



Discussion Paper (8)

Russian and Iranian Economic Interests In Syria (Pre-2010 and intra-war period)

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Introduction:

There has historically been low levels of trade and investment from both Russia and Iran with Syria, with trade in military items being a notable exception. While the trade relationship between Syria and its two main allies predates the conflict, levels of trade had been remarkably low before the crisis, in contrast to mainstream perceptions. Yet, these figures cannot be confirmed due to unavailability of a comprehensive record of the Syrian bilateral relationship with Iran and Russia.

Internationally imposed sanctions have discouraged Russian and Iranian companies from doing business with Syria. Lacking any other resources, the only way that Syrian could repay debts to its allies would be to grant exclusive access to energy and natural resources. This however would reduce the public revenue needed to rebuild state institutions, and also encourage foreign rivalry over economic opportunities. As Syria lacks any coordination mechanism for post-war economic reconstruction, Russia and Iran have set their eyes on the energy sector, where Russia has the upper hand. Yet, cooperation is also possible in other sectors, such as Syria's rail sector.

In order to understand the Russian and Iranian economic relationship with Syria, two factors should be considered. First is the informal relationship between Syria and its two allies, which has taken the form of unofficial agreements and trade. These would be important when sanctions are lifted. The second factor is military exports to Syria, expected to be large, given the scale of war and Syrian reliance on Russia and Iran. Due to lack of official data, this paper will not consider both issues.

Iranian-Syrian Economic Cooperation

Syria was a top-priority trade target for Iran before 2011.¹ Official economic relations between Iran and Syria dates back to 1996, when the first Iran-Syria joint economic commission was held in Damascus. Between 1996 and 2010, a total of 13 meetings were held in this format. However, the commission meetings were suspended at the start of the Syrian crisis. The trade balance between Iran and Syria hit a record high of \$ 545 million in 2010, of which, \$516 million was Iran's export to Syria and the remaining \$29 million was the value of Iran's imports. The war has slashed the trade volume, which fell to \$185 million in 2018. This clearly shows the negative impact of the civil war on Iran-Syria trade. (Table 1)

Tab. 1. The ten-year statistics of Iran-Syria trade relations, ml \$US²

<i>Year</i>	<i>March 2009- March 2010</i>	<i>March 2010- March 2011</i>	<i>March 2011- March 2012</i>	<i>March 2012- March 2013</i>	<i>March 2013- March 2014</i>	<i>March 2014- March 2015</i>	<i>March 2015- March 2016</i>	<i>March 2016- March 2017</i>	<i>March 2017- March 2018</i>	<i>March 2018- September 2018</i>
<i>Export</i>	377	516	365	159	115	100	149	256	172	37
<i>Import</i>	20	29	26	24	10	9	8	9	13	1.3
<i>Trade Balance</i>	+357	+486	+339	+135	+105	+91	+141	+247	+159	+35.7
<i>Volume of Trade</i>	397	545	391	183	125	109	157	265	185	38.3

¹ The Trade Promotion Organization of Iran (TPOI) has prioritized 40 countries around the world as "first priority target markets" for Iran's trade.

² This paper discusses trade in goods only.

Iranian investments and construction projects in Syria

Reviewing the Iranian-Syrian economic agreements indicates a focus on trade over investment. There had been very few Iranian investments in Syria before the crisis (Table 2). The most important investment projects in Syria were the construction of the Tishreen and Jandar power stations ([worth](#) about \$ 500 million) and the establishment of a joint Iranian-Syrian car production company ([worth](#) about \$ 60 million). Meanwhile, the Free Trade Agreement signed in 2011 was the most important economic agreement, which was not realised due to the outbreak of the civil war.

However, with the gradual re-establishment of Assad’s position in Syria, Iran signed a number of investment agreements to position itself as an important actor in Syria’s post-war reconstruction. On December 30, 2018, an agreement on long-term strategic cooperation between Iran and Syria was [signed](#) in Tehran. Until this point, this was the only “comprehensive economic agreement” between Iran and Syria after 2011.

Within the framework of this 20-year agreement, Iran is expected to engage in certain economic sectors in Syria. The two countries have signed MoUs, including for the construction of a power plant in Latakia, the rehabilitating the Aleppo thermal power plant, as well as two power stations in Homs and Deir ez-Zor, the launch of Syria's third mobile network operator, investments in phosphate mines in Homs and agricultural investments in an area of 5,000 hectares in Latakia. Iran is also expected to invest in the Syrian ports of the Mediterranean and the construction of a new power plant in Latakia. Iranian private sector investment to build thirty thousand houses in Aleppo, Homs and Damascus is also expected. Furthermore, 11 MoUs were signed between Tehran and Damascus within this agreement, [including](#) a document on banking cooperation, in order to facilitate financial interactions.

Iran has also signalled willingness to engage in Syria’s railroad industry. On November 20, 2018, Iran’s plan to build a railway connecting the Shalamcheh crossing at the Iran-Iraq border to the port of Basra in southeast Iraq was announced. The railway would then be further extended toward Syria and would, at the final stage, connect Iran to the port of Latakia. According to the Iranian officials, the project is supposed to establish a rail connection between Syria and Central Asia and Russia, within the framework of China’s Belt and Road Initiative (BRI).

However, most of these projects have not yet been implemented. Table 2 summarises the trade, investment, debts, and agreements between Iran and Syria before and after 2011.

Tab. 2. Iran’s economic ties with Syria before and after the breakout of the Syrian Crisis

	Before 2011	After 2011
Trade	Trade volume was rising, reaching a record high of \$ 545 million in 2010.	Bilateral trade shrank drastically as a result of the Syrian war and is now less than a half of the pre-war period.
Investments	Iran’s main investments in Syria were in the construction of Tishreen and Jandar power stations + A joint car company with Syria.	A number of MoUs have been signed, are yet to be implemented (In the fields of electricity production, railways, mines, housing & telecommunication.

Debts	Syria's debts to Iran were marginal (no exact official record).	At least \$ 6 billion of Iran's credit lines for Syria + about \$ 3 billion "humanitarian aid".
Agreements	9 agreements and 2 main MoUs	A comprehensive agreement on long-term strategic cooperation + a number of MoUs within the framework of the same agreement
Meetings	Regular meetings of Iran-Syria joint economic commission (Overall 13 Meetings)	The regular meetings have been stopped / since early 2018 high-level visits of Iranian officials to conclude new agreements and MoUs

Russian-Syrian Economic Cooperation

Russian-Syrian economic cooperation suffered after the collapse of the Soviet Union, and Syria became less important to Russian as a trade partner.

Fig. 1. Trade between Russia and Syria, [mln \\$US](#)

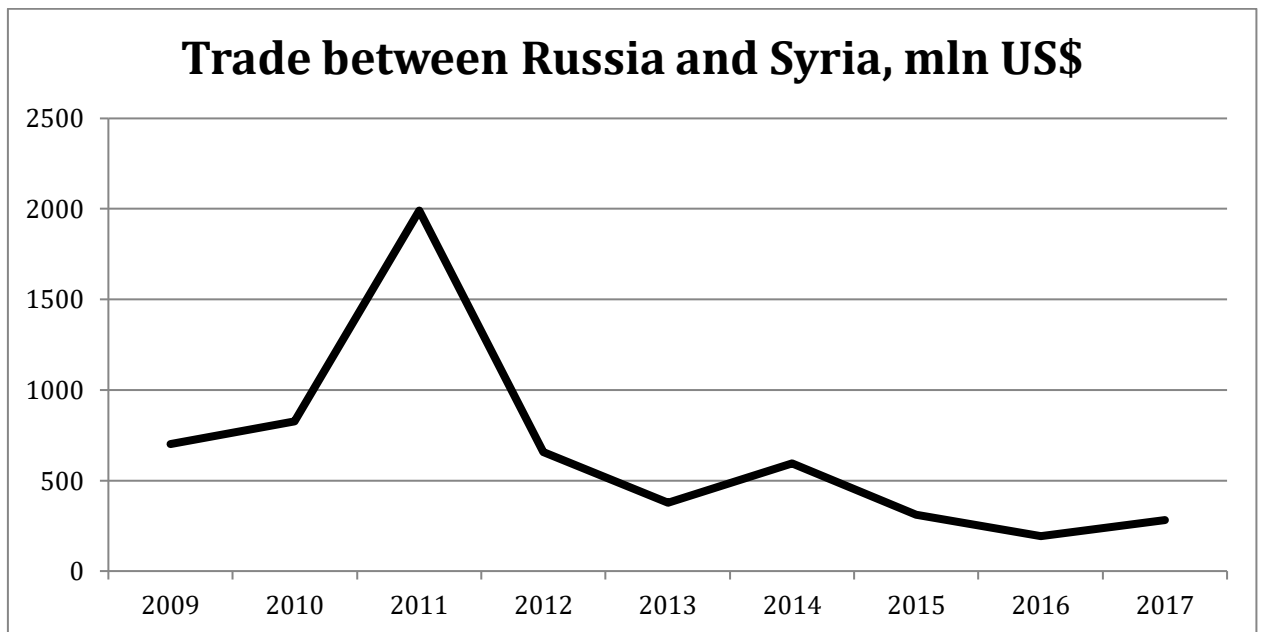


Figure 1 demonstrates the trade turnover between the two countries. Apart from 2011, trade between the two countries remained low. In 2011 the average annual cost of oil was to 110 \$/barrel, and Russia took advantage of Syria's unfavourable geopolitical situation and sold oil to Syria at a premium, thus reflecting the peak in trade.

Russian economic relationship with the Middle East and North Africa before the Arab Spring, with the exception of Turkey, reflects the low levels of trade with Syria (Figures 2 and 3). In 2018, the whole MENA region accounted only for 7% of the total Russian foreign trade volume, with the main export item being grain.

Fig. 2. Russian export to Middle East in 2010, %

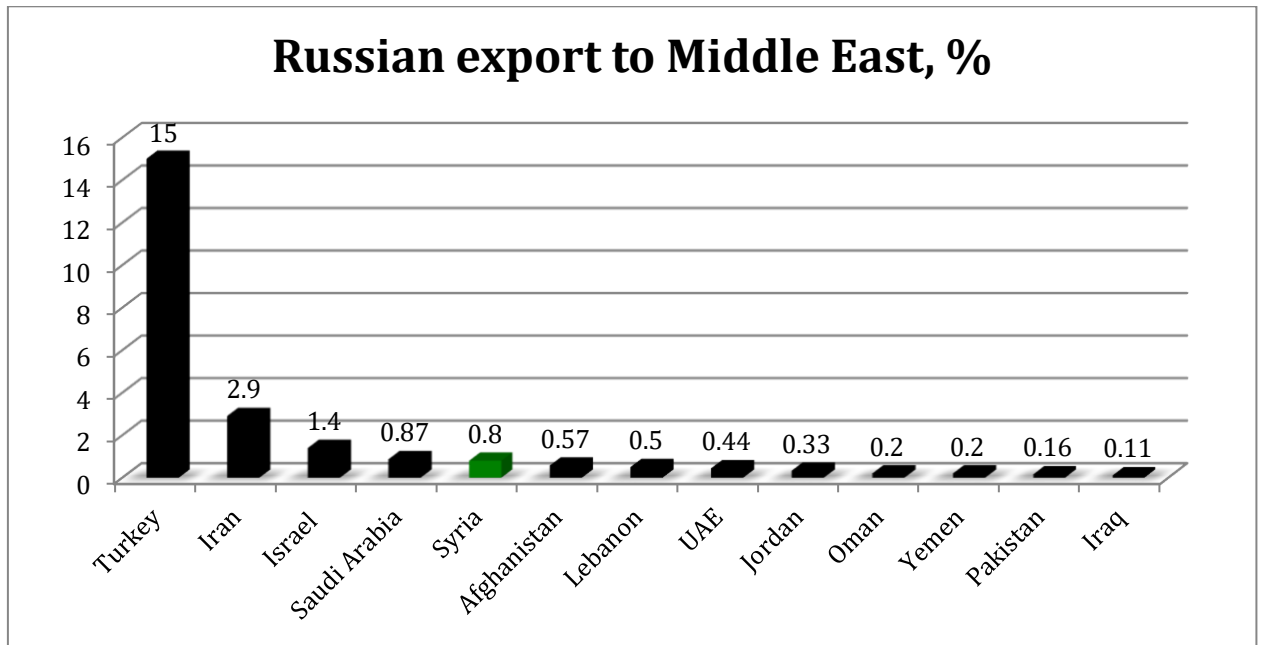


Fig. 3. Russian import from Middle East in 2010, %

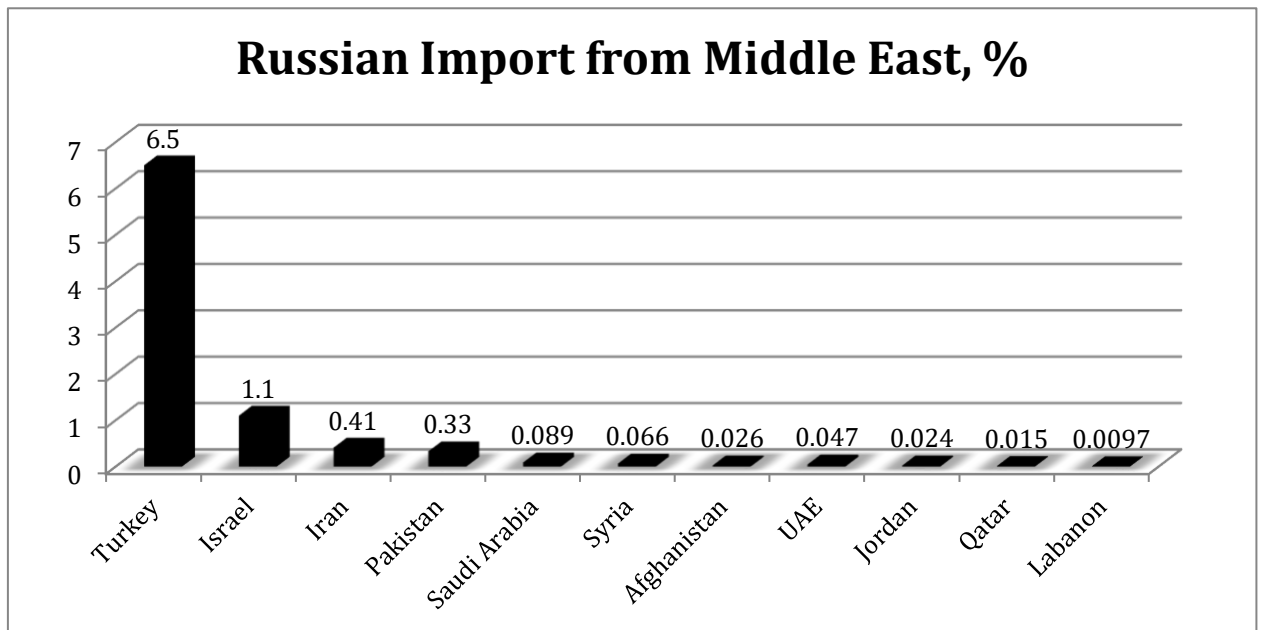


Fig. 4. Russian export to Middle East in 2016, %

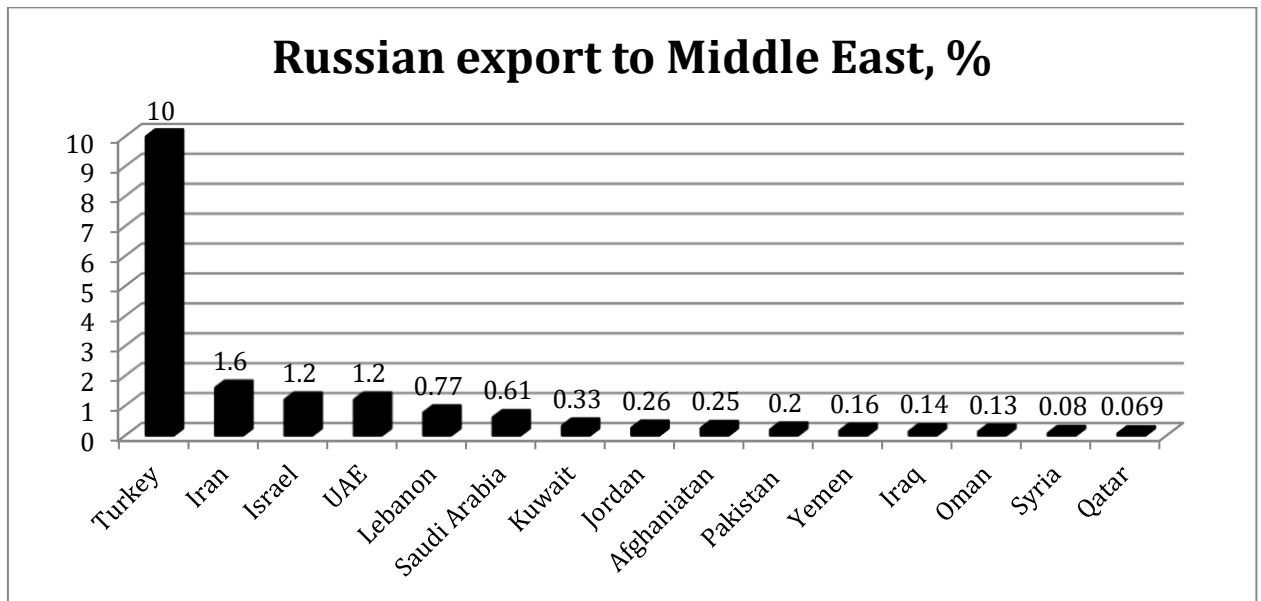
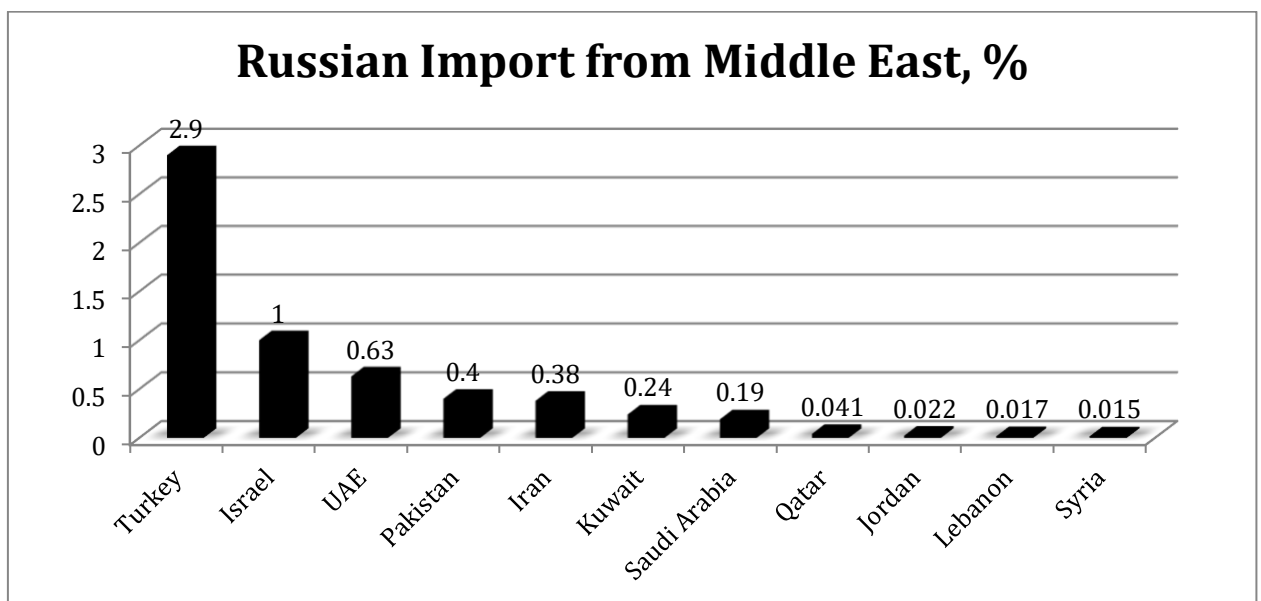


Fig. 5. Russian import from Middle East in 2016, %



Tab. 2. 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%)

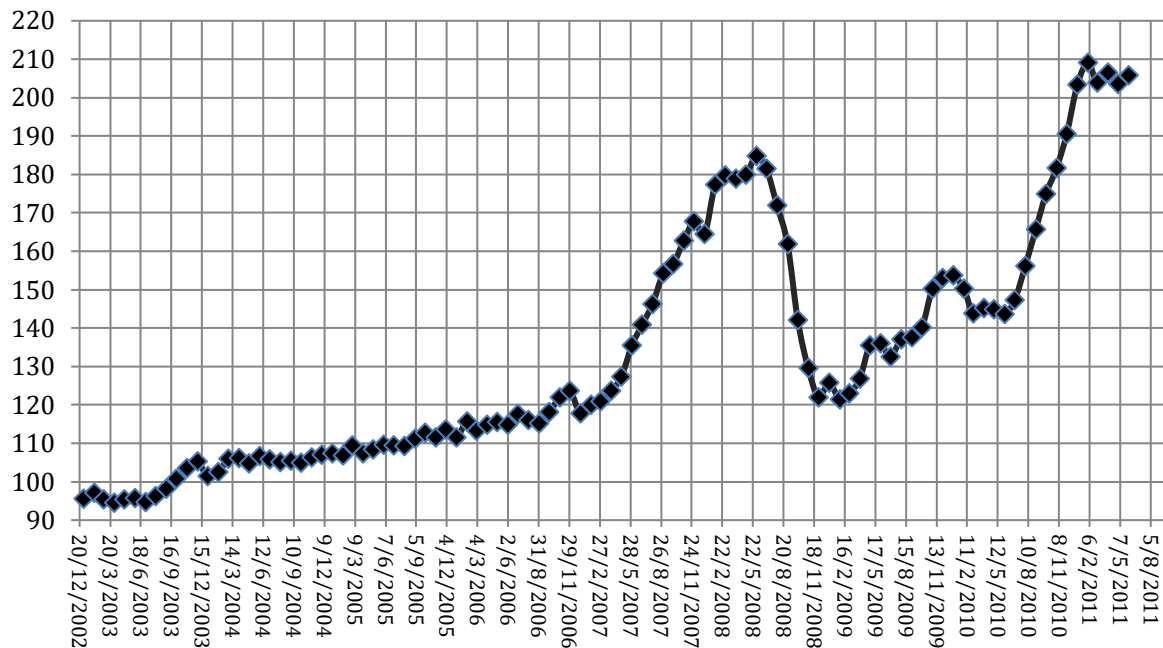
In terms of Russian-Syrian trade, both before and after 2011, Syria's main export items to Russia were textiles and produce (Tables 2). After the onset of the civil war in Syria, Russia's share both in export and import to Syria significantly decreased (Figure 4 and 5). The escalation of armed hostilities in Aleppo, which began in the second half of 2012, resulted in a dramatic reduction in textile supplies from Syria to Russia. This supply ceased when the Syrian army launched the operation to recapture Aleppo.. Thus, produce remained Syria's main export to Russia Before the Arab Spring, Russia's main export to Syria was oil products, semi-finished iron and carving wood.. From the start of the civil war in Syria, military equipment became Russia's biggest export to Syria, required by the Assad government to fight the civil war (Table 3).

Tab. 3. 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	<i>Banknotes (20%)</i>	<i>Explosives(13%)</i>	<i>Wheat (11%)</i>	<i>Receivers (11%)</i>	<i>Carving wood (8,1%)</i>
2016	<i>Corn (25%)</i>	<i>Cigars (17%)</i>	<i>Carving wood (9,5%)</i>	<i>Barley (6,5%)</i>	<i>Banknotes (5,3%)</i>

Fig. 6. World food prices dynamics (FAO general food prices index, 2002–2004 = 100, inflation-adjusted)³



Iran’s main interests in post-war Syria

Senior Iranian officials have repeatedly emphasised that Iran's spending in Syria has not been a form of “charity” and should be viewed within the framework of post-war economic interactions. According to the Iranian Supreme Leader’s Senior Advisor, Yahiya Rahim Safavi, “The Islamic Republic of Iran must return the expenses it has spent in Syria and the Syrians are prepared to reimburse through Syria's oil, gas and phosphate mines.” He also claimed “Iran is already exporting Syria's phosphate.” Thus, energy and mining are the areas in which Iran is expecting to gain return for its investment in Syria.

Iranian officials have also persistently emphasized that the private sector should take the lead in post-war investment. For the Iranian administration, the involvement of its private sector in Syria is one way to circumvent US sanctions. From this perspective, Syria’s reconstruction could provide the Iranian private sector, and particularly SMEs, an opportunity not only to become involved in profitable business activity abroad, but also to make new connections with other international firms that may be part of this process. It would expand the scope of Iran’s economic ties and function as a vital artery to keep the Iranian economy alive despite the recent crises.

However, due to sanctions, Iranian companies do not seem to have the capital to make significant investments in Syria’s reconstruction. This increases the likelihood that state

³ Korotayev A. et al. Socio-Demographical Analysis of the Arab Spring. In: System Monitoring of the Global and Regional Risks. Arab Spring 2011. Ed. Andrey Korotayev, Julia Zinkina, Alexander Khodunov. Moscow, 2012.

companies, especially those affiliated to the IRGC, may eventually take the lead. Brigadier General Ebadollah Abdollahi, commander of Khatam-al-Anbiya Construction Headquarters – IRGC’s main economic arm that usually conducts major infrastructural projects in Iran –stated in a December 2017 interview that “If the government decides to do so, Khatam Headquarters, as a leading organisation, will be ready to do reconstruction work in Syria.”

Russia’s Main Interests in Post-War Syria

Despite specific areas of interest, the economic attractiveness of Syria for Russia has always been, and probably will remain, quite low. Yet, Russia may still use any opportunity that might be provided in Syria.

Russian businessmen, however, are not eager to invest in Syria, as the market is too small, and the revenues not worth the risks that the business could suffer due to sanctions. The Syrian oil and gas market is a striking example. It is too small to attract large Russian oil and gas companies. The Syrian government has not issued any official decrees providing special customs regulations for Russian companies, thus Russian companies are not incentivised to invest. Another problem that reduces Russian appetite for investment is Syria’s poor infrastructure.

Sanctions against Damascus also discourage Russian companies from doing business inside Syria. In the current situation, Russian SMEs, interested in collaboration with Western companies, would not take such risks, and large corporations resort to mediators. Only Russian companies that had already been under sanctions appeared ready to deal directly with Syria.

The “[road map](#)” on collaboration in industry and commerce (2019-2021), approved at the 11th meeting of the mutual Russian-Syrian Intergovernmental Commission, is the most probable mechanism for Russian participation in investment and economic projects in Syria. This “road map” lays out the 30 projects that Russia and Syria have agreed to cooperate on. The projects include industry, professional training, higher education, environment and culture. There are also projects on water supply the flour-grinding industry, in healthcare and well as projects connected to public works and transport.

There are also projects being implemented by the Russian companies. The Russian company ‘Tekhnopromexport’ will take part in the reconstruction of the four thermal electric power stations in Syria. Two Russian companies, [Zarubezhneft](#) and [Zarubezhgeologia](#), are performing geologic exploration works. Sroytransgaz, has been working on the north gas refinery plant (GRP-2) located near Raqqa, and restoring the phosphatic mines near Palmyra -Al-Sharqiyah and Khunayfis. Finally, Euro Polis is safeguarding the oil facilities and, in return, expects to earn a quarter of the revenues from the development of the fields.

Syrian debt

There is no accurate data about Syria’s pre-war debt to Iran, but according to the officials in Iran’s Chamber of Commerce the amount was not considerable. However, during the war, Tehran has, in several cases, opened credit lines for Damascus to import goods. The total debt between 2013 and 2015 amounted to \$ 6 [billion](#) (Tab. 4).

Tab. 4.

Year	Amount
2013	\$1.9 billion
2014	\$3 billion
2015	\$917 million
Total	\$5.87 billion

While the exact use of these credit lines by the Syrian government is not clear, it has been announced that part of it has been used to buy essential goods and oil from Iran. These figures do not include Iran's non-military spending in Syria, labelled as "humanitarian aid." According to the Iranian Foreign Minister Mohammad Javad Zarif, the value of Iran's humanitarian aid to Syria since the start of the war has been about \$ 2.8 billion. The money, he says, has been spent for providing medical aid, medical equipment, food and other consumables. Zarif did not specify to whom this money had been delivered, but most probably it was spent in government-held areas.

The writing-off of Syrian debt to Russia was another important step in the development of the economic relations between Russia and Syria. This debt was a result of loans that the USSR used to provide to Syria. In 2005, the Russian government [adopted](#) a law to write-off 73% of the total amount of debt (Fig. 9). However, Syria could not pay the remaining debt in cash, so it was divided into two parts. The first parts consisted of cash instalments to Russia within a 10-years period, and the rest spent on the delivery of Syrian goods to Russia (with no money exchange), on Russian investments to Syria on account of Syria's debt repayment, as well as on Russian arms purchases and on restoring and modernising of armoured vehicles, supplied to Syria by the USSR.

Subsequently the Ministry of Industry and Energy of the Russian Federation proposed a range of investment programs for Syria that stipulated the participation of Russian companies in the oil-gas field development in Syria, as well as in construction and engineering.

Russia and Iran in Syria: prospects of economic cooperation and competition

Iran has shown an interest in getting involved in transport, mines, oil and gas and electricity in Syria. However, given that Russia has already become active in energy and mines, there is a potential for conflict between Tehran and Moscow in the Syrian economy. In fact, the Russians have signed an agreement with Assad that would allow them to invest in Syria's phosphate and other mining resources. Furthermore, it was announced on February 1, 2018 that Moscow and Damascus had signed an energy cooperation agreement that could give Russia a dominant role in extracting and producing Syrian oil.

However, this did not preclude Iranian-Russian cooperation in the process of Syria's reconstruction., Syria's rail sector remains the most probable sphere for such a cooperation, as Syria's potential attachment to China's BRI could benefit both Iran and Russia.

While the focus of Iran and Russia has so far been mainly on their military and field cooperation, no mechanism has been devised for managing their potential economic competition. For now, the Russians seem more determined to pursue their economic interests in Syria, while domestic bureaucratic complexities on the one hand, and increasing sanctions on the other, have caused Iran to have less competitive power.

Fig. 7. Debt, bln \$US

