

RUSSIAN-IRANIAN ECONOMIC INTERESTS IN SYRIA*

(part 1)

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DOI: 10.31857/S032150750005777-6

This paper discusses Russian and Iranian economic activity and interests in Syria and focuses on two macroblocks. First of all, it seems to us important to highlight the level of trade and economic cooperation between Russia and Syria, on the one hand, and Iran and Syria, on the other. If for Iran's economic relations with Syria, it should be noted that although the country has long been one of the top priority targets for Iranian trade and the trade interactions between the two sides were on the rise before 2011, the Syrian Crisis caused bilateral trade to fall drastically. However, Russian economic interests in Syria do not look so obvious and convincing. If we talk about the Russian economic presence in Syria after the Arab spring, it would be more correct to consider the interests of individual Russian businessmen and representatives of the economic elite in specific projects in Syria. Also, this work will be devoted to the difficulties faced by Moscow and Tehran in the implementation of their economic and investment projects in Syria and prospects of cooperation and competition between Russia and Iran. Given the close partnership between Iran and Russia in supporting Bashar al-Assad government, this paper also takes a look on the prospects of economic cooperation or rivalry between Tehran and Moscow in Syria and shows that no mechanism has yet devised by the two parties to manage their competition and promote cooperation in Syria's economic sphere. Of note, this paper deals exclusively with Iran and Russia's non-military economic activities in Syria and does not cover issues like arms exports or military aids of the two countries to the Syrian government.

Keywords: Iran, Russia, Syrian crisis, economic development, Syrian reconstruction

After the collapse of the Soviet Union, Russian-Syrian economic cooperation started to experience tough times. Syria can hardly be considered as a key Russian trade-economic partner, both in the region and in the world.

RUSSIAN-SYRIAN ECONOMIC COOPERATION

Fig. 1 demonstrates that the trade turnover between the two countries has been fluctuating in the range up to \$1 bln [1]. The year 2011 was the only exception. In this period of time the mentioned value grew to \$1,9 bln [1]. This was mainly caused by a substantial growth of Russian oil products export to Syria. Russian oil products export to Syria in 2011 experienced a huge increase: from \$284 mln (37% of the total amount of export to Syria) in 2010 up to 864 in 2011 (76% of the total amount of export to Syria) [1].

Apparently, it can be explained by the sanctions which Bashar-al Assad's government had to face in the in the climax of the Arab spring. This, in turn, created the urgent need for search of new suppliers, and this role was ascribed to Russia. Moscow treated that rather a commercial deal than charity.

In 2011 the average annual cost of a barrel of oil amounted to \$110 per bl, therefore the Russian government took advantage of the unfavorable geopolitical situation for Syria and started to sell oil to the Syrians at higher prices. Later the Syrians managed to rearrange oil deliveries from the eastern regions of the country, and that resulted in an almost complete cease for this Russian export item from 2012.

By the way, the similar situation took place in 2008, when the USA applied new sanctions to Syria, according to which American companies couldn't take part in the Syrian oil extraction. That year the oil products also accounted for main share of the Russian export to Syria (60%). The cost of the total volume of oil that Moscow supplied to Damascus amounted to \$1,12 bln [1]. The geopolitical situation was encouraging for that, as the decision to impose sanctions against Syria was made in August 2008, when Russia was fighting with Georgia in the South Ossetia and Abkhazia.

If we look at the state of the Russian trade with the other countries of the Middle East and North Africa before the Arab spring, the humble position of Syria in this field will become obvious.

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* This article is an output of a research project implemented as a part of the Basic Research Program at the National Research University Higher School of Economics (HSE) in 2019 with support by the Russian Science Foundation (Project No. 19-18-00155).

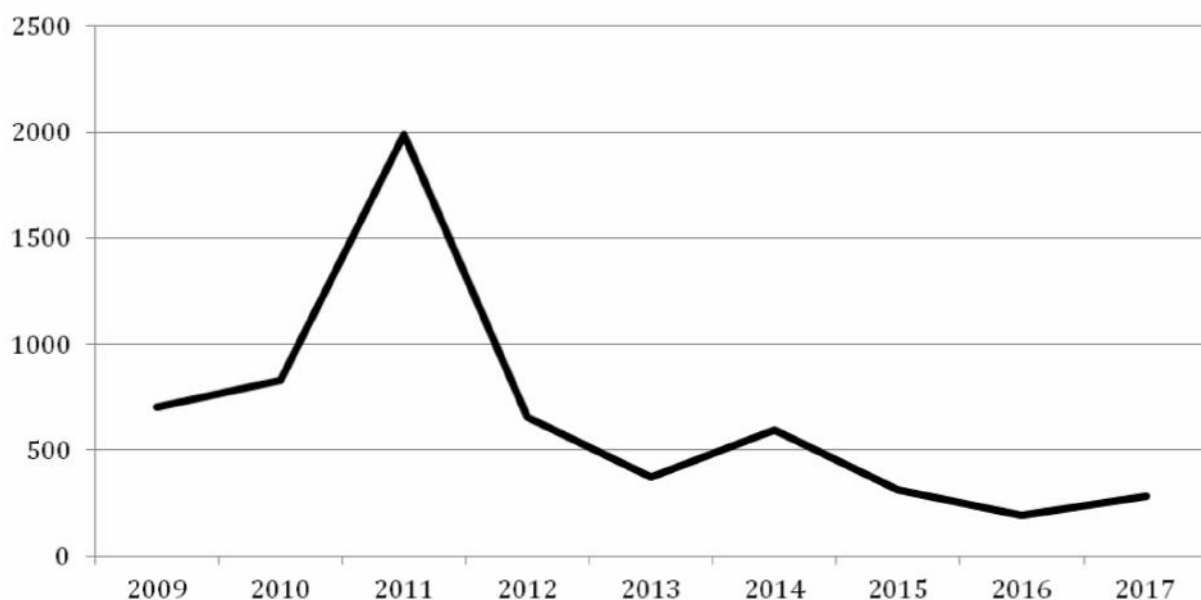


Fig. 1. Trade turnover between Russia and Syria, 2009-2017 (\$ mln).

Source: [1].

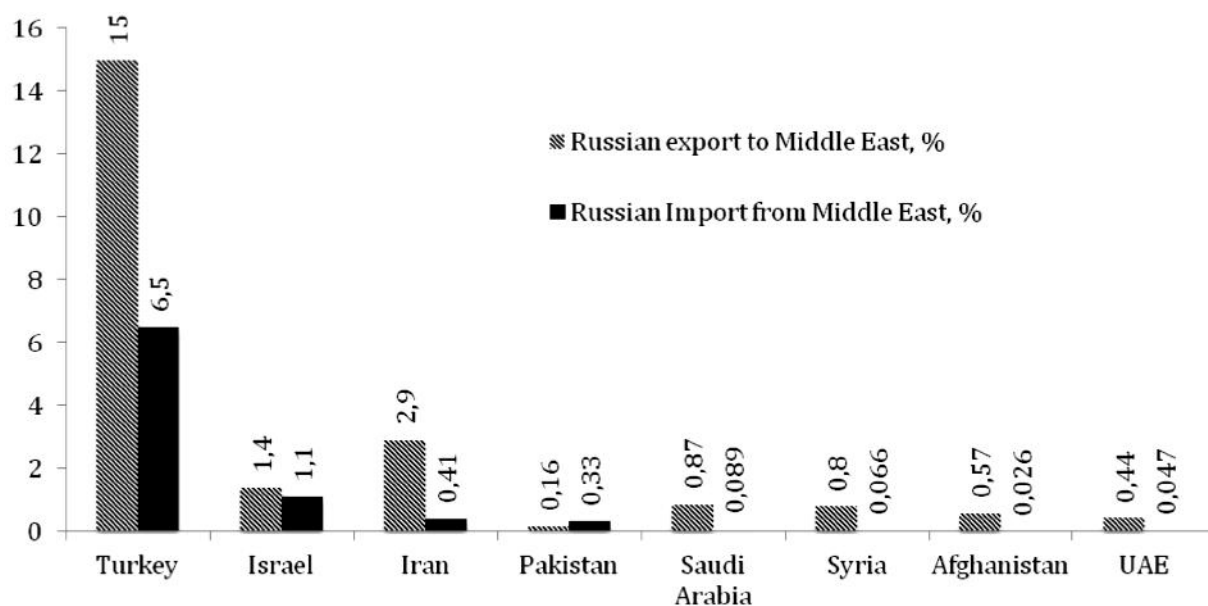


Fig 2. Russian export and import to Middle East before the Arab Spring (2010).

Source: [2].

Fig. 2 shows that Syria was one of the 5 largest importers of the Russian goods, however this country accounted only for 0,8% of the total amount of the Russian export [2], and this is quite a small value. The same happened to the export of the Middle East goods to Russia before Arab spring. The Syrian goods had accounted for 0,066% in the total amount of the Russian import by 2010 [2].

The situation changed for the worse after the onset of the Arab spring and civil war in Syria, when

its shares both in export and import to Russia significantly decreased.

Fig. 3 shows that Syria had fallen out of the top 10 largest exporters of the Russian products by 2016. In 2016 Syria accounted only for 0,08% of the total amount of the Russian export [2]. Even Iraq and Yemen had higher values, despite the fact that at that time Yemen faced a true economic warfare on the part of the countries that joined the Coalition headed by Saudi Arabia.

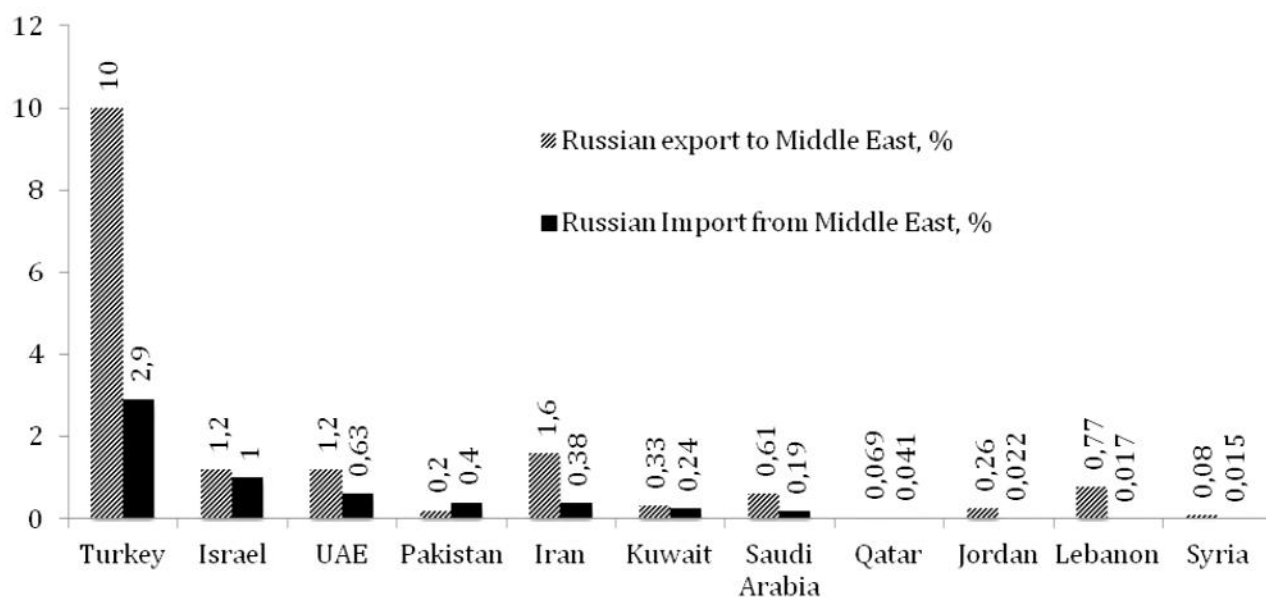


Fig. 3. Russian export and import to Middle East after Russian military involvement to Syria (2016).

Source: The Observatory of economic complexity 2018 [2].

Similar situation was observed regarding the import of the Middle East goods to Russia in this period. In 2016, Syria accounted only for 0,015% of the total amount of the Russian import. It had fallen out of the top 10 largest Middle East suppliers for Russia [2].

Now let's have a look at the Russian-Syrian trade relations structure (Tab. 1-2). First of all, it is worth

mentioning that according to the Federal Customs Service the Middle East and North Africa haven't become the most important foreign trade partners for Russia yet. In 2018, the whole region accounted only for 7% of the total Russian foreign trade volume [2]. Nevertheless, in recent years, the volumes of the Russian trade with the particular countries have been increasing, as well as the world's trade system

Table 1

What does Syria export to Russia (Top 5 items)

Year	Item 1	Item 2	Item 3	Item 4	Item 5
2010	Textiles (43%)	Plant products (28%)	Plastics and rubber (12%)	Chemicals (3,6%)	Food (2,6%)
2011	Textiles (39%)	Plant products (25%)	Plastics and rubber (19%)	Shoes and head coverings (5,3%)	Food (4,4%)
2012	Textiles (43%)	Plant products (34%)	Plastics and rubber (9,2%)	Food (2,6%)	Shoes and head coverings (2,2%)
2013	Plant products (56%)	Textiles (30%)	Shoes and head coverings (3,3%)	Food (2,2%)	Wood products (1,3%)
2014	Plant products (73%)	Textiles (11%)	Shoes and head coverings (7,6%)	Stone and glass products (1,7%)	Chemicals (1,4%)
2015	Plant products (82%)	Textiles (7,6%)	Shoes and head coverings (6,9%)	Food (0,37%)	Machinery and equipment 0,29%)
2016	Plant products (96%)	Food (1,58%)	Paper (0,55%)	Chemicals (0,38%)	Shoes and head coverings (0,19%)

Source: [1].

What does Syria import from Russia (Top 5 items)

Year	Item 1	Item 2	Item 3	Item 4	Item 5
2010	Oil products (37%)	Carving wood (14%)	Wheat (7,4%)	Semi-finished iron (7,3%)	Purpose-built vehicles (4,3%)
2011	Oil products (76%)	Carving wood (4,6%)	Purpose-built vehicles (4%)	Wheat (2,6%)	Semi-finished iron (1,8%)
2012	Carving wood (24%)	Banknotes (13%)	Corn (12%)	Barley (6%)	Sunflower oil (5,3%)
2013	Trucks (22%)	Carving wood (17%)	Explosives (12%)	Purpose-built vehicles (11%)	Trailers (7,4%)
2014	Banknotes (18%)	Explosives (12%)	Copper bus bars (12%)	Carving wood (12%)	Corn (4,8%)
2015	Banknotes (20%)	Explosives (13%)	Wheat (11%)	Receivers (11%)	Carving wood (8,1%)
2016	Corn (25%)	Cigars (17%)	Carving wood (9,5%)	Barley (6,5%)	Banknotes (5,3%)

Source: [1].

has been reviving. The main Russian export items for the Middle East and North Africa are deliveries of grain. Russia ranks 5th for the volume of agricultural products and food export to the region.

As for Russian-Syrian relations, table 1 indicates that both before and after 2011 the main share of supplies in terms of Syrian import to Russia accounted for two basic items: textiles and plant products (mainly fruits and vegetables). Thereat, before the Arab spring and in the first years of the civil war in Syria textile industry production was the leading item of the Syrian export to Russia, reaching 43% in 2010 and 2012 [1]. An abrupt decrease in textile supplies to Russia was provoked by the aggravation of the situation in Aleppo, for this city was the center of the textile industry in Syria. Armed hostilities escalation in Aleppo, which began in the second half of the year 2012, resulted in dramatic reduction in textile supplies from Syria to Russia, its share fell to 7,6% in 2015 [1], and when the Syrian governmental army launched the operation on seizure of Aleppo, Syria stopped supplying textile to Russia at all. Thus, up to the present moment, the food has been the main item of the Syrian export to Russia (95,43% in the first half of 2018) [1].

If we talk about the structure of Russian export to Syria (Tab. 2), it has significantly changed since 2011. Before the Arab spring, Russian export to this country included oil products, semi-finished iron and carving wood. The year 2009 was the only exception, as Syria bought wheat from Russia. The total cost

amounted to \$223 mln and the Syria ranked first in the total volume of Russian export to this country [1]. This, however, can be explained by the global trend connected with the abrupt decrease in food prices in 2009 [3; 4], as well as by the fact that the Syrian government was eager to take advantage of this situation and refill its wheat resources. The following years indicated that the share of wheat in the total amount of the Russian export to Syria has decreased significantly, and is still remaining low.

The Russian export to Syria has suffered drastic changes since the onset of the Arab spring. If we consider the situation in general, it can be observed that the explosives, purpose-built vehicles, trucks, trailers etc. started to cover a substantial part of the Russian export to Syria, for the government of Bashar-al-Assad needed these items more than any others at the war time. Besides, there appeared some exotic items, such as banknotes (which, apparently, were printed in the Russian Federation for the needs of the Syrian Central Bank) and cigars.

RUSSIA'S MAIN INTERESTS IN POST-WAR SYRIA

All the mentioned above proves that economic attractiveness of Syria for Russia has always been and probably will remain quite low. Russian businessmen are not eager to invest in Syria and this was repeatedly proved by the meetings of the Russian-Syrian Business Council devoted to the

Syria's recovery in 2017 and 2018. However, it doesn't mean that Russia won't use the possibilities that can be provided to it in Syria.

We should point out the fact that the Russian businessmen are not so interested in this partnership, as the Syrian market seems too small for them, and the revenues are incompatible with the risks that the business can suffer due to the imposed sanctions. Syrian oil and gas market is a striking example of the current situation. It is too small to attract large Russian gas and oil companies.

Besides, the Syrian government hasn't compiled an official decree on providing special customs regulations for Russian companies. Another problem is a poor infrastructure in Syria, which has suffered a lot during the civil war. The poor state of the infrastructure has led to numerous breaks in goods transportation and storage.

There are also a number of "traditional" for Syria issues. Igor Matveev, former head of the Trade and economic division of the Russian embassy in Damascus, underlines that the most important problem for entrepreneurs, especially, medium- and small-sized entrepreneurs in Syria are the high level of bureaucracy, corruption, complicated legal practices (such as registration and licensing procedures), the monopoly of "shadow" business groups and threats of raids posed by government-affiliated businessmen, popularly known as "children of the authority," or *awlad al-sulta* in Arabic [5]. This problem becomes even more important given Syria's weak mechanisms of international arbitration.

Finally, the last issue that influences the activity of the Russian companies in Syria is connected with sanctions against Damascus. Taking into consideration the current situation, Russian small-sized and medium entrepreneurs, interested in collaboration with Western companies, don't feel like taking such risks, and large corporations have to resort to mediators. Only those Russian companies that have already been under sanctions are ready to deal with Syria directly.

Nowadays the approved "road map" [6] on collaboration in the area of industry and commerce (2019-2021) is the most probable pattern, involving Russian participation in investment and economic projects in Syria. This document was approved at the 11th meeting of the mutual Russian-Syrian Intergovernmental Commission that took place on the 13-14th of December in 2018.

According to this "road map" Russia and Syria agreed on 30 projects that can be nominally divided into several clusters. First of all, there is an industrial part (consists of 8 project). The most promising

project of this cluster is the project on construction of a new cement plant in Muslimiya in Aleppo.

Apart from this, there are two projects concerning professional training, which help the employees to expand their possibilities in the industrial sector and are aimed at supporting various technology development researches. Also, there are projects in higher education, environment, culture, etc. In particular, the Russian university STANKIN and al-Baath University have agreed on personnel retraining.

Five projects on water resources, including drinking water supply enhancement in Latakia by means of a dam «the 16th of October» should be mentioned.

The parties have also made an agreement on three vital projects in the flour-grinding industry. One of them is aimed at increasing capacity of the mill in Hama up to 400 tons per day and the other is focused on restoration and increase of capacity of the mill in Daraa (up to 100 thousand tons).

As for the health care, the project on creation of the Russian-Syrian laboratory on vaccine development is the most prominent one.

Seven projects, connected with the public works, were agreed as well. One of them involves the development of mechanisms for rapid construction in Syria, and another one focuses on the use of technology for the rapid building.

In the transport sector, the parties will work on three projects. One of them focuses on restoration and expansion of the railways from phosphatic mines to Tartus port, and the other supposes the construction of the airport in Tartus at the place of the farm airfield.

In addition to all these projects we should also mention those ones that are currently being implemented by the Russian companies in Syria. Thus, in January 2018 the "road map" on collaboration in energetics and electric-power industry was signed [7], according to which the Russian company "Tekhnopromexport" will take part in the reconstruction of the four thermal electric power stations located in Syria.

Then we should speak about July 2018 and two Russian companies ("Zarubezhneft" and "Zarubezhgeologia") that are still performing geologic exploration works in Syria [7]. In the same period of time it became obvious that Russia participated in the restoration of the oil refinery plant in Homs. It was the first time for seven years when Syria in September 2018 has managed to get the oil products on its own because of this oil refinery plant.

And of course "Sroytransgaz", owned by Gennady Timchenko, should be mentioned. At the end of 2017,

the company experts started to complete the North gas refinery plant (GRP-2) located near Raqqa, as well as to restore the largest phosphatic mines of Syria near Palmyra - Al-Sharqiyah and Khunayfis [8].

More than that, "Euro Polis" company is operating in Syria [8]. This entity is controlled by

Evgeny Prigozhin, who became famous due to "Wagner" private military campaign. Euro Polis keeps oil facilities safe and, in return, wants to get a quarter of the revenues from fields development.

(To be concluded)

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