integrating with other economies, regionally and globally, allows smaller economies to be more competitive as destinations for FDI by expanding the market opportunity that FDI can benefit from.

7.4.2 Efficiency Seeking Motivations

The findings of the current study also reveal that many of the interviewed manufacturing foreign investors located their investments in Syria to take advantage of various factors that they expected to contribute to their efficiency while, in some cases, they were also able to benefit from the market opportunities discussed above. This was very clear in the case of Turkish investors, who found that investing in Syria enhanced their efficiency through allowing them to take advantage of Syria’s lower taxes, cheaper workforce and cheaper energy. In addition, Syria’s geographical location, as a neighbouring country to Turkey, made transportation cheaper and added more value to the efficiency seeking motivations of Turkish investors in Syria. These findings are consistent with those of, for example, Procher (2011) and Walch and Wörz (2012) who found that low labour cost and the low cost of other production inputs played an important role in the locational decision of FDI in transition economies.

On the other hand, the fact that previous studies followed a purely econometric methodology prevented any flexibility in explaining their findings and, in most cases, they limited efficiency factors to labour cost only (Appendix 1, p.254). However, it was clear from the findings of the current study that efficiency factors cannot be limited only
to labour cost, or even production inputs in general, for other different scenarios in which efficiency factors can be generated from investing in Syria were revealed. For example, in some cases, products’ characteristics that could be achieved from investing in Syria enhanced the efficiency and, therefore, the competitiveness of the investment. In the case of FDI projects in the petrochemical sector is Syria, for instance, it was obvious that being closer to customers was the main factor that enhanced the competitiveness of the project, since it gave the producer (the foreign investor) the ability to provide a better product for a cheaper price and under more convenient conditions. This was because imported petrochemical products cannot be as concentrated as if they were locally produced due to safety concerns during transportation. In addition, petrochemical products that are locally produced and dispatched are more convenient for customers since they can order a smaller quantity that could even be delivered the same day; imported products could not compete with this. Finally, locally produced petrochemical products have lower transportation and insurance costs, which also make them cheaper than imported products.

It was also noticed that efficiency seeking foreign investors are most likely to become market seeking too, if this was not the case from the beginning, tempted by the market opportunities highlighted above. For example, benefiting from trade liberalization initiatives, bilateral free trade agreements and regional integration agreements (i.e. GAFTA), many foreign investors met in this study were able to import their raw materials from any country that is party to these agreements and then export the Syrian products to any of these countries’ markets duty free. This has made it logical for foreign investors to combine both efficiency seeking strategies and market seeking strategies in relation to their decisions to invest in Syria.

However, the above findings are only related to FDI in the manufacturing sector and are
not applicable to FDI in the service sector. This is because the various services that were covered in the interviews (e.g. hospitality and health sectors) cannot be exported. In addition, no evidence was found of other possible efficiency seeking motivations for FDI in the service sector in Syria. For example, consistent with the findings of Botrić and Škuflić (2006), the findings of the current research showed that cheap labour was not relevant to FDI in the service sector in Syria, and market opportunity was the main motivation within this sector. Thus, it can be said that FDI in the service sector in Syria was mainly market seeking investment. This is consistent with the literature reporting that market size was more important for the service sector as a locational determinant of FDI than it was in the manufacturing sector, and labour cost was more significant as a locational determinant in manufacturing FDI than it was in services FDI (e.g. Békés, 2005; Pusterla and Resmini, 2007; Riedl, 2010; Yin, 2011).

7.4.3 Resource/Asset Seeking Motivations

Resource and asset seeking strategies seem to be neglected in the recent literature that explored FDI locational determinants, especially in relation to those studies that focused on transition economies (e.g. Resmini, 2000; Bevan and Estrin, 2004; Bevan et al., 2004; Javorcik, 2004; Pusterla and Resmini, 2007; Cuervo-Cazurra, 2008; Javorcik and Wei, 2009; Riedl, 2010). Before that, the UNCTAD (1998) witnessed that the importance of host country’s endowment of natural resources as a locational determinant of FDI started to decline in the 1970s, and Dunning (2000) attributed the declining portion of resource seeking FDI to a number of reasons, such as the miniaturisation of product components, better recycling techniques, product innovation, and use of synthetic materials as substitutes for natural ones.

This lack of strong evidence of the importance of resource-seeking motivations as FDI locational determinants in the recent literature can be attributed to a number of other
reasons. For instance, it could be that the countries that the previous studies included in their samples had a scarcity of natural resources or other types of assets that FDI might seek. Therefore, when such studies (e.g. Asiedu, 2002, 2006; Moreira, 2010) took place in African countries that were rich in natural resources, the focus and the findings highlighted a clear impact of these resources upon the locational decision of FDI. Another explanation might be the rigidity of the econometric methodological approaches followed by previous researchers in studying the locational determinants of FDI within their countries sample. This rigidity was manifested in terms of the locational determinant factors (independent variables) that were included in the analysis, and in terms of the range of sectors and industries included in their samples. In these studies, the locational determinant factors were picked up prior to the data collection and the samples were general, without any ability to focus on or to reveal in depth the views of a certain industry.

The above discussion is supported by the current study’s observation of resource/asset seeking strategies as locational determinants of FDI in Syria, which showed that their role was limited but not negligible. The limitation was in terms of the type of industry and the role that these factors played. First, these factors were only important for certain industries such as agricultural, mineral and other extracting industries, which logically prefer to locate themselves where their raw materials are. Second, resource/asset seeking strategies alone were not enough and were always accompanied by efficiency and/or market seeking strategies. It must be noted here that the interviews showed that it makes no difference which economic motivation (market motivation, efficiency motivation or resources motivation) was major and which was complementary, and the most important issue was that those strategies were combined to create and exploit a profitable investment opportunity.
In this sense, when a FDI project cannot have market or/and efficiency factors in the location where its resources or assets are, it will be located in a different location that has such factors, with the ability to have access to resources in the same location or another (for example, by importing them, when it is possible and financially efficient). Therefore, it is clear from the findings of this study that while the Syrian government trade policy initiatives and trade agreements enhanced the role of market and efficiency strategies as locational determinants of FDI in Syria, they made the lack of some resources (such as raw materials of some industries) less important, since they could be easily imported from other countries that were parties to these agreements. This reveals another explanation for the weak evidence in the recent literature of the importance of resource and assets seeking motivations as locational determinants of FDI.

Finally, the findings of the current study also revealed that the role of resources/assets seeking motivations as locational determinants of FDI in Syria was not limited to manufacturing FDI only and they could be followed by FDI in the service sector too (such as the case of boutique hotels that rely on traditional and historical buildings for their FDI in Syria). The difference here was that resources/assets seeking motivations were less common in relation to FDI in the service sector. In addition, FDI in the service sector focused only on market opportunities that could accompany the resources and assets that they could find in Syria, while manufacturing FDIs considered both market and efficiency factors, either separately or simultaneously.

In summary, the findings and the discussion above showed clearly that FDI projects that took place in the transition economy of Syria always had an economic motivation for their decision to locate themselves in Syria. This could be a market opportunity, efficiency factors or/and natural and strategic resources (which confirms H2). However, market motivations and efficiency strategies were dominant and a limited role was
observed in relation to resource/asset factor endowment (which confirms H3). Moreover, while market opportunities were the main motivation for FDI in the service sector, market seeking and efficiency strategies were equally important for manufacturing FDI in the transition economy of Syria (which implies a slight amendment to the fourth hypothesis).

7.5 Conclusion

The above sections discussed the research findings in the light of the relevant literature and at the same time compared their patterns with the hypotheses previously proposed based on the literature review. By doing so, the hypotheses were tested and any needed explanations and necessary amendments to the hypotheses were provided (as discussed in Section 4.7).

At the end of this comparison it was found that the institutional factors explored in this study (i.e. economy openness, FDI liberalization policies, trade liberalization policies, political stability, improving international relations, privatization policy, and business facilitation activities) had an important impact on the attractiveness of the Syrian transition economy’s investment environment to FDI, which confirms the first hypothesis **H1: Institutional reforms enhanced Syria’s attractiveness to FDI and motivated foreign investors to enter its market.**

In addition, the discussion provided in this chapter showed that foreign investors in the transition economy of Syria always had an economic motivation to choose Syria as location for their FDI, which could be market opportunity, efficiency factors or/and natural resources. This confirms **H2: MNEs require not just institutional improvement, but also economic motivations when choosing to invest in Syria.** Furthermore, it appeared from the findings and the discussion in this chapter that market and efficiency factors were the main motivations for FDI in the transition economy of Syria, which
confirms **H3: Market seeking and efficiency seeking strategies are the major economic motivations for FDI in Syria.**

Moreover, the findings and the discussion also revealed that while market opportunities were the main motivation for FDI in the service sector, market and efficiency factors were equally important for manufacturing FDI. Hence, these findings implied a need for slight amendment to **H4: While manufacturing FDI in Syria is more likely to be efficiency seeking investment, service FDI in Syria is more likely to be market seeking investment**, which assumes that manufacturing FDI in Syria is more likely to be only efficiency-seeking investment.

Finally, the findings revealed that the Syrian economy transition created an incomplete institutional framework and led to many barriers to FDI. Therefore, investing in the transition economy of Syria whilst it was being liberalized was a challenge that not every foreign investor was willing or able to take. On the other hand, foreign investors’ previous experience in Syria (or in an economy with similar conditions), cultural proximity and/or the presence of local partners made it easier for foreign investors to overcome the various obstacles in the Syrian investment environment and, therefore, encouraged them to invest in Syria, as discussed in Section 7.3.

The following chapter concludes the research and presents a reflection of the previous discussion and findings on answering the main research question: **To what extent have institutional reforms affected FDI inflows into Syria and are they sufficient by themselves to explain the growth of FDI inflows into Syria during the period under study?**

Then, policy implications, the contribution and the limitations of this research are presented.
8 Chapter Eight: Conclusion

8.1 Introduction

In 2005, the Syrian government announced the adoption of the Social Market Economy as its new ideology for the Syrian economy, replacing the previous Socialist model (Al-Dardari, 2006). This decision was taken because the Syrian government became convinced that the Syrian economy would not achieve any significant growth unless it was fully revised, legally and institutionally, so as to allow the private sector to play a dynamic role in driving the economy forward. Within this, FDI was to play a major role. Indeed, attracting more FDI was seen as vital to the success of the Syrian economic transition. This is because FDI can speed up the transition process and contribute to the host country’s growth (Borensztein et al., 1998; Basu et al., 2003). The aim of this study, therefore, is to determine the extent to which the Syrian government’s institutional reforms were effective in enhancing the attractiveness of the Syrian investment environment to FDI and to identify the role of other FDI locational determinants in this regard. For this purpose, the above aims were translated into the following research question:

*To what extent have institutional reforms affected FDI inflows into Syria and are they sufficient by themselves to explain the growth of FDI inflows into Syria during the period under study?*

The above research question was addressed by following a qualitative research strategy based on the exploration of the perceptions of the key people involved in making the locational decision of FDI in Syria, namely, the foreign investors themselves, their investment consultants/lawyers, Syrian partners and regional managers of FDI projects.
This chapter provides a summary of the key findings of this research, as well as showing how these findings answer the research question. Then, this chapter explains the various ways in which this research contributes to the literature. Thereafter, policy recommendations and implications of this study are highlighted. Finally, this chapter ends by explaining the study limitations and giving recommendations for further research.

8.2 Summary of Key Findings

The analysis of the interviews confirmed that the institutional factors explored in this study, including policy framework for FDI and business facilitation activities, had a positive impact on the attractiveness of Syria’s investment environment to FDI.

To begin with, economy openness activities in Syria, characterised by the reform of the banking sector and the transition to a market-based economy, have opened the Syrian market to FDI in sectors that were previously closed. In addition, the institutions of the market-based economy provided protection for FDI against many types of risk, such as expropriation and nationalization, which has created a friendlier investment environment. Similarly, market liberalization activities had a positive impact on foreign investors’ perceptions of the Syrian investment environment by removing various market distortions, providing better supervision of market activities and improving positive standards of treatment of foreign investors.

It was also found in this study that the Syrian trade policy liberalization initiatives and trade agreements that Syria signed have enhanced the attractiveness of the transition economy of Syria to FDI. This was because of the role that these initiatives and agreements played in providing access to other markets and various efficiency factors from which FDI in Syria can benefit. On the other hand, the interviewees showed concerns regarding political instability in Syria and Syria’s poor relationships with some
other countries, such as the USA. This was because of the negative impact of these concerns on the competitiveness of FDI in Syria.

The findings of this study also showed that business facilitation activities could positively reinforce the above policy factors, thereby enhancing the attractiveness of Syria as a destination for FDI. For instance, various promotional activities were necessary to attract the attention of foreign investors and to change their general impression regarding the Syrian economy as closed and unfriendly to FDI. In addition, investment incentives were encouraging for FDI, mainly in the manufacturing sector, due to their positive impact on production costs and, therefore, on project competitiveness. On the other hand, the incompetence of public sector staff and the inefficiency of the Syrian Investment Authority in facilitating the investment procedures had a negative impact on foreign investors’ impressions about the investment environment in Syria. This was because, as a result of these factors, foreign investors often found themselves facing rigid bureaucracy and corruption.

However, the research revealed that the above problems were less daunting when foreign investors had previous experience in the Syrian economy or in an economy with similar conditions. This was basically because those foreign investors with such experience were well prepared and had developed suitable skills to deal with an investment environment that was similar to that of Syria, or even worse. The research findings also revealed that foreign investors found having a strategic Syrian partner a necessity when they did not have such experience. This was because the Syrian partner in such a situation was the key solution for many administrative problems, through his personal experience and connections within the investment location. Indeed, the need for a local partner became less important when cultural and social proximity between foreign investors’ home countries and Syria was strong enough to eliminate investors’
concerns regarding the weaknesses in the institutional environment and the investment conditions in Syria. This was because foreign investors who were culturally and socially close to Syria felt more familiar with Syria’s investment environment and more confident of their ability to deal with the investment conditions in Syria.

However, and importantly, this research revealed that the above institutional factors were not by themselves sufficient for determining the locational decision of FDI in the transition economy of Syria. This is because, although institutional factors were important, foreign investors always had to have economic motivations to invest in Syria to ensure the profitability and the competitiveness of their FDI projects. These could be market seeking motivations, efficiency seeking motivations, or resource/asset seeking motivations. Indeed, the research reveals a relationship between institutional factors and economic motives. This is because institutional change opened the Syrian economy to FDI, which enabled foreign investors to benefit from the economic factors in Syria. This can be seen, for example, in relation to the Syrian government’s trade policy liberalization initiatives. This is because Syrian trade policy liberalization efforts and free trade agreements provided significant expansion of market opportunities from which market seeking FDI could benefit. This conclusion matches the findings of Agosin and Machado (2007) that the liberalization of FDI polices operates as an enabling factor for FDI, but that other locational advantages are paramount in determining the locational decision of FDI. In addition, this conclusion also explains why enhancing the institutional environment and liberalizing FDI policy frameworks have not always been associated with increased FDI inflows (Loree and Guisinger, 1995; UNCTAD, 1998; Asiedu, 2002).

The research found that market and efficiency factors were the main economic motives behind FDI in Syria. However, a difference was found between FDI in the
manufacturing sector and FDI in the service sector. While market opportunities were the main motivation for FDI in the service sector, market and efficiency strategies were equally important for FDI in the manufacturing sector. Moreover, in the manufacturing sector, market economic motivations were often synergistically linked with efficiency factors as an attractor of FDI. Efficiency factors included, for example, relatively low cost labour, cheap energy and cheap transportation. Yet, in the service sector, this positive relationship between market and efficiency economic motivations was much less apparent. Indeed, it was clear from the research findings that FDI in the service sector in Syria was mainly market seeking investment.

In relation to resource/asset seeking motives, the research revealed that their role as FDI locational determinants in Syria was only important for certain industries such as agricultural, mineral and other extracting industries, which logically must be located where their raw materials are. Even so, the research revealed that FDI in these industries did not follow a pure resource/asset seeking motive, but always had efficiency and/or market economic motives too. In the service sector, resource/asset seeking motives were much less apparent as locational determinants for FDI. Only in a few cases, FDI in the service sector had its main market seeking motives associated with resource/asset seeking motives.

8.3 Study Contribution

Principally, this research contributes to the literature of FDI locational determinants in many interrelated ways.

First, unlike the majority of previous research, this study explored FDI locational determinants in transition economies within a new geographical region, i.e. Syria, which has not been empirically explored regarding this point before. Exploring FDI location determinants within this new context strengthens our understanding of the locational
decision of FDI. In addition, even though the current study focuses on the Syrian economy as a recent case of a transition economy, the findings are not limited to the context under focus, but they complement and supplement the findings of other studies that have taken place in similar contexts. In this sense, the links made in the thesis between this research and other attempts to identify FDI locational determinants in transition economies show the broader theoretical significance of this study (Saunders et al., 2009).

Second, the study contributes a novel methodological approach. The majority of the previous studies that explored FDI locational determinants, particularly those that focused on transition economies, used a quantitative research approach, mainly an econometric one (Appendix 1, p.254). This limitation gave rise to a significant need for more open, dynamic, flexible and creative research designs that can reveal the meaning behind the numerical data in previous statistical research. Such designs could capture a broader, more detailed and clearer picture not only of the research context, but also of the locational decision of FDI within this context. For the same reasons, the significant need for qualitative research in international business has been highlighted before by many other researchers (e.g. Young et al., 2003; Coviello and Jones, 2004; Ghauri and Gronhaug, 2005; Sinkovics et al., 2005; Aharoni, 2011). Nevertheless, there has been a lack of qualitative research in international business research (Sinkovics et al., 2005, 2008).

The methodological approach adopted in this study reflects a recognition of and response to this identified research gap. In order to provide insights that could not be offered by the more common quantitative approach, this study followed a qualitative research approach to explore the impact of various locational factors on the locational decision of FDI in the transition economy of Syria. Within this approach, the locational
decision of FDI was seen as a decision made by foreign investors in conjunction with their partners and consultants. Therefore, understanding the impact of the various locational factors on the locational decision of FDI in Syria required the exploration of the perceptions of these key players. Hence, the ontological position for this study was subjectivism, and interpretivism was the epistemological position. These philosophical backgrounds underpinned the choice of a qualitative approach as the research strategy and the semi-structured interview as the data collection method for this study.

Third, this study empirically explains the procedures that can be followed for qualitatively testing research hypotheses, which, as far as the author is aware, has rarely been done before. This is because, usually, researchers assume that interpretivism as a research philosophy implies following the inductive research approach. However, in this study, despite adopting interpretivism as the epistemological position, four research hypotheses were deductively proposed based on the Literature Review. Thereafter, the research hypotheses were tested using the qualitative data collected by semi-structured interviews. The testing was undertaken following the analytical procedures identified by Yin (2009 [2003]) for qualitative data analysis from a deductive perspective. These procedures are pattern matching and explanation building.

In this sense, the deductive and inductive research approaches were integrated to create a new dynamic research design that extends the borders of the quantitative findings about FDI locational determinants. In other words, following this unusual qualitative methodological approach when studying the locational determinants of FDI in this research was necessary to reveal new factors that have an impact on FDI locational decisions and that previous econometric research ignored or neglected, as explained in the next paragraph.

Fourth, this study also contributes to the previous literature in terms of the empirical
findings in two main aspects.

**Firstly**, this study initially focused on institutional reforms as locational factors that host countries can manage and direct towards attracting more FDI inflows. However, this study revealed that MNEs require not only institutional improvement, but also economic motivations to invest in Syria. In other words, the findings of this study revealed that institutional reforms are not sufficient by themselves for determining the locational decision of FDI in the transition economy of Syria. This is because the findings showed that institutional reforms operate as enabling factors for FDI, but that other economic locational advantages are paramount in determining the locational decision of FDI.

This conclusion is important since it implies that any future research on the locational determinants of FDI should consider both types of factors institutional and economic factors. In other words, focusing on institutional factors or economic factors alone would not be sufficient for providing a comprehensive explanation of firms’ internationalisation choices.

**Secondly**, the flexibility of the adopted thematic analysis approach and the template analysis technique allowed the combining of the inductive and the deductive research approaches during the analysis of the interviews. This combination created a more open and dynamic research design compared with the previous econometric studies. This enabled new factors that had impact on the locational decision of FDI in Syria to emerge inductively during the analysis of the qualitative data. These factors (fully explained in Section 6.2.4 and Section 7.3) are:

- Foreign investors having previous experience in the Syrian economy or in an economy with similar conditions.
- Cultural proximity between the FDI home country and the transition economy of
Syria.

- The availability of a local partner.

Recognition of these factors is important as a basis for deeper exploration in future research on FDI locational decisions. In other words, these factors open new avenues for future research on the locational determinants of FDI in transition economies. Moreover, the emergence of these factors as a result of the flexibility of the new methodological approach adopted in this study demonstrates the value of this approach and suggests the desirability of replicating it within other contexts. This is because following our interpretivist approach to explore the locational determinants of FDI within different contexts might reveal more new factors that influence the locational decision of FDI.

The following section, based upon the findings of this study, provides policy recommendations that the Syrian decision makers should take into consideration when designing their future policies to attract more FDI.

8.4 Policy Implications

The research is clear that, despite the transition to a more market-based economy, the Syrian government has to take further steps to make Syria a more attractive destination for FDI. These are:

- First, the Syrian banking sector is still not able to meet the funding needs of both FDI and local investors. Further facilitations and reforms in the banking and the financial sector are needed to give private banks more freedom in deciding their lending strategies and to open the door for big and major international financial institutions that can provide better funding opportunities for private investment.

- Second, as foreign investors are still facing an atmosphere of corruption, bureaucracy and confusion when dealing with Syrian government-affiliated
entities, further efforts are needed to enhance the transparency of laws, regulations and administrative practices. In addition, public sector employees’ quality must be improved to provide better service and to stop them from demanding bribes for doing their jobs.

- Third, the complexities of Syrian labour regulations significantly limit employer flexibility to hire and fire employees and must therefore be addressed. This is most obvious in relation to the ability of foreign investors to use foreign experts within their FDI projects. This is an unattractive factor in the Syrian investment environment that the Syrian government must tackle.

- Fourth, the limitation of ownership rights of foreign investors solely to the industrial zones needs to be removed. This will make foreign investors feel more protected and freer in deciding their investment location and strategies. In turn, this will help in making Syria a more attractive destination for FDI.

- Fifth, the Syrian government should have a clearer vision for the Syrian economic transition, which foreign investors can rely on for their future plans. In addition, the Syrian government should show a stronger political will to support Syria’s economic transition. The research revealed that such a political will was necessary to eliminate corruption and other concerns in the investment environment and to accelerate the transition process. In addition, such a political will can enhance the efficiency of the public sector agencies and also strengthen the positive standards of treatment of foreign affiliates.

8.5 Limitations of the Study and Recommendations for Further Research

This research, like any research, has limitations. The most important limitation of this study is related to the research time horizon. Research could be time focused, like taking a snapshot of the research problem, and in this case it is labelled as a cross-sectional
research. Alternatively, it could explore the research problem development over a given time period, and in this case it is called *longitudinal research* (Saunders et al., 2009).

This research was a *cross-sectional* study that provided a snapshot of the Syrian investment environment and assessed its attractiveness to FDI at a particular time during its transition to a more market-based economy. This snapshot was based on the interviewees’ experience and perceptions regarding the research context, i.e. the transition economy of Syria.

On the other hand, a further *longitudinal study* would have provided an opportunity to follow up the impact of the transition process and further institutional changes on the Syrian economy attractiveness to FDI. However, the current conflict in Syria has prevented the author of this study from taking such an approach. Indeed, any follow up work in Syria is no longer an option.

Nevertheless, the above limitation does not undermine the quality and the significance of the findings of this study (see the Addendum in the next section). Moreover, the qualitative research methodology that has been followed can be applied to similar types of transition economies with the results being compared and contrasted not only with this study but also with previous econometric studies of the same economy/economies.
Addendum: a comment on the impact of the recent unrest in Syria on the research

The success of the people’s revolution in Tunis in forcing the Tunisian president and his family to leave the country on the 14th of January 2011 broke the barrier of fear in the Arab world. This was the first spark that initiated the so called ‘Arab Spring’ that rapidly spread to Egypt, Libya and, later, Yemen, where people were just as eager to get rid of their authoritarian regimes (Jones, 2012; Lesch, 2012). In this sense, the Arab Spring can be defined as “a series of anti-government uprisings in various countries in North Africa and the Middle East, beginning in Tunisia in December 2010” (Oxford Dictionaries, 2012).

Until early March 2011, the numerous attempts of anti-Assad (the Syrian president) activists to join the Arab Spring were not successful and failed to achieve the momentum of the large-scale demonstrations witnessed in Tunisia and Egypt. This confirmed the near universal prediction made by analysts that the Arab Spring uprising was unlikely to happen in Syria very soon (Buckley, 2012; Landis, 2012). This was true until 18 March 2011, when a large scale demonstration took place in a small southern town near the borders with Jordan called Dara’a. The protesters called for the release of about fifteen teenagers aged between 10 and 15 years who were arrested and tortured by the Syrian security forces because, inspired by the Arab Spring slogans, they wrote on their school wall the anti-regime statement, “The people want the downfall of the regime” (Buckley, 2012: p.87).

The Syrian security forces’ rough treatment of the protesters led to the death of at least six protesters, which triggered more violence that spread to the towns surrounding Dara’a, leading to the death of fifty protesters within a week. Consequently, since Friday 25th of March 2011, demonstrations have broken out all over Syria and, for over
a year, the security forces continued responding to the peaceful protests with a heavy hand. As a result, the violence kept escalating causing more death, which has brought Syria close to a civil war (Hasler, 2012; Abouzeid, 2011; Sharp, 2011; Lesch, 2012; Blank and Corn, 2012).

So far, the conflict in Syria has killed over 60000 people (SRMD, 2012), thousands have been arrested, and thousands of Syrian refugees have fled to the neighbouring countries of Turkey, Jordan, Iraq and Lebanon. In addition, the conflict has led to the dramatic destruction of the country’s infrastructure, mainly caused by the regime’s use of heavy weapons and jet fighters to crush the opposition (Byman et al., 2012; Evennett et al., 2012).

This change in the research context raises concerns regarding the quality of the research in the light of the current situation in Syria. As discussed in the Research Methodology Chapter, research quality is commonly assessed based on two criteria: reliability, i.e. the replicability of research (Bryman and Bell, 2007) and validity, i.e. “whether the researcher sees what he or she thinks or thinks what he or she sees” (Kirk and Miller, 1986: p.21).

In terms of the reliability of the research, due to the complexity of the research context of the qualitative study, it is impossible to freeze the circumstances and the social setting of the initial study within such a context. Therefore, it is unrealistic to say that this study, similar to any other qualitative research, is replicable to the extent that the reliability criterion entails (Saunders et al., 2009). In addition, following the ideas of Marshall and Rossman (1999), the findings of the study are not necessarily intended to be repeatable, as long as they reflect the reality in the Syrian economy at a certain time and under certain circumstances, which might change later. Therefore, Chapter Four and Chapter Five provided notes regarding the research design, factors that underpinned the
choice of research strategy and data collection methods, the data collected and the data analysis procedures. These notes provide a better understanding of the research process, the research approach and the final findings presented in Chapter Six (Marshall and Rossman, 1999).

Such transparency in the research procedures provides evidence that clearly explains how the qualitative data were interpreted and allows other researchers to judge the validity of what was done (Sinkovics et al., 2008). Moreover, these notes also allow other researchers to reanalyse the data collected, which also helps in addressing the validity problem (Marshall and Rossman, 1999). In addition, these notes also allow other researchers to make a judgement about the ‘transferability’ of the study findings to other contexts (Bryman and Bell, 2007; Guba and Lincoln, 1985). In other words, although the focus of the current study was the transition economy of Syria, the findings are not only limited to Syria; they also contribute to the findings of past and future research that focuses upon transition economies (Appendix 1, p.254).

Finally, the fact that FDI can promote economic growth (Cipollina et al., 2012; Fadhil et al., 2012; Mandal, 2012) makes FDI even more important than before for the now war damaged Syrian economy (Evennett et al., 2012). However, based on this study’s findings, attracting FDI into Syria requires the reestablishment of political stability in the country, the improvement of the political relationship of Syria with other countries and the rebuilding of the country’s infrastructure. This will also require intensive promotional activities to change the perceptions of foreign investors about Syria as a politically unstable country. Yet, the aforementioned will greatly depend on the characteristics and the economic directions and preferences of the regime in Syria after the war; in other words, whether, or not the regime in Syria after the war is still interested in the market-based ideology and in opening-up the Syrian economy to FDI
as a way to drive economic growth.
REFERENCES


Evans, D. (2010), 'Syria Wants Private Investment in State-Owned Industries' Available at:  


26, No.7: pp. 1299-1314.


Hymer, S. H. (1960/1976), "The International Operations of National Firms, a Study of


IMF (2009), Syrian Arab Republic: 2008 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Syrian Arab Republic. Washington, D.C., International Monetary Fund, Publication Services.


Kojima, K. (1982), "Macro Economic Versus International Business Approaches to


Li, S. & Park, S. H. (2006), "Determinants of Locations of Foreign Direct Investment in


Maxwell, J. A. & Miller, B. (2008), "Categorizing and Connecting Strategies in


Sachs, J. (1993), *Poland’s Jump to the Market Economy,* Cambridge, the MIT Press.


Yin, F. (2011), "Foreign Direct Investment in China's Service Industry: Effects and


Appendices
Appendix 1: Recent Empirical Studies about FDI Locational Determinants
<table>
<thead>
<tr>
<th>Author and year of the study</th>
<th>Regional focus</th>
<th>FDI locational determinants</th>
<th>Methodological approach</th>
<th>Main results</th>
</tr>
</thead>
</table>
- Property rights security seems to be the most influential variable. |
<p>| Agosin and Machado (2007)    | 111 countries which are developed, developing, and in transition. | The index of FDI openness, country size, growth rate of GDP, human capital stock, and institutional quality. | Econometric test using panel data between 1990 and 2002. | “The openness of the FDI regime operates as a factor enabling FDI, but that location advantages are paramount in determining the international allocation of FDI” |
| Asiedu (2006)                | 22 countries in Sub-Saharan Africa (SSA). | Natural resources, market size, government policy, institutions, and political instability. | Econometric approach using panel data from the countries included in the sample for the period 1984-2000. | Market size and natural resources are important for FDI inflows to SSA. Negative effects of corruption and political instability have been observed. Countries which are smaller and/or with fewer natural resources still have the opportunity to attract more FDI inflows through improving their FDI policies and cooperating with other countries in the same region. |</p>
<table>
<thead>
<tr>
<th>Author(s) (Year)</th>
<th>Sample / Context</th>
<th>Variables</th>
<th>Methodology</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bevan et al. (2004)</td>
<td>Transition economies</td>
<td>Privatization, banking sector reform, price liberalization, foreign exchange, trade liberalization, and competition policy.</td>
<td>Econometric approach using a dataset of figures on FDI inflows between 1994 and 1998.</td>
<td>Developing legal institutions, reforming banking sector, liberalizing foreign exchange and trade, improving private sector and privatization have enhanced FDI flows to transition economies. No significant influence for developing competition policy or domestic price liberalization on attracting FDI was found.</td>
</tr>
<tr>
<td>Bilgili (2012)</td>
<td>Turkey</td>
<td>Country Risk Indexes for Turkey, Turkish labour cost, GDP growth (market size), the growth in average prices of high sulphur fuel oil, the electricity price growth, steam coal and natural gas, cooking coal, export growth, import growth, and discount rate.</td>
<td>Econometric approach using state space model and Markov Regime Switching Model. FDI inflows data within this paper covered the period from 1988 first quarter to 2010 second quarter.</td>
<td>FDI growth is correlated positively with Country Risk Index of Turkey, GDP growth, and export growth, whereas it correlates negatively with labour cost, Country Risk Indexes, import and discount Rate.</td>
</tr>
<tr>
<td>Blonigen and Piger (2011)</td>
<td>Worldwide sample of host countries.</td>
<td>Cultural distance, traditional gravity variables, relative labour endowments, per capita GDP, regional trade agreements, multilateral trade openness, host country business costs, host-country infrastructure (including credit markets), and host country institutions.</td>
<td>Econometric approach using panel data from three different sources.</td>
<td>No strong role for the host country economic institution as FDI locational determinants. A positive role, albeit weak, for cultural distance, traditional gravity variables, relative labour endowments, per capita GDP, regional trade agreements.</td>
</tr>
<tr>
<td>Botrić &amp; Škuflić (2006)</td>
<td>7 East Southern European transition economies.</td>
<td>GDP, GDP growth, population, labour cost, ICT, openness, inflation, external debt, service sector share, privatization, financial sector development, private sector share.</td>
<td>Econometric approach using panel data from the countries in the sample.</td>
<td>Economy openness was the only variable significantly supported by the data. Transition progress and trade liberalization appeared to be important too.</td>
</tr>
<tr>
<td>Authors</td>
<td>Region</td>
<td>Determinants</td>
<td>Econometric Approach</td>
<td>Findings</td>
</tr>
<tr>
<td>-------------------------</td>
<td>-------------------------------</td>
<td>---------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Cheng and Kwan (2000)</td>
<td>29 Chinese regions.</td>
<td>Market size, region’s infrastructure, education, preferential policy and labour cost.</td>
<td>Econometric approach using data about every region share of FDI inflows between 1985 and 1995.</td>
<td>All the included variables have positive impact on FDI inflows except the labour cost, which has a negative effect.</td>
</tr>
<tr>
<td>Cleeve (2008)</td>
<td>16 countries in Sub-Saharan Africa (SSA).</td>
<td>Fiscal incentives, political, institutional and other policy variables, good infrastructural development, market size, high skills level, and relative wealth and labour costs.</td>
<td>Econometric approach using data for the period 0990-2000.</td>
<td>Openness, tax holiday and traditional factors (such as market size, infrastructure and labour cost) are important determinants of FDI inflows.</td>
</tr>
<tr>
<td>Clegg and Scott-Green (1999)</td>
<td>EU</td>
<td>European countries’ various characteristics.</td>
<td>Econometric approach using data about FDI inflows from Japan and USA into EU for the period 1984–89</td>
<td>The effects of labour cost on FDI inflows can vary according to the type of FDI that is taking place.</td>
</tr>
<tr>
<td>Cuervo-Cazurra (2008)</td>
<td>Transition economies in CEE.</td>
<td>Corruption</td>
<td>Econometric approach.</td>
<td>Corruption has a negative impact on FDI inflows</td>
</tr>
<tr>
<td>Du et al. (2011)</td>
<td>The transition economy of China.</td>
<td>Economic institutions (contract enforcement, government intervention in business, IPR protection, corruption) and cultural distance.</td>
<td>Econometric approach using panel data for FDI inflows into various Chinese regions between 1993 and 2003.</td>
<td>FDI from sources with greater cultural distance exhibited stronger aversion to Chinese provinces with weaker economic institutions. This reaction was weaker in the case of joint ventures compared with foreign fully invested enterprises.</td>
</tr>
<tr>
<td>Erdal and Tatoglu (2002)</td>
<td>Turkey</td>
<td>Market size and growth, trade openness, infrastructure, economic instability, exchange rate.</td>
<td>Econometric approach using data about FDI inflows into Turkey for the period 1980-1998.</td>
<td>All the included variables seem to play an important role as FDI locational determinants.</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Sample Size</td>
<td>Variables</td>
<td>Methodology</td>
<td>Conclusion</td>
</tr>
<tr>
<td>--------------------</td>
<td>------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Groh and Wich (2012)</td>
<td>172 country sample covering Africa, Asia, Asia Pacific and Oceania, East Europe, Latin America, Middle East, North America and Western Europe.</td>
<td>The legal and political system (the rule of law, regulatory quality, legal enforcement of contracts, political stability, violence, government effectiveness), the business environment (labour cost, taxation, bureaucracy, corruption), economic activity (market size, market potential) and infrastructure (transportation, energy and ICT infrastructure).</td>
<td>Econometric approach using data covering a large number of countries.</td>
<td>Improvements within the emerging and developing countries’ legal and political systems and their infrastructure were crucial to enhance their investment environment attractiveness to FDI.</td>
</tr>
<tr>
<td>Hyun and Kim (2010)</td>
<td>101 countries from all over the world.</td>
<td>Institutional quality, market size, economic integration and common languages.</td>
<td>Econometric approach using a large panel of data from 101 countries covering the period from 1989-2005.</td>
<td>In addition to institutional quality variables, market size, economic integrations and common languages have a positive relationship with M&amp;A inflows while geographical distance negatively affects M&amp;A inflows.</td>
</tr>
<tr>
<td>Jadhav (2012)</td>
<td>Brazil, Russia, India, China and South Africa (BRICS)</td>
<td>Market Size, natural resources, Trade openness, Government Effectiveness, corruption, Political and Macroeconomic stability, Stability (Inflation Rate), Regulatory Quality, Voice and accountability, Rule of Law.</td>
<td>Econometric approach using panel data for a period of ten years (2000-2009).</td>
<td>FDI in BRICS economies are motivated by market size. Natural resources availability is not important and most of the institutional and political determinants are not statistically significant.</td>
</tr>
<tr>
<td>Authors</td>
<td>Sample Size</td>
<td>Location</td>
<td>Methodology</td>
<td>Findings</td>
</tr>
<tr>
<td>-------------------------</td>
<td>--------------------------------------------------</td>
<td>-------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Javorcik and Wei (2009)</td>
<td>22 transition economies in CEE.</td>
<td>Corruption</td>
<td>Econometric approach using a firm level data set covering the period during 1990s.</td>
<td>Corruption has a negative impact on the probability of investing in certain location.</td>
</tr>
<tr>
<td>Kinda (2010)</td>
<td>77 developing countries.</td>
<td>Corruption</td>
<td>Econometric approach using firm-level data.</td>
<td>Weak physical and financial infrastructure have negative impact.</td>
</tr>
<tr>
<td>Li and Park (2006)</td>
<td>The transition economy of China.</td>
<td>Infrastructure, agglomeration economies, and institutional changes resulting from the economic reform.</td>
<td>Econometric approach using a panel data set from different resources.</td>
<td>The variables included in the study had positive impact.</td>
</tr>
<tr>
<td>Mohamed and Sidiropoulos (2010)</td>
<td>36 developing countries, 12 of them in the MENA.</td>
<td>Market size and growth, trade openness, corruption, financial system.</td>
<td>Econometric approach using panel data from 36 developing countries, 12 of them in the MENA, over the period 1975-2006.</td>
<td>All the included variables played an important role as FDI locational determinants.</td>
</tr>
<tr>
<td>Moreira (2010)</td>
<td>Africa</td>
<td>No focus on specific variables.</td>
<td>Overall analysis of recent studies that focused on Africa.</td>
<td>Market size and natural resources have been the dominants FDI attraction in Africa.</td>
</tr>
<tr>
<td>Mottaleb and Kalirajan (2010)</td>
<td>68 developing countries from Latin America, Africa and Asia.</td>
<td>Market size, labour cost, foreign financial aid and host country infrastructure.</td>
<td>Econometric approach using panel data over the period from 2005 to 2007.</td>
<td>There is a significant impact of market size, labour cost and host country infrastructure on FDI inflows. Moreover, receiving a larger amount of foreign financial aid may increase developing countries’ attractiveness.</td>
</tr>
<tr>
<td>Noorbakhsh et al. (2001)</td>
<td>Developing countries</td>
<td>Human capital</td>
<td>Econometric approach using data about FDI inflows into a large sample of developing countries.</td>
<td>Enhancing developing countries’ attractiveness not only for FDI in general, but also for higher quality and more sophisticated FDI requires developing new policies that can foster the build up of more</td>
</tr>
<tr>
<td>Author</td>
<td>Regions or Countries</td>
<td>Determinants and Factors</td>
<td>Methodology</td>
<td>Findings</td>
</tr>
<tr>
<td>-------------------------</td>
<td>----------------------</td>
<td>------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Ramirez (2010)</td>
<td>Nine major Latin American countries (i.e. Mexico, Argentina, Colombia, Brazil, Costa Rica, Uruguay, Ecuador, Peru and Chile).</td>
<td>Market size, government expenditures on education, credit provided by the private banking sector, the level of economic freedom, public investment spending, country risk, and the volatility of the real exchange rate.</td>
<td>Econometric approach using a panel data between 1980-2001.</td>
<td>The study found a significant positive effect on FDI inflows for the following factors: market size, government expenditures on education, credit provided by the private banking sector and the level of economic freedom. On the other hand, a negative significant effect on FDI inflows was noticed for public investment spending, country risk, and the volatility of the real exchange rate.</td>
</tr>
<tr>
<td>Resmini (2000)</td>
<td>Transition economies in CEE.</td>
<td>Market size, labour cost, transition process, the degree of openness.</td>
<td>Econometric approach using recent trends of FDI inflows.</td>
<td>FDI inflows’ responsiveness to market variables varies among the different sectors. Host countries’ progress in terms of their transitions towards market-based economy has stronger influence on FDI inflows in capital intensive and science-based sectors than traditional sectors.</td>
</tr>
<tr>
<td>Riedl (2010)</td>
<td>Eight transition economies.</td>
<td>Market size, labour cost, profit tax, agglomeration economies and transition process.</td>
<td>Econometric approach using data about FDI inflows for the period 1998-2004.</td>
<td>While market size is more important for the service sector as a locational determinant than it is in the manufacturing sector; labour cost is more significant as FDI locational determinant in the manufacturing sector than it is in the service sector. Service FDI responds to policy liberalization and</td>
</tr>
<tr>
<td>Authors</td>
<td>Region/Group</td>
<td>Key factors</td>
<td>Methodology</td>
<td>Findings</td>
</tr>
<tr>
<td>------------------</td>
<td>------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Vijayakumar et al. (2010)</td>
<td>Brazil, Russia, India, China and South Africa (BRICS)</td>
<td>Market size, cost of labour, infrastructure facilities, currency value and gross capital formation, trade openness, economic stability and economic growth.</td>
<td>Econometric approach using annual dataset from the period 1975 to 2007.</td>
<td>Market size, cost of labour, infrastructure facilities, currency value and gross capital formation, play an important role as FDI locational determinants. Trade openness, economic stability and growth, not to be significantly important to FDI inflows. Attracting more FDI requires these countries’ governments developing appropriate policies to maintain more economic stability and reducing inflation, in addition to the need for more liberalization reforms due to the importance of these measures for the overall economy performance.</td>
</tr>
<tr>
<td>Villaverde and Maza (2011)</td>
<td>Spain</td>
<td>Market size, labour conditions, economic potential, and competitiveness.</td>
<td>Econometric approach using panel for FDI inflows into Spain for the period from 1995 to 2005/2008.</td>
<td>Market size was found to be irrelevant at all. The rest indicators were found to be important for attracting FDI.</td>
</tr>
<tr>
<td>Walch and Wörz (2012)</td>
<td>11 transition economies in Central, Eastern and South-eastern Europe, CESEE, (Romania, Bulgaria, Poland, Czech Republic, Hungary, Estonia, Latvia, Lithuania, Slovenia and Slovakia).</td>
<td>Risk, market size, cost factors, infrastructure, trade, and economy openness.</td>
<td>Econometric approach using quarterly data over the period from 1995 to 2011.</td>
<td>FDI in these countries were mainly market and efficiency seeking investments, suggesting that market size and cost factors were the most important locational determinants for FDI in these countries.</td>
</tr>
<tr>
<td>Authors</td>
<td>Study Title</td>
<td>Methods</td>
<td>Findings</td>
<td></td>
</tr>
<tr>
<td>------------------</td>
<td>------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Wang et al. (2011)</td>
<td>The transition economy of China (the choice between Beijing and Shanghai)</td>
<td>Institutional support, path dependency and proximity to superior information</td>
<td>Systematic analysis of questionnaires filled by chief executive officer, president, or senior manager of the Chinese headquarters of MNEs. The study revealed the superior role of proximity to superior information and an important role for the institutional framework in locational decision of MNEs within a transitional economy’s regions.</td>
<td></td>
</tr>
<tr>
<td>Wei (2000a)</td>
<td>The study covered FDI inflows to 45 host countries from 14 source countries all over the world.</td>
<td>Corruption level and taxation rates</td>
<td>Statistical approach. Host countries’ increased level of corruption and high taxation rates have a negative impact on inward FDI.</td>
<td></td>
</tr>
<tr>
<td>Wheeler and Mody (1992)</td>
<td>42 countries, including developed and developing ones.</td>
<td>Bureaucracy and red tape, political and institutional change, distribution of wealth, corruption, expatriate environment, probability of opposition takeover, stability of labour, terrorism risk and the quality of the legal system.</td>
<td>Econometric approach using panel data about US MNE in the 1980s. The mentioned variables are not significantly important for the location choice of US foreign affiliates.</td>
<td></td>
</tr>
<tr>
<td>Zhang et al. (2011)</td>
<td>The transition economy of China.</td>
<td>Market size, market demand, business environment measured by GDP per capital, policy and mega events.</td>
<td>Secondary data analysis using annual data for the period between 1990-2009. All the variables included were very important as determinants for multinational hotels groups’ investment locational choice.</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 2: Interview Guide in English
OPENING

Greeting to: Mr/Mrs/Ms: _________________________________

My name is Mahmoud Alajaty. I’m a full time lecturer at The National Institute of Public Administration (INA) in Damascus, Syria, and a second year PhD student at the University of Hull Business School (United Kingdom). I am conducting a research about Foreign Direct Investment (FDI) locational determinants in Syria. The aim of my research is to identify the role of the institutional reforms and other economic factors upon the locational decision of FDI.

I have reached now the empirical phase of my research, which requires in depth interviews with the key players who are involved in drawing the overall strategy of the foreign projects in Syria.

As you might be aware, the Syrian government has been working since the beginning of the tenth five year plan on establishing a social market economy in Syria instead of the former centrally-planned economy. Therefore, a series of institutional reforms have been taken to provide the Syrian economy with the needed institutional framework to move towards a social market economy.

By conducting these interviews, I aim to achieve the following objectives:

- to determine the role of the Syrian government institutional reforms in enhancing the investment environment and attracting more FDI inflows.
- to determine the institutional reforms that have enhanced FDI inflows into Syria.
- to determine the impact that other economic FDI locational determinants have upon FDI into Syria.
- to identify the differences among foreign investors from different sectors and origins regarding their responses to Syria’s economic liberalization.
Therefore, I will ask you questions regarding the influence of the institutional changes in Syria upon your decision to invest or expand your investment in Syria. Then, I will ask you about other economic factors that motivated you to invest and expand your investment in Syria.

But first, can you please give me an overview of your project and why you decided to invest in Syria?
FDI Locational Determinants

1. Part 1: Policy framework for FDI

   The transition to a market based economy

   1.1. In 2005 the Syrian government decided to abandon central planning and to move towards the social market economy.

   In your opinion, to what extent has this decision made the Syrian economy a more attractive destination for investment?

   Checklist:

   - liberalizing the Syrian economy and opening up the Syrian market to allow FDI to enter the Syrian market.
   - creating investment friendly environment by, e.g. enacting new legislations, establishing the Syrian investment authority and reforming the banking sector.

   Legislation and rules regarding, entry and operation and tax policy

   1.2. Since issuing the investment Law No.10 in 1991, the Syrian government has been trying to provide the legislation that can encourage domestic and foreign investment to take place in Syria. The most recent Investment Law was the Decree No.8 in 2007 that dedicated its second chapter to offer incentives to private investment, including exemption from income tax. In addition to that, the Legislative Decree No. 4 for the year 2009 granted ten years exemption from income tax for all kinds of private investment projects in the eastern provinces.

   ➢ To what extent has these new legislation influenced your decision to invest in Syria?
   ➢ In your opinion, to what extent have the Decree No.8 for 2007 and other similar recent legislations enhanced the Syrian economy’s attractiveness to FDI?
Check list:

- tax advantages,
- financial incentives,
- comprehensive legal framework.

1.3. Do you feel that the new legal framework creates a regulatory level playing field for the foreign and domestic (both private and public) organizations operating in Syria?

➢ If so, how has that feeling influenced your decision to invest in Syria? And does that feeling encourage you to expand your investment?

➢ If not, why do you think it is not the case? And how would that be reflected in your decision for further investment in Syria?

Checklist:

- the strengthening of positive standards of treatment for foreign investors (e.g. national treatment, fair and equitable treatment, legal protection and guarantees against non-commercial risks).
- a properly functioning legal order, including well-functioning courts, to ensure predictability and certainty of business operations.
- the strengthening of market supervision to ensure the proper functioning of the market (e.g. competition rules, disclosure of information, prudential supervision).

1.4. In April/2001, the government enacted Law No.8, which allows the establishment of private banks for the first time since banks were nationalized in 1963. Since then, many other reforms to the Syrian financial market have taken place.
To what extent have these reforms influenced your decision to invest or to expand your investment in Syria?

**Trade policy, international agreements and political environment**

1.5. Since the early 1990s the Syrian government has taken many trade liberalization initiatives, such as customs duty concessions, streamlining of customs procedures, reducing customs tariffs and lifting foreign exchange restrictions.

- What has been the role that these initiatives played regarding your decision as a foreign investor to invest in Syria?
- What do you think the Syrian government could do better regarding this point?

Checklist:

- higher propensity to export because of the lower transaction costs between foreign production and exports (avoid tariffs on exports).

1.6. Recently Syria signed bilateral free-trade agreements with Turkey, India, the Czech Republic and Romania. Moreover, in 1997, Syria joined the Greater Arab Free Trade Area (GAFTA) and trade is nearly fully liberalized with other Arab countries since the beginning of 2005.

- To what extent have such agreements influenced your decision to invest or to expand your investment in Syria?
- Is there any particular bilateral free-trade agreement that has had special influence on your decision to invest or expand your investment in Syria? If yes, why is it important?

1.7. The negotiations for the association agreement with the EU were concluded in
late 2004, but the European Parliament has refused to ratify the pact owing to Syria’s continued sponsorship of Hamas and Hezbollah, its continued interference in Lebanon and its refusal to introduce meaningful political reforms.

➢ Do you think signing the association agreement with the EU will enhance the Syrian economy’s attractiveness to FDI? And how?

➢ Will the failure to sign this agreement have a negative impact on your plans to expand your investment in Syria? And why?

1.8. In April 2008, Syria stepped up its efforts to gain membership in the WTO. However, it seems that the imposition of US sanctions against Syria is affecting Syria’s relations with countries other than the US, leading to added pressure on the balance of payments that will discourage a significant easing of remaining trade restrictions.

➢ Do you think that the delay in joining the WTO has reduced the likelihood of foreign investments to take place in Syria or likelihood for expanding your investment in Syria? And why?

Privatization Policy

1.9. It is clear from government announcements that they are not interested in privatization. Dr. F. E. Aljouni, the Syrian Minister of Industry, in an interview with Reuters news agency on 05th November/ 2010 said, “Syria is trying to attract private investors to help in developing the weak industrial sector, but privatization is not one of the options”. Aljouni attributes this strong rejection of privatization to the government’s intention to protect workers’ rights and,
alternatively, he offers private investors BOT (Build, Operate, Transfer) contracts if they are interested in this kind of public-private partnership (PPP)

➢ As a foreign investor, how does this intention affect your decision to invest or expand your investment in Syria?

➢ What do you think will be the effects of this intention regarding the likelihood of FDI taking place in Syria?
2. **Part 2: Economic Determinants**

2.1. **Market seeking motivation:**
- What market opportunities are, and remain important, to your investment in Syria? And why?

**Checklist:**
- market size,
- market growth,
- access to regional and global markets,
- country-specific consumer preferences,
- structure of the market,
- geographical location.

2.2. **Resource/asset seeking motivations:**
- Were Syrian assets/resources influential on your decision to invest in Syria? If so, which were important and why?

**Checklist:**
- raw materials,
- low-cost unskilled labour,
- skilled labour,
- technological innovatory and other created assets (e.g. brand names), including as embodied in individuals, firms and clusters,
- physical infrastructure (ports, power, roads, telecommunication).

2.3. **Efficiency seeking motivations:**

Was your decision to invest in Syria predominantly based upon locational efficiency factors which would improve your competitiveness, and which made you invest in Syria?
instead of simply investing in your country (or somewhere else) and then exporting your products into Syria and other markets?

➢ If yes, which locational efficiency factors were key to your investment decision? And why?

➢ If no, to what extent (if any) were locational efficiency factors influential on your decision to invest in Syria?

Checklist:

- cost of resources and assets listed under the previous checklist,
- other input costs, e.g. transport and communication,
- membership of regional integration agreement conducive to the establishment of regional corporate networks.
3. Part 3: Investment Facilitation (Bureaucratic costs and after investment services)

3.1. Do you think that investment opportunities in Syria are well promoted?

- If yes, explain why, and how does this fact encourage FDI inflows into Syria.
- If not, what improvement would like to see in order to promote FDI in Syria?

Checklist

- investment forums,
- the experience of other investors,
- the provision of incentives to foreign investors,
- the provision of amenities that contribute to the quality of life of expatriate personnel.

3.2. The Syrian Investment Authority, established by Article III from the Decree No.9 in 27/January/2007, is expected to play a vital role in implementing the new investment policies and achieving their goals in enhancing the investment environment.

- To what extent has the establishment of the Syrian Investment Authority enhanced the investment environment attractiveness to FDI?
- From your own experience, has the Syrian Investment Authority made the investment procedures more straightforward?
- If yes, has that positively influenced your decision to invest in Syria and to consider further investment?
- If not, what are the changes to SIA that can be made in order to simplify the investment procedures and enhance the attractiveness of the Syrian investment environment to FDI? And why?
Checklist

- promoting FDI opportunities,
- counselling,
- accelerating the various stages of the approval process and providing assistance in obtaining all the needed permits,
- the reduction of the “bureaucratic costs” of doing business in a host country (e.g. reducing or eliminating corruption and improving administrative efficiency).
4. Part 4: Final words

4.1. Social and Political Stability:

➤ How did your perception of the Syrian social and political environment influence your decision to invest in Syria? And in what way, if any, has the recent instability in the region and in Syria in particular, influenced your further FDI plans in Syria?

Checklist:

- US sanctions,
- the political relationship with Iran,
- the political relationship with Hamas and Hezbollah,
- the social stability among the different minorities in Syria.

4.2. While you were thinking of investing in Syria, what factors were you mainly concerned about?

4.3. With respect to your investment in Syria, what has been the balance between the institutional changes that have taken place in the last 10 years and other locational determinants in shaping your decision to invest in Syria?
Appendix 3: Interview Guide in Arabic
تحية طيبة و بعد،

اسمي محمود الاجاتي وأعمل معيداً (عضو في الهيئة التدريسية) في المعهد الوطني لإدارة العامة في دمشق. و أنا حالياً طالب في كلية الإدارة في جامعة هال في بريطانيا وأعمل على الحصول على درجة الدكتوراة في الإدارة. أقوم حالياً بإجراء بحث عن المحددات المكانية للاستثمار الأجنبي المباشر في سوريا. الهدف من هذا البحث هو تحديد دور التغييرات المؤسساتية التي تم إتخاذها مؤخراً و دور العوامل الاقتصادية الأخرى الموجودة في سوريا على قرار المستثمر العربي والأجنبي للإستثمار المباشر في السوق السورية.

لقد وصلت الآن إلى المرحلة العملية من البحث الذي أقوم به والتي تتطلب إجراء مقابلات مع المدراء الإقليميين للمشاريع الأجنبية والعربية في سوريا (بما في ذلك المستثمر الأجنبي والشريك السوري) والذين من شأنهم الإشتراك في رسم الإستراتيجية العامة للمشروع الأجنبي في سوريا.

و كما قد تعلم أخي المستثمر، تعمل الحكومة السورية منذ بداية الخطة الخمسية العاشرة (أي من عام 2006) على تأسيس اقتصاد السوق الاجتماعي في سوريا بدلاً من التخطيط الاقتصادي المركزي الذي كان معتقداً في سوريا منذ الستينات ولذلك قامت الحكومة بإتخاذ مجموعة من الإصلاحات في المؤسسات الحكومية من أجل رفع الاقتصاد السوري بالجهاز المؤسساتي اللازم للانتقال لإقتصاد السوق الاجتماعي.

إنني من خلال إجراء هذا البحث أرغب بتحقيق الأهداف التالية:

- تحديد دور الإصلاحات الحكومية الأخيرة فيما يتعلق بتحسين جاذبية الاقتصاد السوري للإستثمار الأجنبي المباشر.
- تحديد الإصلاحات المؤسساتية التي ساهمت بتحسين تدفق الاستثمار الأجنبي والعبري المباشر إلى سوريا.
تحديد دور العوامل الاقتصادية المحددة لمكان الاستثمار الأجنبي المباشر على الاستثمار الأجنبي المباشر في سوريا.

إظهار الاختلاف بين الشركات الأجنبية المختلفة من حيث النشاط الاستثماري (خدماتي أو صناعي) و من حيث الأصل (من الشرق الأوسط أو من باقي العالم) فيما يتعلق بإجابتهم بالإصلاحات الاقتصادية في سوريا.

و لذلك أرغب بسؤالك بعض الأسئلة بخصوص العوامل المؤسساتية والإصلاح المؤسساتي في سوريا على قرارك للإستثمار أو لتوسيع استثمارك في سوريا. كما أرغب بسؤالك عن أثر العوامل الاقتصادية الأخرى على قرارك للإستثمار أو لتوسيع استثمارك في سوريا.

أرجو أخذ العلم بأن هذه الأسئلة موجهة للمستثمر العربي أو الأجنبي في سورية. أما في حال كنت أنت الشريك السوري في هذا المشروع أو المدير الإقليمي لهذا المشروع فأرجو منك الإجابة على الأسئلة على النحو الذي باعتقادك ستكون عليه إجابة المستثمر العربي أو الأجنبي في هذا المشروع نظرا لاتصالك المباشر به.
المحددات المكانية للإستثمار الأجنبي:

الجزء الأول: البيئة المؤسساتية

1- في عام 2005 قررت الحكومة السورية التخلي عن التخطيط المركزي والانتقال إلى اقتصاد السوق الاجتماعي من خلال الخطة الخمسية العاشرة.

إلى أي مدى باعتقادك قد ساهم هذا القرار بتحسين جاذبية الاقتصاد السوري للإستثمار الأجنبي؟

مثال

- تحرير الاقتصاد السوري وانفتاح السوق السورية للسماح للإستثمار الأجنبي المباشر لدخول السوق.

المشهد الاقتصادية وصراع العناصر ومرحبا بالاستثمار الخاص (داخلي أو أجنبي)، على سبيل المثال: إصدار تشريعات جديدة، وبناء هيئة الاستثمار السورية وإصلاح القطاع المصرفي.

التشريعات والقواعد المتعلقة بدخول الاستثمار الأجنبي وتشغيله والسياسة الضريبية

2- منذ صدور قانون الاستثمار رقم 10 لعام 1991 وقوانين الاستثمارات التي يمكن أن تشجع الاستثمار المحلي والأجنبي في سوريا، وكان آخرها قانون الاستثمار رقم 8 لعام 2007 الذي خصص الفصل الثاني لتلبية حوار الاستثمارات القطاع الخاص بما في ذلك الإعفاء من ضريبة الدخل، بالإضافة إلى ذلك، فإن المرسوم التشريعي رقم 4 لعام 2009 منح إعفاء لمدة عشر سنوات لجميع أنواع المشاريع الاستثمارية في المنطقة الشرقية.

إلى أي مدى أثرت تلك التشريعات الجديدة على قرارك للاستثمار في سوريا؟

مثال

- منح مزايا ضريبية

الحوافز المالية

-
- توفير إطار قانوني متكامل

3- هل تعتقد أن الإطار القانوني الجديد يخلق بيئة قانونية تسمح للشركات الأجنبية وال المحلية (العمومية والخاصة) لممارسة نشاطها بحرية متساوية؟

- إذا كان الأمر كذلك، كيف أثر هذا الإعتقاد على قرارك الاستثمار في سوريا؟ هل شجعك هذا الإعتقاد على توسيع الاستثمار الخاص بك؟

- إذا لم يكن الأمر كذلك، لماذا لا؟ وكيف يمكن أن يعكس هذا الإعتقاد على قرارك لتوسيع الاستثمار في سوريا؟

مثلاً

- تعزيز معايير المعاملة الإيجابية للمستثمرين الأجانب والعرب (على سبيل المثال: المعاملة الوطنية، المعاملة العادلة والمنصفة، والحماية القانونية والضمانات ضد المخاطر غير التجارية)

- توفير جهاز قانوني و قضائي يعمل بشكل سليم مما يساعد على تعزيز التوقعات من العملات التجارية.

- تعزيز الرقابة على السوق لضمان حسن سير العمل في السوق (على سبيل المثال: قواعد المناقشة، والكشف عن المعلومات، والإشرافات التحوطية).

- في نيسان 2001 قامت الحكومة بسن القانون رقم 8 الذي يسمح بإنشاء مصارف خاصة للمرة الأولى منذ تأميم البنوك في عام 1923، وفي وقت لاحق حدثت إصلاحات أخرى كثيرة في السوق المالية.

- إلى أي مدى أثرت هذه الإصلاحات على قرارك الخاص بالإستثمار أو توسيع الاستثمار في سوريا؟

السياسات التجارية والاتفاقيات الدولية والبيئة السياسية

4- منذ بداية التسعينات اتخذت الحكومة السورية العديد من المبادرات لتحرير التجارة، مثل التنظيمات الجمركية، وتسيب الإجراءات الجمركية، وتخفيف التعريفات الجمركية، ورفع القيود المفروضة على النقد الأجنبي.

- لماذا كان الدور الذي لعبته هذه المبادرات بما يتعلق بقرارك الإستثمار في سوريا؟

- لماذا في رأيك يمكن للحكومة السورية أن تفعل أفضل فيما يتعلق بهذه النقطة؟
- تتجنب التعريفات الجمركية على الصادرات مما يشجع على التصدير بسبب انخفاض تكاليف المعاملات بين الإنتاج والتصدير.

6- وقعت سوريا مؤخرًا اتفاقيات تجارة حرة مع تركيا والهند وجمهورية التشيك ورومانيا. بالإضافة لذلك، انضمت سوريا إلى منطقة التجارة الحرة العربية الكبرى وتم التحرير التجاري بشكل كامل تقريباً مع الدول العربية منذ بداية 2005.

- إلى أي مدى أثرت هذه الاتفاقات على قرارك للإستثمار أو تتوسيع استثمارك في سوريا.
- هل هناك إتفاقية تجارة ثنائية معينة تعتقد أنه كان لها تأثير خاص على قرارك للإستثمار أو تتوسيع استثمارك في سوريا؟ إذا كانت الإجابة بنعم، لماذا هي مهمة بالنسبة لك؟

7- اختتمت مفاوضات التوقيع على اتفاقية الشراكة الأوروبية مع نهاية العام 2004 لكن البرلمان الأوروبي رفض التصديق على الاتفاقية بسبب التدخل السوري المستمر في لبنان، ورفضها لبعض الإصلاحات السياسية، ورعايتها المستمرة لحماس وحزب الله (وفقاً للبرلمان الأوروبي).

- هل تعتقد أن التوقيع على إتفاقية الشراكة مع الاتحاد الأوروبي يعزز جاذبية الاقتصاد السوري للإستثمار الأجنبي المباشر؟ لماذا؟
- هل تعتقد أن فشل توقيع هذا الاتفاق تأثير سلبي على خططكم للتوسع في الاستثمار في سوريا؟ ولماذا؟

8- في نيسان 2008، كثفت سوريا جهودها للحصول على العضوية في منظمة التجارة العالمية.

- هل تعتقد أن التأخر في الانضمام إلى منظمة التجارة العالمية قد قلل من احتمالات الاستثمار الأجنبي في سوريا أو احتمال توسيع استثمارك الخاص في سوريا؟ ولماذا؟

الخصخصة

9- يتضح من التصريحات الرسمية أن الحكومة السورية لا تميل للخصخصة (بيع أملاك القطاع العام للقطاع الخاص). كما قال د.الجوني (وزير الصناعة حينها) في مقابلة مع وكالة الأنباء رويترز بتاريخ 5/11/2010 "سورية تعمل على جذب المستثمرين من القطاع الخاص من أجل تطوير القطاع الصناعي الضعيف ولكن الخصخصة ليست أحد الخيارات " وهو يرجع هذا الرفض إلى رغبة الحكومة بحماية حقوق العمال، وبدلاً من
الخصائص ت تعرض الحكومة عقود الشراكة بين القطاع الخاص والعام من نوع (بي أو تي).

كمستثمر أجنبي، كيف يؤثر هذا الإتجاه في التفكير من قبل الدولة على رغبتكم في الاستثمار أو توسيع

استثماركم في سوريا؟

كيف يؤثر هذا الأمر على فرص الاستثمار الأجنبي في سوريا؟

الجزء الثاني: المحددات الاقتصادية للاستثمار الأجنبي

أ- الدوافع السوقية للإستثمار

10- ما هي الفرص الموجودة في السوق السورية التي بإعتقادكم مهمة لإستثماركم في السوق السورية؟ و لماذا هي مهمة؟

مثلاً - حجم السوق السورية معطل نمو السوق السورية

- إمكانية التنويع للأسواق المجاورة والأسواق العالمية الأخرى

- المملaits الاستدلالية للمستهلك السوري

- هيكلية ومكونات السوق السورية

- الموقع الجغرافي

ب- السعي وراء الموارد والأصول ذات الأهمية الإستراتيجية كمحدد مكاني للإستثمار

11- هل كان للموارد والأصول المختلفة الموجودة في سوريا تأثير على قراركم للإستثمار أو توسيع استثماركم في سوريا؟ و إذا كان الأمر كذلك، فأي من هذه الموارد والأصول كان مهم لك ولماذا؟

مثلاً - المواد الخام

- رخص اليد العاملة

- عاملة ذات خبرة جيدة

282
- التطور التكنولوجي. الإبداع في العمل. توفر بعض الماركات التجارية المميزة.

- البنية التحتية (موانئ، طرق، طاقة، إتصالات)

ج- رفع كفاءة الأداء كدافع أساسي للإستثمار الأجنبي

12- هل كان قرارك للإستثمار في سورية مبني بشكل أساسي على عوامل موجودة في سوريا من شأنها رفع كفاءة استثمارك وتعزيز قدرته التنافسية مما جعلك تستمر في سوريا بدلا من استثمارك في بلدك أو في مكان آخر ومن ثم تصدر بمساعدتك للسوق السورية؟

- إذا كان الأمر كذلك، ما هي هذه العوامل؟ ولماذا هي مهمة برأيك فيما يتعلق بتكافؤ مشروعك؟

- أما إذا لم يكن الأمر كذلك، فما مدى تأثير العوامل الاقتصادية الموجودة في سورية (و التي من شأنها رفع كفاءة مشروعك) على قرارك للإستثمار في سوريا؟

مثلا:

- تكاليف الموارد التي ذكرت في السؤال السابق

- تكاليف الانتاج الأخرى (مواصلات، إتصالات.... الخ)

- العضوية في اتفاقيات الشراكة الإقليمية التي يراد منها إنشاء شبكات تجارية إقليمية.

الجزء الثالث: النفقات الناتجة عن البيروقراطية و خدمات ما بعد الاستثمار.

13- هل تعتقد أن الفرص الاستثمارية في سورية مروح لها على النحو الكافي؟

- إذا كان الجواب نعم، إشرح لماذا هكذا، وكيف يؤثر هذا الوضع باعتقادك على تدفق الاستثمارات الأجنبية لسوريا.

- إذا كان الجواب لا، فماذا تعتقد أنه يجب أن يتم اتخاذه لتزويد الفرص الاستثمارية في سوريا؟

مثلا:

- المؤتمرات الاستثمارية

- تجارب المستثمرين السابقين

- توفر العديد من المحفزات للمستثمرين الأجانب
يتوفر المقومات اللازمة التي تؤثر بشكل مباشر على نوعية الحياة المتوفرة للأجانب في سوريا.

14- لقد تأسست هيئة الاستثمار السورية بموجب الفصل الثالث من المرسوم رقم 9 لعام 2007 و من المفترض أن تلعب دور هام جداً في مجال تطبيق السياسات والأنظمة الاستثمارية الجديدة وتحقيق أهدافهم بما يتعلق بتحسين المناخ الاستثماري في سوريا.

- إلى أي مدى باعتقادك قد ساهم تأسيس هيئة الاستثمار السورية في تحسين جاذبية الاقتصاد السوري للإستثمار الأجنبي؟
- من خبرتك العملية، هل جعلت هيئة الاستثمار السورية إجراءات الاستثمار أكثر سلاسة وأقل تعقيداً؟
- إذا كان جوابك نعم، هل ساهم ذلك بشكل إيجابي في قراري للاستثمار في سوريا أو توسيع إستثمارك في سوريا?
- إذا كان جوابك لا، ما هي التغييرات التي يجب إتخاذها في هيئة الاستثمار من أجل جعل إجراءات الاستثمار أبسط وأقل تعقيداً مما قد يحسن المناخ الاستثماري في سوريا؟ ولماذا؟

مثال
- الترويج ل الفرص الاستثمارية.
- تقديم الإرشادات.
- التسرع في إنجاز المعاملات المختلفة المتعلقة بمراحل تأسيس المشروع والحصول على الموافقات اللازمة.
- التقليل من التكاليف الناتجة عن الغموض و بروقراطية العمل في الجهات الحكومية ( كالحد أو القضاء على الفساد ورفع مستوى الأداء لدى الأجهزة الإدارية).

الجزء الرابع: كلمة أخيرة

الاستقرار الاجتماعي و السياسي

15- كيف أثر انتباهك عن البيئة الاجتماعية والسياسية في سوريا على اتخاذك لقرار الاستثمار في سوريا؟ و إلى أي حد باعتقادك أثرت الاضطرابات السياسية الأخيرة في المنطقة بشكل عام وفي سوريا بشكل خاص على خططك الاستثمارية المستقبلية في سوريا؟
- توفر الاستقرار الاجتماعي بين الطوائف المختلفة في سوريا
- العلاقات المتوترة مع الولايات المتحدة
- العقوبات الاقتصادية الأمريكية نتيجة العلاقات السياسية مع إيران وحزب الله

16- عندما كنت تفكر في الاستثمار في سوريا، ما هي أكثر الأمور التي كنت قلق حيالها؟

17- فيما يتعلق بقرارك للاستثمار في سوريا، ماذا كان التناوب في الأدوار بين التغيرات والإصلاحات المؤسساتية التي بدأت منذ حوالي 10 سنوات والعوامل الاقتصادية الأخرى الموجودة في سوريا فيما يتعلق باتخاذك لقرار الاستثمار في سوريا؟
Appendix 4: Final Analytical Template for FDI Locational Determinants
Appendix 5: FDI Inflows Figures
<table>
<thead>
<tr>
<th>Country</th>
<th>Projects per sector</th>
<th>total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Manufacture</td>
<td>Transport</td>
</tr>
<tr>
<td>Iraq</td>
<td>16</td>
<td>20</td>
</tr>
<tr>
<td>Kuwait</td>
<td>25</td>
<td>3</td>
</tr>
<tr>
<td>Lebanon</td>
<td>18</td>
<td>4</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>19</td>
<td>4</td>
</tr>
<tr>
<td>Jordan</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>UAE</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Egypt</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Palestine</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Algeria</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Bahrain</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Qatar</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Libya</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Yemen</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Morocco</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Turkey</td>
<td>26</td>
<td>5</td>
</tr>
<tr>
<td>Germany</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>Iran</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Russia</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Cyprus</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>City</td>
<td>Projects number</td>
<td>%</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------------</td>
<td>----</td>
</tr>
<tr>
<td>Damascus</td>
<td>60</td>
<td>33.7</td>
</tr>
<tr>
<td>Aleppo</td>
<td>33</td>
<td>18.5</td>
</tr>
<tr>
<td>Rif-Dimashq</td>
<td>29</td>
<td>16.3</td>
</tr>
<tr>
<td>Homs</td>
<td>12</td>
<td>6.7</td>
</tr>
</tbody>
</table>

Source: Syrian Investment Authority Report (Abdul-Azeez, 2008)
### Table 0.3 FDI Projects by Sector

<table>
<thead>
<tr>
<th>Economic Activity</th>
<th>Projects number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacture</td>
<td>73</td>
<td>41</td>
</tr>
<tr>
<td>Trade</td>
<td>28</td>
<td>15.7</td>
</tr>
<tr>
<td>Financial and Insurance</td>
<td>27</td>
<td>15.2</td>
</tr>
<tr>
<td>Mining</td>
<td>17</td>
<td>9.6</td>
</tr>
<tr>
<td>Communication and transportation</td>
<td>12</td>
<td>6.7</td>
</tr>
<tr>
<td>Services</td>
<td>10</td>
<td>5.6</td>
</tr>
<tr>
<td>Hotels and restaurant</td>
<td>6</td>
<td>3.4</td>
</tr>
<tr>
<td>Agriculture</td>
<td>5</td>
<td>2.08</td>
</tr>
<tr>
<td>Total</td>
<td>178</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Syrian Investment Authority (Abdul-Azeez, 2009)