

Research Paper

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# Russia and Iran: Economic Influence in Syria



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## Summary

- Russia and Iran, the two main military allies and enablers of the Syrian regime, are engaged in competition over access to the Syrian economy, with a particular focus on opportunities to obtain reconstruction contracts.
- In addition to lines of credit and the supply of vital strategic products, Russia and Iran are pursuing a larger role in the Syrian economy by agreeing investment contracts for their major companies and conglomerates.
- Moscow and Tehran seek partial compensation for their military interventions in Syria, and both adopt an opportunity-based approach to the Syrian market.
- Russia demands unconditional international support for the reconstruction of Syria to stabilize the security of the country and to allow the return of refugees. Moscow also perceives reconstruction as an opportunity to facilitate the international and regional rehabilitation of Bashar al-Assad.
- Russia and Iran have built up alliances with local businessmen in Syria, and each country has established a business council to support and boost these relationships. The key sectors targeted by Russian and Iranian companies include oil and gas, electricity, agriculture, tourism and real estate.
- Assad constantly seeks to enlarge his own margin for manoeuvre by manipulating the interests of his allies. In addition to his ongoing efforts to re-establish his authority, Assad also astutely manages Syria's economic interests on a case-by-case basis to maximize revenues.
- Contracting Russian private companies comes at a lower political cost to Syria than allowing Tehran to further expand in key sectors of the Syrian economy. However, Iran will remain influential in the foreseeable future as it is an important trade partner with Syria and an essential provider of oil refined products.
- US and EU economic sanctions on key sectors of the Syrian economy and individuals have impeded the regime's capacity to initiate and push the reconstruction phase of its recovery. Moreover, these sanctions have also discouraged major foreign companies from investing in Syria. However, they can only be truly effective as part of a comprehensive framework to assist Syria in a meaningful and credible political transition.

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## Introduction

Despite the considerable de-escalation of hostilities following Bashar al-Assad's recent victories in Syria, the country's political and economic recovery remain uncertain. Millions of Syrians have fled their homes and found refuge in neighbouring countries, hundreds of thousands of citizens have been killed and unlawfully detained, and national infrastructure has been damaged to the extent that its rehabilitation cannot be completed without international efforts.<sup>1</sup>

Many international actors believe that, with the help of Russia and Iran, the regime of Bashar al-Assad has overcome the military threat posed by opposition forces. The US and EU now see an opportunity to induce behavioural changes in the regime by leveraging financial support for the reconstruction process. Meanwhile, Russia wishes to see the international community offer support, without conditions for Assad to step down, in exchange for the regime's involvement in stabilizing the country and the region. At the same time, Damascus is gearing up for a phase of reconstruction and stabilization by enacting new legislation, reinforcing its security and military apparatus, and endorsing new middlemen and businessmen to lead future reconstruction efforts.

Russia and Iran are the most influential external powers supporting the Assad regime and it is expected that Moscow and Tehran will reap the benefits of Syria's economic recovery. However, the reality of this dynamic is complicated. Participation in the Syrian civil war has come at great cost to Syria's allies. Both are facing their own economic difficulties at home, which limit their capacity, and, crucially, they are pursuing different agendas in Syria. Moscow and Tehran may share a common objective in preventing the military and political collapse of the Syrian regime, but they have assumed different roles in their interactions with the regime, the state and local communities.

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In pursuit of maintaining their interests in Syria, Moscow and Tehran have adopted different strategies and tools to fulfil their respective objectives. Russia aims to institutionalize its influence in Syria by reinforcing the state's capacity to exercise its full sovereign functions. In a sense, Moscow believes its interests are best preserved by a friendly central autocratic regime, which requires minimal investment and risk on its part to ensure stability in the long run. This objective implies re-establishing state authority over all armed actors by either integrating them in the Syrian military and security apparatus or simply eliminating them. In addition, this strategy requires the restoration of the government monopoly over governance and public service provisions as well as control of the economy and revenues generated.

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<sup>1</sup> The UN estimates the cost of the damages caused by the conflict to be as high as \$388 billion in physical destruction and economic losses. The former UN special envoy to Syria Staffan De Mistura has stated that reconstruction could cost at least \$250 billion, while Assad predicted that the process could last 10–15 years with a cumulative cost of \$400 billion. Associated Press (2018), 'The Latest: UN says civil war has cost Syria \$388B in damage', 9 August 2018, <https://www.apnews.com/aa0aaa2c44cd430196f572227b45c150> (accessed 21 Feb. 2019); UN News (2017), 'No preconditions accepted from Syrian parties, UN envoy says ahead of Geneva talks', 27 November 2017, <https://news.un.org/en/story/2017/11/637402-no-preconditions-accepted-syrian-parties-un-envoy-says-ahead-geneva-talks> (accessed 21 Feb. 2019); RT Arabic (2018), 'الأسد: 400 مليار كلفة إعادة إعمار سوريا' [Assad: \$400 Billion Is the Cost of Syria Reconstruction], 16 April 2018, <https://arabic.rt.com/business/938644-%D8%A7%D9%84%D8%A3%D8%B3%D8%AF-%D9%83%D9%84%D9%81%D8%A9-%D8%A5%D8%B9%D9%85%D8%A7%D8%B1-%D8%B3%D9%88%D8%B1%D9%8A%D8%A7> (accessed 21 Feb. 2019).

Iran on the other hand seeks to work with new local partners – Syrian nationals sympathetic to Iran’s objectives – while maintaining its influence over Assad. Through this bottom-up approach Iran attempts to incorporate its Syrian local allies into state functions including those that manage security, governance and the economy. This strategy is motivated by Tehran’s awareness of Russia’s greater influence within Syrian state institutions. Engaged in a regional competition with the Arab Gulf monarchies and Turkey, Iran wishes to establish influence beyond traditional state-level actors. Tehran’s relations with influential local communities in Iraq, Lebanon and Yemen have allowed it to challenge or disrupt its rivals. The Syrian arena has a part to play in this regional strategy. It is true that Iran enjoys a certain amount of leverage over the regime, but Assad’s willingness to fulfil his end of the bargain remains transactional and subject to negotiations with other regional and international actors. Hence, ensuring the relevance and status of local partners, either on their own or within state institutions, constitutes a guarantee for Iran’s future interests in Syria.

Despite these differences, both Moscow and Tehran expect to benefit from their interventions in Syria. Their respective participation in the economic recovery of Syria is intended partially to compensate them for their role in supporting the regime and partly to maintain their influence in the post-war era. Moscow has gained massive privileges and concessions from Damascus with little persuasion needed on its part, while Tehran has been held back by Syrian state corruption, bureaucratic obstacles, competition with regional actors and Russia, and the imposition of US sanctions.<sup>2</sup> The cost of Russia’s decisive intervention in Syria is lower than Iran’s investment in Assad’s survival. Moscow has not provided substantial equity or commodities to Damascus, while Tehran delivered major financial and economic contributions to the regime in addition to its own direct involvement. At the peak of its military intervention in 2015, IHS Jane estimated the cost of the Russian involvement at \$2.4 million–\$4 million a day, this amounts to \$2.5 billion–\$4.5 billion since September 2015.<sup>3</sup> In comparison, the US State Department estimates that Iran has spent over \$16 billion in Syria since 2012.<sup>4</sup> According to Ali Akbar Velayati, a senior adviser to Iran’s Supreme Leader in international affairs, Tehran provides \$8 billion a year to support the Syrian regime’s survival, amounting to \$48 billion over the same period.<sup>5</sup> Even though there are limited reliable sources on the real cost of both the Russian and Iranian interventions in Syria, it is clear that Tehran’s engagement goes deeper than that of Moscow, which has mainly provided logistical and air support. Iran has equipped and financed tens of thousands of fighters in Syria, sent ammunition, provided refined oil products and lost soldiers on the battlefield.<sup>6</sup> Consequently, the Iranian leadership expects large trade concessions in the energy and telecommunications sectors,<sup>7</sup> although to date few of the Syrian regime’s promises have materialized.

<sup>2</sup> Bozorgmehr, N. and Solomon, E. (2018), ‘Iran faces uphill battle to profit from its role in Syria war’, *Financial Times*, 13 February 2018, <https://on.ft.com/2srFVu7> (accessed 20 Feb. 2019).

<sup>3</sup> H. Ellyatt (2015), ‘This is how much Russia’s ‘war’ in Syria costs’, CNBC, 21 October 2015, <https://www.cnbc.com/2015/10/21/this-is-how-much-russias-war-in-syria-costs.html> (accessed 20 Feb. 2019).

<sup>4</sup> Iran Action Group (2018), *Outlaw Regime: A Chronicle of Iran’s Destructive Activities*, Washington: US State Department, <https://www.state.gov/documents/organization/286410.pdf> (accessed 20 Feb. 2019).

<sup>5</sup> Alavi, H. (2018), ‘Iran To Suffer Most in Syria’, *Forbes*, 13 April 2018, <https://www.forbes.com/sites/heshmatalavi/2018/04/13/iran-to-suffer-most-in-syria/> (accessed 21 Dec. 2018).

<sup>6</sup> Taheri, A. (2018), ‘Why Iran’s Intervention in Syria Proved so Costly’, *Asharq al-Awsat*, 14 March 2018, <https://aawsat.com/english/home/article/1204601/exclusive-why-iran%E2%80%99s-intervention-syria-proved-so-costly> (accessed 19 Jan. 2019).

<sup>7</sup> Koman, M. (2018), ‘التوضيح الاقتصادي الإيراني في سورية’, [*The Economic Positioning of Iran in Syria*], Omran for Strategic Studies, 4 April 2018, [https://www.omrandirasat.org/%D8%A7%D9%84%D8%A5%D8%B5%D8%AF%D8%A7%D8%B1%D8%A7%D8%AA/%D8%A7%D9%84%D8%A3%D8%A8%D8%AD%D8%A7%D8%AB/%D8%A3%D9%88%D8%B1%D8%A7%D9%82-%D8%A8%D8%AD%D8%AB%D9%8A%D8%A9/download/413\\_b5ddc9986b24f9be41ca8ba27d51df90.html](https://www.omrandirasat.org/%D8%A7%D9%84%D8%A5%D8%B5%D8%AF%D8%A7%D8%B1%D8%A7%D8%AA/%D8%A7%D9%84%D8%A3%D8%A8%D8%AD%D8%A7%D8%AB/%D8%A3%D9%88%D8%B1%D8%A7%D9%82-%D8%A8%D8%AD%D8%AB%D9%8A%D8%A9/download/413_b5ddc9986b24f9be41ca8ba27d51df90.html) (accessed 19 Jan. 2019).

Russia and Iran view their support for the regime as a means of delineating their spheres of influence and attempting to secure their long-term interests in the country. But this complicated relationship is increasingly becoming tense regarding reconstruction and investment opportunities. This is mainly due to two factors: first, the way the Syrian regime is managing economic recovery and the contracting process; second, the reluctance of companies in the Russian and Iranian private sectors to invest in the Syrian economy because of the substantial security and financial risks they may face. The recent award of a phosphate mining contract demonstrates how tensions may continue to rise between Russia and Iran. In January 2017, the Syrian and Iranian government signed memoranda of understanding that included the rights to mine the Sharqiyeh field near Palmyra for phosphate.<sup>8</sup> But six months later, the Syrian government awarded Stroytransgaz, a Russian private company, an exclusive contract to annually extract and sell 2.2 million tonnes of phosphate for a period of 50 years from the same mine, with 30 per cent of the revenues reserved for the Syrian state.<sup>9</sup> There is a growing trend of initial Iranian agreements with the Syrian regime that fail to materialize into binding contracts. Iran's difficulties in Syria are also due to sanctions crippling its economy,<sup>10</sup> and the Syrian regime's attempts to play Iran and Russia against one another.<sup>11</sup>

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This paper looks at Russian and Iranian engagement in the post-war Syrian economy and at how their interaction with local stakeholders is shaping their ventures and possibly creating areas of competition and contention. The paper is divided into four sections: how Russia and Iran are seeking compensation for their role in the Syrian conflict; how they interact with potential regional and international partners or competitors in the Syrian economy; how they are gearing up to maintain long-term influence; and the possible impact of US sanctions on their respective investments in the reconstruction phase.

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<sup>8</sup> Syria Report (2018), 'Iran Gains Access to Syria's Large Phosphate Reserves', 19 June 2018, <https://www.syria-report.com/news/oil-gas-mining/iran-gains-access-syria%E2%80%99s-large-phosphate-reserves> (accessed 22 Dec. 2018).

<sup>9</sup> Al-Alo, S. (2018), الصراع على الثروة السورية بين إيران وروسيا: الفوسفات نموذجاً, [The Iranian-Russian Competition Over Syria Resources], Al Jazeera Centre for Studies, [http://studies.aljazeera.net/mritems/Documents/2018/7/30/13fb3cbef0c146358943f89235d8c0a6\\_100.pdf](http://studies.aljazeera.net/mritems/Documents/2018/7/30/13fb3cbef0c146358943f89235d8c0a6_100.pdf) (accessed 20 Dec. 2018).

<sup>10</sup> Bozorgmehr and Solomon (2018), 'Iran faces uphill battle to profit from its role in Syria war'.

<sup>11</sup> Sinjab, L. (2018), *Russia and Iran are increasingly competitive in Syria*, Analysis, London: Chatham House, <https://syria.chathamhouse.org/research/russia-and-iran-are-increasingly-competitive-in-syria> (accessed 30 Jan. 2019).

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## Seeking compensation

Russia's involvement in Syria is driven by its engagement in global geopolitics and its objective is ultimately to maintain an unchallenged and grateful ally in Damascus. It aims to achieve this through security assistance, influence over political leadership, military operations, the construction of Russian military bases and the infiltration of key economic sectors. Moscow has limited its use of aid or direct economic assistance to pursue its aims. Data on Russian foreign aid programmes in Syria are difficult to come by. The available data show that the total amount of Russian foreign aid in 2015 reached \$1.6 billion, and only a fraction of this aid was delivered to Syria (excluding the cost of military intervention).<sup>12</sup> When it comes to aid projects and reconstruction work, Russia seeks to encourage the participation of the international community, while re-enforcing its capacity to have direct influence on events.<sup>13</sup>

Propelled by the apparent withdrawal of the US from the region, Russia has positioned itself as a new security provider in the Middle East and North Africa (MENA). Since its intervention in 2015, Moscow has made a point of accommodating US allies such as Turkey, GCC countries, Jordan, Israel and Egypt.<sup>14</sup> By posing as a mediator, facilitator and guarantor of negotiations in the Astana process and the concluding Sochi talks, Russia seeks to place itself above regional rivalries.<sup>15</sup> Nevertheless, Russia is constrained by its own available capacity to fully claim this role. Restrained by domestic economic difficulties and the public's apparent indifference towards Middle East affairs,<sup>16</sup> the success of Moscow's renewed aspiration in the region relies on being unchallenged by local actors. Beyond the occasional use of deterrence to dissuade 'rogue' behaviour,<sup>17</sup> Russia does not wish to confront actors in the region.<sup>18</sup> Moreover, in return for accepting its role, Moscow is willing to allow – or at least tolerate – unilateral actions from regional powers to relieve their own security anxieties especially in areas where the US failed or was simply reluctant to assist. For instance, Russia allows the Israel Defence Force (IDF) to target Islamic Revolutionary Guard Corps (IRGC) assets in southern Syria as long as it does not threaten Assad's stability.<sup>19</sup> Similarly, it tolerated the Turkish incursion in northern Aleppo and Afrin to deal with the threat of Democratic Union Party (PYD) expansion.<sup>20</sup> Moscow is also willing to let GCC countries believe it is open to the curbing of Iran's interests in Syria at least.<sup>21</sup> Nonetheless, Iran seems to be the regional actor most immune to Russia's actions. In addition to a complex set of common interests with Russia in the Caucasus, the Caspian Sea, the Persian Gulf and Central Asia,<sup>22</sup> Tehran is the only other regional power with influence over Damascus that can match Moscow's sway.

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<sup>12</sup> Asmus, G., Fuchs, A. and Müller, A. (2018), 'Russia's foreign aid re-emerges', Aid Data: William & Mary's Global Research Institute, 9 April 2018, <https://www.aiddata.org/blog/russias-foreign-aid-re-emerges> (accessed 8 Jan. 2019).

<sup>13</sup> Hille, K., England, A. and Sevastopulo, D. (2018), 'Russia seeks western support for postwar Syria', *Financial Times*, 26 July 2018, <https://www.ft.com/content/61ed036e-8f52-11e8-b639-7680cedcc421> (accessed 21 Dec. 2018).

<sup>14</sup> Kortunov, A. (2018), 'Russia: the Power Broker in the Middle East?', Moscow: Russian International Affairs Council, 22 November 2018, <http://russiancouncil.ru/en/analytics-and-comments/analytics/russia-the-power-broker-in-the-middle-east/> (accessed 10 Dec. 2018).

<sup>15</sup> *Ibid.*

<sup>16</sup> Petkova, M. (2017), 'Do Russians care about Syria?', Al Jazeera, 30 August 2017, <https://www.aljazeera.com/indepth/features/2017/09/russians-care-syria-170928110745906.html> (accessed 12 Dec. 2018).

<sup>17</sup> Russia has deployed an Air Defence S300 to dissuade the IDF from striking again in Syria. Similarly, it has threatened to use an S400 air defence unit stationed in Hmeimim to down any hostile airplane that falls under its radar within the Syrian territory.

<sup>18</sup> To date, Russia has only targeted the Syrian opposition in addition to the Islamic State of Iraq and Syria (ISIS); there has been no record of confrontation or escalation with any of the other actors, including with the US after it reportedly killed tens of Russian mercenaries near the al-Omari field or with Israel after the regime's mistaken downing of a Russian airplane near the Syrian coast in September 2018, during an Israeli attack on SAA warehouses in Latakia.

<sup>19</sup> Averbukh, L. and Klein, M. (2018), *Russia-Israel relationship transformed by Syria conflict: political interests overshadow social and economic ties*, Stiftung Wissenschaft und Politik, [https://www.swp-berlin.org/fileadmin/contents/products/comments/2018C37\\_avk\\_kle.pdf](https://www.swp-berlin.org/fileadmin/contents/products/comments/2018C37_avk_kle.pdf) (accessed 19 Jan. 2019).

<sup>20</sup> Issaev, L. (2018), 'Why is Russia helping Turkey in Afrin?', Al Jazeera, 29 January 2018, <https://www.aljazeera.com/indepth/opinion/russia-helping-turkey-afrin-180125122718953.html> (accessed 12 Dec. 2018).

<sup>21</sup> Parker, J. W. (2018), *Between Russia and Iran: Room to Pursue American Interests in Syria*, Washington: Institute for National Strategic Studies, National Defence University.

<sup>22</sup> Tarock, A. (2017), 'Russo-Iranian Relations in the Post-Soviet Era', *Diplomacy & Statecraft*, 28(3), pp. 518–537, doi:10.1080/09592296.2017.1347449 (accessed 12 Dec. 2018).

When it comes to economic development, Moscow encourages regional and international actors to invest in and trade with Syria as long as they do not undermine the regime's authority or disrupt its stabilization efforts. Potential financial and economic contributions from a range of international actors could benefit Russia's ventures and maximize their outcomes in Syria. The general overview of Russian investments, as discussed later in this paper, reveals an opportunity-based approach in accessing the Syrian market. In the meantime, Russia will leverage its influence in Damascus to facilitate access to Syria's private sector and other lucrative sectors of the economy such as energy, tourism, agriculture and arms.

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For Tehran, the Syrian economy constitutes a potential target market for Iranian products. A significant role in Syria's economic revival would also allow Iran to reinforce the influence of its Syrian local allies and maintain its sway over Damascus. Since 2013, Iran has provided Syria with three lines of credit for the import of fuel and other commodities, with a cumulative value of over \$6.6 billion.<sup>23</sup> These credit lines do not cover the costs of military hardware and ammunition, the salaries paid for militants defending the regime, or the emergency and transfer funds that prevent a freefall of the Syrian Pound. Restrained by US sanctions, and regularly surpassed by Russia in winning major concessions in lucrative sectors in Syria, Tehran has resorted to adopting two indirect approaches to entrench itself in the Syrian economy. First, Iran expanded its ventures in the most remote and underserved areas of the country, mainly in the countryside around Aleppo and Deir EzZor.<sup>24</sup> These financial contributions allow Iran to increase its influence by building constituencies in neglected communities with little competition from the regime or Russia. Second, Iran has restricted those that can receive funding from the lines of credit it offers in Syria to Iranian companies.<sup>25</sup> Tehran can thus continue to provide the regime with a lifeline of goods and energy supplies, while re-enforcing the roles of its affiliates in Syria's economy.

Nonetheless, the Iranian intervention in Syria is more about attaining regional strategic goals than opening up new markets. Its geographic approach in financial investment reveals what Tehran considers as strategic assets for its security and sustainable presence in Syria. In eastern Syria, along the Euphrates valley, Iran has made deals with local tribal leaders such as Nawaf al-Bashir of the al-Baqqara tribe to ensure its interests.<sup>26</sup> Furthermore, it has rooted its influence by supporting local livelihoods, for example by providing abundant animal feed at low prices to encourage the vital animal husbandry sector. Iran has also built medical centres, rehabilitated schools and provided electricity to win over the local population. In southern and eastern Aleppo, where the IRGC has established the influential Local Defence Forces (LDF), Iran has encouraged its Syrian local allies to infiltrate local business, transportation and the oil trade. Encouraging the conversion of the LDF to become economic actors is also partially in anticipation of regime and Russian efforts to

<sup>23</sup> Turkmani, R. (2018), 'EU Syria engagement from a human security perspective', EU Global Strategy and Human Security, Abingdon and New York: Routledge, pp. 64–84.

<sup>24</sup> Hassan, M. (2018), 'إيران تعمق بصمتها في دير الزور' [*Iran Deepens its Mark in Deir EzZor*], Analysis, London: Chatham House, <https://syria.chathamhouse.org/ar/research/2018/iran-deepens-its-footprint-in-deir-ez-zor> (accessed 3 Jan. 2019).

<sup>25</sup> Syria Report (2015), 'Syria-Iran Economic Relations Since 2013', 13 July 2015, <http://www.syria-report.com/news/economy/factsheet-syria-iran-economic-relations-2013> (accessed 21 Dec. 2018).

<sup>26</sup> Dukhan, H. (2019), *State and Tribes in Syria: Informal Alliances and Conflict Patterns*, Abingdon and New York: Routledge.

assimilate them into the Syrian army. In addition, Iran has encouraged local partners to acquire land and real estate in Damascus and Homs – both of which are strategic logistic nodes in linking Syria to Lebanon. It is important, however, to note that it is too early to measure the impact of the Iranian land acquisition strategy, as in many cases attempts to buy real estate have sparked anti-Iran sentiments within the local population.

For the regime, the Russian objective and strategy of reinforcing Assad's authority and sovereignty over the country is much more appealing than the Iranian approach. Accommodating Moscow and offering lucrative contracts to Russian private companies comes at a lower financial and political price than allowing Tehran to further expand in key sectors of the Syrian economy. Nonetheless, Iran remains an important economic partner to Syria especially in providing vital commodities such as refined oil products, pharmaceutical supplements, ammunition and a variety of agriculture and animal produce.<sup>27</sup> Hence, Assad walks a fine line between Iran and Russia, while constantly seeking to enlarge his own margin for manoeuvre. In addition to its ongoing efforts to re-establish its dominance, the regime also astutely manages its agreements on a case-by-case basis to maximize its outcomes. This was demonstrated when Tehran failed to provide the necessary finance to implement a project to build a third telecom network; Damascus did not hesitate to put the agreement on hold.<sup>28</sup> This also applies to Russia and Iran's approach to their respective contracts with Damascus. In cases where the Syrian government failed to secure the necessary funds, such as in a series of bids to reconstruct power plants, both Russia and Iran have not hesitated to pull out of agreements.<sup>29</sup> Unsurprisingly, these dynamics confirm that conducting business in Syria is not only subject to geopolitical calculations but also to the financial sense of an investment. Meanwhile, the regime remains aware of the GCC's strong disposition to curb Iranian influence in Syria. As a result, Assad is intensifying efforts to bolster his independence from Iran as a priority, and from Russia to a much lesser degree, in the hope of rehabilitating his relationships with these states.

As for Russia's potential attempts to contain Iran in Syria, such efforts are only as effective as Moscow's ability to dismantle Tehran's complex net of influence in the country. If this becomes a Russian priority then a large part of its future engagement in Syria will be to prevent Iran from gaining massive influence over the economy. To achieve such an objective Russia requires increased foreign investments to stabilize the regime's authority,<sup>30</sup> which is difficult to realize as it would require convincing the West to invest without major concessions from Assad.<sup>31</sup> This is at the core of Russia's dilemma and leaves Iran with the opportunity to maintain and eventually expand its political and economic influence in Syria.

### Dealing with regional and global powers

Moscow has three objectives in involving the international community in the reconstruction of Syria. First, it is a means to normalize relations with Assad. Moscow has identified reconstruction and the return of refugees as viable avenues for bringing other countries into initiatives that constitute

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<sup>27</sup> Syria Report (2018), 'Iran Exports to Syria Continue to Rise', 2 July 2018, <https://www.syria-report.com/news/economy/iran-exports-syria-continue-rise> (accessed 21 Dec. 2018).

<sup>28</sup> Bozorgmehr and Solomon (2018), 'Iran faces uphill battle to profit from its role in Syria war'.

<sup>29</sup> Syria Report (2018), 'Damascus Fails to Get Funding from Allies for Power Plants Projects', 12 November 2018, <https://www.syria-report.com/news/power/damascus-fails-get-funding-allies-power-plants-projects> (accessed 11 Dec. 2018).

<sup>30</sup> Author interview with a Russian diplomat in Moscow.

<sup>31</sup> Peel, M. (2018), 'Russia presses EU to pay up for rebuilding Syria', *Financial Times*, 10 January 2018, <https://on.ft.com/2mmY5Yg> (accessed 11 Dec. 2018).

de facto working with Assad. Second, reconstruction is also a means to reduce the cost of the Russian intervention. Ultimately, Russia wants to limit its investment in Syria and to end its military campaign, but to achieve this goal Syria needs to be stabilized. Third, managing Assad's regional and international rehabilitation is a way to tacitly recognize Russia's mediator role in the country. President Vladimir Putin is approaching the next phase in the Syrian conflict as the 'big brother' figure who sets the rules of engagement, and in return for his facilitator role, expects all actors to cooperate with him.

**Moscow's main interests are not necessarily concerned with the Syrian reconstruction projects and who funds them, but rather with managing their outcomes.**

Syria needs help to rebuild, but many of the traditional international donors are not sympathetic to the regime. Moscow's main interests are not necessarily concerned with the Syrian reconstruction projects and who funds them, but rather with managing their outcomes. However, despite the Russian official rhetoric demanding that the international community unconditionally contribute to Syria's reconstruction, Moscow recognizes that only small funds and irregular streams of Western investment will be injected into this costly process. Thus, Moscow looks into engaging either countries with no political disposition against Assad or countries looking to advance their security agenda. As for Iran, it views the lack of international interest in the Syrian economy as an opportunity to establish a sustainable influence in the country.

Amid their deep mistrust of the Arab Spring uprisings, the Gulf Arab monarchies initially viewed the Syrian conflict as an opportunity to counter Iran's expansion in the Levant. Consequently, Saudi Arabia, Qatar and the UAE poured money and arms into the Syrian opposition in the hope of ousting Assad and establishing a friendly regime in Damascus. The rise of Islamists with competing agendas, the ever-growing competition and drift with Qatar and Turkey over the leadership of Sunni political movements, and finally their perception of Russian victory in Syria, have all encouraged the Saudi-Emirati axis to rethink their strategy in the country. Not fully convinced of Assad's willingness to abandon his relationship with Tehran, Riyadh and Abu Dhabi are willing to engage with Syria in the hope that Russia has the capacity to contain Iran. Aware of these sentiments and deep-rooted security concerns, Moscow has made no attempts at contradicting the growing belief in the Gulf that Russia is willing to curtail Iran's role in Syria. In contrast, Iran, if given the chance, is likely to use all of its clout to convince Damascus to not accept any financial contributions from the GCC. However, it is likely to fail in this endeavour.

The first to test such an approach were the UAE and Bahrain, which reopened their respective embassies in Damascus in anticipation of restoring diplomatic ties with the regime.<sup>32</sup> The move as described by Anwar Gargash, the Emirati minister of state for foreign affairs, was motivated by the necessity of reactivating an Arab role in Syria to counter the Iranian and Turkish expansion.<sup>33</sup> Prior to 2011, several UAE companies invested in the Syrian real estate and banking sectors.<sup>34</sup> Similarly, their interests in the future phases of reconstruction will most probably be confined to the same

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<sup>32</sup> The National (2018), 'Bahrain says it will reopen embassy in Damascus, after UAE restores mission', 28 December 2018, <https://www.thenational.ae/world/mena/bahrain-says-it-will-reopen-embassy-in-damascus-after-uae-restores-mission-1.807082> (accessed 25 Jan. 2019).

<sup>33</sup> Hurriyet Daily News (2018), 'UAE reopens Damascus embassy after seven years', 28 December 2018, <http://www.hurriyetdailynews.com/uae-reopens-damascus-embassy-after-seven-years-140077> (accessed 25 Jan. 2019).

<sup>34</sup> Barhoom, F. and Varga, J. (2017), 'Banking reforms in Syria', *Regional and Business Studies*, 9(2): pp. 19–30 (accessed 19 Feb. 2019).

sectors with no significant investment portfolios in wider industry, infrastructure, energy or economic development. This tendency has been confirmed by the interest shown by UAE companies that recently visited Damascus, one delegation included Wael Al-Lawati from Damac Properties<sup>35</sup> and another involved Abdul Jalil Al-Blooki from Aafaq Islamic Finance.<sup>36</sup> Such investments could prove to be lucrative to certain local Syrian partners associated with the regime or Russia, but will have very little impact in boosting the Syrian economy, which needs investment in infrastructure rather than real estate development.

Alternatively, Russia could use its position to look into the financial capacities of the BRICS countries, especially China and India, which both supported the Syrian regime in the UN and also share a foreign affairs doctrine of non-interventionism. Beijing in particular is expected to play a major role in the reconstruction of Syria following its similar interventions in other post-conflict countries such as Angola, Congo and South Sudan.<sup>37</sup> However, Beijing's participation in the Syrian reconstruction is complicated by a number of factors. First, Moscow and Tehran's tolerance of Chinese economic involvement is low. Both have invested heavily in preventing the collapse of the Syrian regime, and are wary of a 'free-riding' Beijing. Second, though known for their risk taking, especially in Africa, the opportunity-cost ratio for Chinese companies in Syria is relatively low, due to the lack of strategic resources and stability. Third, the threat of falling under US sanctions is also putting off most Chinese multinational companies such as Huawei, which recently announced its withdrawal from Syria and Iran.

There are two main Chinese interests in Syria. First, the presence of Uighur militants and the security threat they could cause if they find their way back to Xinjiang province, in northwest China.<sup>38</sup> Second, the geostrategic location of Syria at the crossroads of routes linking western Asia to Africa and Europe. Syria is part of China's \$1 trillion Belt and Road Initiative.<sup>39</sup> In 2017, Beijing pledged to invest \$2 billion in Syrian industry and has also used the recent China–Arab States Cooperation Forum to announce a further \$23 billion in loans and aid for the Arab region.<sup>40</sup> However, the 2017 pledge failed to materialize in any significant projects and it is not clear how much of the proposed \$23 billion will go to Syria either. Thus far, Syrian appeals for stronger investment appear to have failed despite the tireless efforts of Imad Mustapha, the Syrian ambassador to China. Simply put, China has shown no real confidence in investing in Syria. It fears that future investments will be scuppered by nepotism and corruption. Furthermore, China does not see any real benefit in taking part in a fierce competition with Russia and Iran for influence over the regime.

Less vocal in its support of Assad, India has shown little interest in regime change in Syria. Contrary to its traditional allies' stance in the GCC, which are crucial for securing India's primary interests in the region, New Delhi's tacit support for the regime is driven by three factors: its fear

<sup>35</sup> Enab Baladi (2019), 'Syria: A Getaway for UAE to Face Economic Crisis', 10 January 2019, <https://english.enabbaladi.net/archives/2019/01/syria-a-getaway-for-uae-to-face-economic-crisis/> (accessed 20 Jan. 2019).

<sup>36</sup> Damascus Cham Holding Company (2018), 'زيارة السيد عبد الجليل البلوكي نائب رئيس مجلس إدارة أفاق الإسلامية للتمويل-الامارات' ['Visit of Mr. Abdul Jalil Al-Blooki, Vice Chairman of Afaq Islamic Finance'], UAE, 7 August 2018, <http://damacham.sy/%D8%B2%D9%8A%D8%A7%D8%B1%D8%A9-%D8%A7%D9%84%D8%B3%D9%8A%D8%AF-%D8%B9%D8%A8%D8%AF-%D8%A7%D9%84%D8%AC%D9%84%D9%8A%D9%84-%D8%A7%D9%84%D8%A8%D9%84%D9%88%D9%83%D9%8A-%D9%86%D8%A7%D8%A6%D8%A8-%D8%B1%D8%A6> (accessed 25 Jan. 2019).

<sup>37</sup> Yang, J., Wang, W., Wang, K. and Yeh, C. (2018), 'Capital intensity, natural resources, and institutional risk preferences in Chinese Outward Foreign Direct Investment', *International Review of Economics & Finance*, 15: pp. 259–272 (accessed 19 Feb. 2019).

<sup>38</sup> Dorsey, J. M. (2019), 'The Greater Middle East: China's Reality Check', *Sharq Forum*, <https://www.sharqforum.org/2018/12/27/the-greater-middle-east-chinas-reality-check/> (accessed 25 Jan. 2019).

<sup>39</sup> Gao, C. (2017), 'Why China Wants Syria in its New Belt and Road', *The Diplomat*, 30 November 2017, <https://thediplomat.com/2017/11/why-china-wants-syria-in-its-new-belt-and-road> (accessed 28 Dec. 2018).

<sup>40</sup> Burton, G. (2018), 'China and the Reconstruction of Syria', *The Diplomat*, 28 July 2018, <https://thediplomat.com/2018/07/china-and-the-reconstruction-of-syria/> (accessed 29 Dec. 2018).

of instability, its commitment to non-interventionism and Assad's continued pro-India stance on the Kashmir issue.<sup>41</sup> But economically speaking, the bilateral trade between the two countries has never reached a significant threshold. In 2017, annual trade reached \$175 million despite India's commitment to renew its pre-war projects, specifically the Tishreen power plant.<sup>42</sup> The reason behind the lack of Indian engagement is the absence of security guarantees to protect Indian experts and companies. For the time being India's involvement in the Syrian economy will remain confined to trade and export. The president of the Federation of Indian Export Organizations, Ganesh Kumar Gupta, predicted that Indian annual exports could reach \$500 million by 2020, including automobiles, machinery and plastics.<sup>43</sup>

Meanwhile, other regional countries such as Lebanon, Jordan, Iraq, Egypt and even Turkey could eye Syria as a potential market for their goods despite their different stances towards Assad. However, there are no indicators that such pragmatic approaches could translate into any significant investment in the reconstruction of Syria in the short term – even though it is difficult to imagine that Ankara would pass on reconstruction opportunities if available.

### Establishing sustainable influence

Since the collapse of the Soviet Union, Russia has identified itself as a rival donor country capable of competing with international aid from the West. However, to date, Moscow has shown little interest in providing financial aid to any of the devastated countries in the MENA region including oil-rich Iraq. In terms of finance, Moscow's role in Syria has not deviated from this pattern of behaviour, as available information suggests that Moscow has provided limited amounts of funding to Damascus, particularly when compared to the lines of credit provided by Tehran worth \$6.6 billion. Instead, Russia has adopted an opportunistic approach to reconstruction efforts in the country and has secured access for its private sector to invest in potentially lucrative ventures with very little investment from Russian public funds.<sup>44</sup>

**At present, the regime is dependent on business acquaintances to overcome sanctions. To bolster their credentials, both Iran and Russia are actively building their own constituencies within the Syrian business community.**

Russia and Iran are arguably competing for access to the Syrian economy. Besides offering credit lines and direct funding, their chief vehicles for economic penetration in the Syrian market include obtaining investment contracts for major Russian and Iranian companies and conglomerates. The key sectors targeted in this competition include energy, agriculture, tourism and the private security sector. At present, the regime is dependent on business acquaintances to overcome sanctions. To bolster their credentials, both Iran and Russia are actively building their own constituencies within the Syrian business community. The following section details how each has engaged with the Syrian economy to maintain long-term influence.

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<sup>41</sup> Mehta, K. (2017), 'Understanding India's response to the Syrian civil war', *Observer Research Foundation*, 1: pp. 1–6 (accessed 1 Jan. 2019).

<sup>42</sup> Axon, A. and Hewitt, S. (eds) (2018), *Syria 1975/76–2018*, in Contemporary Archive of the Islamic World series, Brill.

<sup>43</sup> *India Times* (2018), 'India-Syria trade to reach \$500 million in next 3 years: FIEO', 11 September 2018, <https://economictimes.indiatimes.com/news/economy/foreign-trade/india-syria-trade-to-reach-500-million-in-next-3-yrs-fieo/articleshow/65769371.cms> (accessed 20 Dec. 2018).

<sup>44</sup> Author interview with Russian diplomat in Moscow.

### Networking

Both Tehran and Moscow are competing for alliances with major players in the Syrian political and economic spheres to facilitate their business deals and maintain their interests. Consequently, both have established economic councils to oversee their ventures and to organize relations with their respective Syrian partners. The Russians have been more successful in this regard, with over 101 members of their council, compared to less than a dozen on the Iranian equivalent. It is important to note that the frameworks established by these councils only cover a small portion of Russian and Iranian partnerships in Syria, but they do reveal how the Syrian business community views these opportunities. Moscow and Tehran's behaviour in networking differs. Russia uses Syria's security services to procure allies within the state apparatus, while Iran works at the local level by building networks based on sectarian, cultural and tribal affiliations. Historically, Tehran has had relative success in infiltrating the tribal scene, in particular in Hassaka and Aleppo. This success is partially due to tribes needing financial assistance and their sense of abandonment by the regime, which prioritized the urban population in the last two decades.<sup>45</sup>

The Syrian–Russian Business Council (SRBC) includes 101 Syrian businessmen and a number of Russian counterparts. It is divided into seven committees each covering a main sector of the economy.<sup>46</sup> The council has a substantial number of Syrian members and includes many influential names. A number of Syrian businessmen of Russian nationality, most notably George Hassouani, are also reportedly affiliated with the council. The number of Syrian companies included in the SRBC is estimated at 91.<sup>47</sup> These companies are involved in import and export, general trade, textiles, clothing, petrochemicals, energy and, in a small number of cases, private security operations.

In comparison, Iran has had less success in attracting the business community. The Syrian–Iranian Business Council (SIBC) was established in March 2008 and was initially headed by Hassan Jawad.<sup>48</sup> It was reconstituted in 2014, with nine members. Some of these names have significant economic influence, such as Mazen Al-Tarazi, a prominent businessman with investments in the tourism sector and in real estate (including the project to redevelop Marota City in western Damascus).<sup>49</sup>

### Oil and gas

Syria is a relatively small oil producer but before the civil war the petroleum industry was a major part of its economy. According to the IMF, oil sales for 2010 constituted 25 per cent of the state's revenue, bringing in an estimated \$3.2 billion a year.<sup>50</sup> Devastated by war, the Syrian oil sector is suffering and is a shadow of its pre-conflict days. According to the Syria Report, Syrian oil production reached 70,000 barrels per day by the end of 2018,<sup>51</sup> a net increase on previous years when the majority of

<sup>45</sup> Al-Khatib, M. (2017), 'إيران وتطويع المجتمع السوري: مجلس العشائر' [Iran and the adaptation of Syrian society: the tribal council], al-Modon, 26 February 2017, <https://www.almodon.com/arabworld/2017/2/26/%D8%A5%D9%8A%D8%B1%D8%A7%D9%86-%D9%88%D8%AA%D8%B7%D9%88%D9%8A%D8%B9-%D8%A7%D9%84%D9%85%D8%AC%D8%AA%D9%85%D8%B9-%D8%A7%D9%84%D8%B3%D9%88%D8%B1%D9%8A-%D9%85%D8%AC%D9%84%D8%B3-%D8%A7%D9%84%D8%B9%D8%B4%D8%A7%D8%A6%D> (accessed 21 Jan. 2019).

<sup>46</sup> Syrian Russian Business Council (2018), 'مجلس الأعمال السوري الروسي', <http://srbc-sy.com> (accessed 20 Dec. 2018).

<sup>47</sup> Ibid.

<sup>48</sup> Syrian Iranian Business Council (2018), 'المجلس السوري الإيراني للأعمال', <http://syranbc.com/about> (accessed 20 Dec. 2018).

<sup>49</sup> Al-Eqtisadiyya (2013), 'من هو مازن التززي' [Who Is Mazen Al-Tarazi?], <https://aliqtisadi.com/%D8%B4%D8%AE%D8%B5%D9%8A%D8%A7%D8%AA/%D9%85%D8%A7%D8%B2%D9%86-%D8%A7%D9%84%D8%AA%D8%B1%D8%B2%D9%8A/> (accessed 20 Dec. 2018).

<sup>50</sup> International Monetary Fund (2010), 'Syrian Arab Republic: 2009 Article IV Consultation', *IMF Country Report No. 10/86 (March 2010)*, <https://www.imf.org/external/pubs/ft/scr/2010/cr1086.pdf> (accessed 21 Jan. 2019).

<sup>51</sup> Syria Report (2018), 'Syrian Oil Production at Above 70,000 bopd', 2 November 2018, <https://www.syria-report.com/news/oil-gas-mining/syrian-oil-production-above-70000-bopd-%E2%80%93-report> (accessed 19 Jan. 2019).

the oil fields were under the control of ISIS or the PYD, but a fraction of its former 385,000 barrels per day production in 2010.<sup>52</sup> In its attempt to revitalize the oil sector, Damascus faces a number of challenges. First, the US and the EU have placed the sector under heavy sanctions, restricting not only its sales but also foreign investments in its infrastructure and maintenance. Second, the majority of oil fields previously under ISIS control were targeted and heavily damaged by international coalition airstrikes in an attempt to hinder their production capacities.<sup>53</sup> Major investments are needed to rehabilitate them and the regime lacks the necessary funds to do this alone. Third, sales and distribution of oil produced in the prolific fields of Rmeilan, Souedie, Shadadi and Omar, which are under PYD control, have proven to be challenging and negotiations over their control remain uncertain, even after the US decision to withdraw from northeast Syria.

Yet, for a number of reasons, the oil and gas sectors were among the first targeted by Russian and Iranian companies in their drive to deepen economic engagement. The minerals sector offers the potential for a quick return on investments despite the continuous US clampdown on Syria's oil exports. The sector is also a core source of the regime's foreign currency and revenue, and thus gives investors significant influence over Assad. Lastly, investments in the sector allow Russian and Iranian investors a stake in pipeline geopolitics and some sway in blocking or shaping any future projects. However, it is important to note that Syria is not an important energy transit hub as it stands, though it has the potential to become one if the political situation stabilizes and substantial funds are provided. Indeed, Syria has connections to Egypt, Jordan, Lebanon and Iraq and additional pipeline projects were previously discussed but did not come to fruition for many reasons, including the worsening security situation.<sup>54</sup>

Prior to the uprising, Russian private companies, such as Soyuzneftegaz and Tatneft,<sup>55</sup> had invested in oil and gas exploration in Syria and were among a handful of Chinese, Indian and European companies operating in the country. In comparison, Tehran has no experience of engaging with the Syrian oil and gas sectors. As such, Moscow enjoys a head start and has better knowledge of the local market, despite its temporary departure from operations in 2013–16.<sup>56</sup> Since 2015, the Russian government has been more assertive in targeting a bigger share of the Syrian oil and gas market and new companies have positioned themselves to take advantage, including Gazprom Neft, Lukoil, Rosgeo, Sibur, Soyuzneftegaz, ST Engineering, Transnational, Stroytransgaz, Technopromexport, Zarubezhneft, Zarubezhgeologia and Evro Polis.<sup>57</sup> These companies are either privately owned by oligarchs close to Putin or are partially owned by the Russian state. To date, Moscow has gained long-term access to Syrian oil and mineral resources through leases that cover offshore assets; gas and phosphate reserves in Homs province; and access to existing or future oil and gas pipelines running across the country.<sup>58</sup>

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<sup>52</sup> Reuters (2011), 'Factbox: Syria's energy sector', 14 August 2011, <https://www.reuters.com/article/us-syria-oil/factbox-syrias-energy-sector-idUSTRE77D15V20110814> (accessed 19 Jan. 2019).

<sup>53</sup> Shostak, A. (2017), 'Striking at their Core: De-funding the Islamic State of Iraq and Syria', *Journal of Terrorism Research*, 8(1): pp. 43–52, doi:10.15664/jtr.1327 (accessed 19 Jan. 2016).

<sup>54</sup> Syria Report (2019), 'Syria's Oil and Gas Industry – A Sector Profile', <https://www.syria-report.com/library/reports-surveys/syrias-oil-and-gas-industry-sector-profile> (accessed 17 Jan. 2019).

<sup>55</sup> Ibid.

<sup>56</sup> Reuters (2015), 'Russia's Soyuzneftegaz drops plans for offshore oil and gas exploration in Syria', 29 September 2015, <https://www.reuters.com/article/russia-syria-oil-idUSL5N11Z2HO20150929> (accessed 18 Jan. 2019).

<sup>57</sup> Syria Report (2018), 'List of Russian Companies Involved in the Syrian Market', 9 November 2018, <https://www.syria-report.com/library/economic-data/list-russian-companies-involved-syrian-market> (accessed 16 Jan. 2019).

<sup>58</sup> Ibid.

Iran's ventures have been less successful. The country is impeded by international sanctions and its limited capacity to compete with Russian companies on equal terms. The latest line of credit negotiated with Damascus during the visit of Imad Khamis to Tehran in January 2017 conceded 1,000 hectares to Iran for setting up oil and gas terminals as well as an MoU for phosphate mining in central Syria. However, these prospective projects were later offered to Russian companies. Nonetheless, Iran remains the main supplier of refined oil products to Syria and has on multiple occasions leveraged this position to gain important concessions from Damascus. In addition to meeting energy demand, Iranian oil supplies generate substantial revenues for the Syrian economy. The Syrian government receives these supplies on credit and charges domestic providers for distributing them in the local market. Syria is so reliant on these products that reducing oil supplies or rising transportation costs can virtually paralyze entire industries and create revenue problems for Damascus. In the summer of 2017, Iran suspended oil and gas supplies to Syria.<sup>59</sup> Officials from both sides did not divulge the reasons behind the freeze, but there was a general understanding that it was motivated by Tehran's attempts at pressuring Damascus into signing a number of stalled deals and contracts.

Disruption in oil delivery is not always the product of political manoeuvring. In January 2019, following recent shortages of gas in the local market, the Syrian minister of petroleum blamed Western sanctions for the crisis. The ministry stated that 43,000 tonnes of expected supplies of liquefied petroleum gas (LPG) from Iran and Russia did not make it to Syria.<sup>60</sup> Indeed, the US administration has recently multiplied its efforts to restrict Syria's oil supply networks. On 20 November 2018, the US Treasury issued an advisory to individuals and companies threatening them with sanctions if involved in shipping oil products to Syria.<sup>61</sup> On the same day, the US Office of Foreign Assets Control (OFAC) imposed sanctions on nine entities transporting Iranian and Russian oil to Syria. The list included Global Vision Group, a Russian company owned by Amer Al-Chwiki, a Syrian businessman associated with the regime.<sup>62</sup> In January 2019, the EU followed suit and imposed sanctions on Hussam Qatirji, another Syrian businessman involved in the oil trade on behalf of the regime.<sup>63</sup> The US and EU strategy thus far has been to track Syrian middlemen and entities implicated in breaking the sanctions imposed on the Syrian oil sector. This strategy has proven to be effective in curbing regime efforts to meet its domestic needs.

### Electricity

Syria's electricity infrastructure has been devastated by the war. Subject to neglect and attacks perpetuated by different armed groups, the capacity of power plants to meet domestic needs has greatly diminished. Costly maintenance is required to return to peak electricity output, which

<sup>59</sup> Syria Report (2017), 'As Iran Suspend Supplies, Syria Rushes to Import Oil Products', 7 February 2017, <https://syria-report.com/news/oil-gas-mining/iran-suspend-supplies-syria-rushes-import-oil-products> (accessed 16 Jan. 2019).

<sup>60</sup> Al-Modon (2019), 'أزمة الغاز: العقوبات على ناقلات النفط إلى سوريا', <https://www.almodon.com/arabworld/2019/1/24/%D8%A3%D8%B2%D9%85%D8%A9-%D8%A7%D9%84%D8%BA%D8%A7%D8%B2-%D8%A7%D9%84%D8%B9%D9%82%D9%88%D8%A8%D8%A7%D8%AA-%D8%B9%D9%84%D9%89-%D9%86%D8%A7%D9%82%D9%84%D8%A7%D8%AA-%D8%A7%D9%84%D9%86%D9%81%D8%B7-%D8%A5%D9%84%D9%89-> (accessed 25 Jan. 2019).

<sup>61</sup> Department of Treasury (2018), 'OFAC Advisory to the Maritime Petroleum Shipping Community – Sanctions Risks Related to Shipping Petroleum to Syria', [https://www.treasury.gov/resource-center/sanctions/Programs/Documents/syria\\_shipping\\_advisory\\_11202018.pdf](https://www.treasury.gov/resource-center/sanctions/Programs/Documents/syria_shipping_advisory_11202018.pdf) (accessed 21 Jan. 2019).

<sup>62</sup> Department of Treasury (2018), 'Counter Terrorism Designations and Designation Update; Syria Designations; Publication of Syria Shipping Advisory', <https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20181120.aspx> (accessed 19 Feb. 2019).

<sup>63</sup> The Council of the European Union (2019), 'Council Implementing Decision (CFSP) 2013/255/CFSP concerning restrictive measures against Syria', Official Journal of the European Union, <https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=CELEX:32019D0087&from=EN> (accessed 21 Jan. 2019).

has pushed Damascus to look for technical expertise abroad primarily in Russia, Iran, China and India. Furthermore, the majority of the regime-controlled power plants are dependent on regular supplies of fuel oil and gas, thus increasing the demand for oil products from Iran and Russia, and putting Damascus under further financial strain to rehabilitate the sector. A few power plants generate electricity from hydraulic turbines but these also require maintenance, including the Tabqa Dam, which is under the control of the Syrian Democratic Forces (SDF).

Rehabilitating the electricity sector is a priority for the regime for two reasons. First, the sector can generate revenues quickly through charging domestic companies and individuals for their consumption on a regular basis. Second, it has the potential to increase foreign exchange reserves from selling electricity to neighbouring countries, especially Lebanon. Indeed, a recent agreement has been signed between Damascus and Beirut for the annual export of 100 megawatts (MW) of electricity for \$266 million.<sup>64</sup>

**Syria's electricity infrastructure has been devastated by the war. Subject to neglect and attacks perpetuated by different armed groups, the capacity of power plants to meet domestic needs has greatly diminished.**

To rehabilitate the sector, Damascus has signed a number of MoUs with Iran and Russia, in September 2017 and January 2018, respectively.<sup>65</sup> The Iranian agreement consisted of rehabilitating the thermal power plants in Aleppo, Latakia, Banias and Tayem.<sup>66</sup> Russia has signed an MoU agreeing to build new power plants and turbines with a total output of 2,650 MW in Aleppo, Mhardeh, Tishreen, Deir EzZor and al-Zara.<sup>67</sup> However, in both cases, the Syrian government failed to secure the necessary funds for its contribution and as a result the Russian and Iranian counterparts pulled out. Theoretically, Iran could relieve some of the pressure on Damascus and finance these projects through its lines of credit, but Tehran seems to give a higher importance to projects it views as strategic. Moreover, the Public Establishment for Electricity Generation and Transmission (PEEGT) is reluctant to use Iranian technology, which it perceives to be inefficient based on prior experiences. To date, the only reported power sector reconstruction projects carried out are those by the United Nations Development Program (UNDP), which used Japanese funding to build plants in Jandar and Banias.<sup>68</sup> Both plants were constructed by Mitsubishi Heavy Industries.

<sup>64</sup> Al-Iqtisadi (2018), 'لبنان يبدأ استيراد 103 ميغاواط كهرباء من سورية', 25 September 2018, <https://aliqtisadi.com/1214819-%D9%84%D8%A8%D9%86%D8%A7%D9%86-%D9%8A%D8%A8%D8%AF%D8%A3-%D8%A7%D8%B3%D8%AA%D8%AC%D8%B1%D8%A7%D8%B1-%D8%A7%D9%84%D9%83%D9%87%D8%B1%D8%A8%D8%A7%D8%A1-%D9%85%D9%86-%D8%B3%D9%88%D8%B1%D9%8A%D8%A9/> (accessed 23 Jan. 2019).

<sup>65</sup> Syria Report (2018), 'Syria Awards Power Plant Contracts to Russia but Has No Money to Pay for Them', 6 February 2018, <https://syria-report.com/news/power/syria-awards-power-plant-contracts-russia-has-no-money-pay-them> (accessed 16 Jan. 2019).

<sup>66</sup> Ibid.

<sup>67</sup> Ibid.

<sup>68</sup> United Nations Development Programme (2016), 'UNDP and Japan agree to expand support for restoring access to electricity in Syria', <http://www.undp.org/content/undp/en/home/news-centre/news/2016/04/15/undp-and-japan-agree-to-expand-support-for-restoring-access-to-electricity-in-syria.html> (accessed 19 Jan. 2019).

## Agriculture

The agricultural sector contributed 19 per cent to Syria's GDP in 2011.<sup>69</sup> The Food and Agriculture Organization (FAO) of the UN has estimated that losses in the Syrian agricultural sector have amounted to \$16 billion dollars or more in the five years since 2011.<sup>70</sup> There have been significant losses in harvests of the sector's strategic crops such as wheat, which declined by 60 per cent over the last seven years, as well as cotton and animal feed. The agricultural sector also has significant strategic importance for its potential to re-invigorate trade between Syria and its neighbours. Previously, Syria exported citrus, vegetables and livestock to Lebanon, Jordan and the GCC.

Russia has positioned itself to control strategic crop fields in Syria. For instance, it has taken advantage of the decline in Syrian wheat production to become the leading supplier of wheat to the country. The quantities of annual Russian wheat supply to Syria have increased steadily, going from 650,000 tonnes in 2015 to 1.2 million tonnes in 2017, and were estimated to reach 1.5 million tonnes the following year.<sup>71</sup> Since 2015, Syria and Russia have increased cooperation in the agricultural sector. This included the signing of agreements licensing the export of vegetable oil<sup>72</sup> and fertilizers, as well as agreements to rehabilitate, build and manage flour mills, grain silos, and water treatment facilities.<sup>73</sup> In exchange, monopolies over exporting and marketing Syrian agricultural products in the Russian and former Soviet markets (mainly of citrus and olive oil) were granted to specific Russian companies suspected of maintaining a close relationship with the Kremlin.<sup>74</sup>

Besides relative success in marketing Iranian animal vaccines and poultry products,<sup>75</sup> Iran has failed to match Russia's influence in the Syrian domestic agricultural sector. Since 2015, Tehran and Damascus have signed a number of MoUs for the construction of flour and sugar mills in southern Syria, the export of agricultural mechanical equipment, and the marketing of surplus Syrian agricultural products.<sup>76</sup> While Iranian investments are still being negotiated or at the MoU stage, Russia's investments are already in operation and generating revenue. Iran's contracts in Syria have suffered severe setbacks since 2016, partly due to the failure to agree conditions of a new line of credit, including Iran's demands for the construction of a seaport in Syria. Russia's increased agricultural trade with Syria has also hindered the expansion of Iran's own trade objectives in the sector.

<sup>69</sup> Gobat, J. and Kristina Kostial, K. (2016), *IMF Working Paper: Syria's Conflict Economy*, International Monetary Fund Middle East and Central Asia Department, <https://www.imf.org/external/pubs/ft/wp/2016/wp16123.pdf> (accessed 21 Jan. 2019).

<sup>70</sup> Food and Agriculture Organization of the United Nations (2017), *Syria – Counting the cost*, <http://www.fao.org/emergencies/resources/maps/detail/en/c/878140/> (accessed 23 Dec. 2018).

<sup>71</sup> Kayyali, M. (2018), 'كيف تحتكر روسيا توريد القمح إلى سوريا؟' ['How does Russia monopolize wheat supply to Syria?'], 24 July 2018, <https://bit.ly/2Kcm5qh> (accessed 19 Nov. 2018).

<sup>72</sup> *Al-Hayat* (2018), 'روسيا تبدأ توريد زيت دوار الشمس إلى سورية' ['Russia begins supplying sunflower oil to Syria'], 17 January 2018, <http://www.alhayat.com/article/910782/%D8%B1%D9%88%D8%B3%D9%8A%D8%A7-%D8%AA%D8%A8%D8%AF%D8%A3-%D8%AA%D9%88%D8%B1%D9%8A%D8%AF-%D8%B2%D9%8A%D8%AA-%D8%AF%D9%88%D8%A7%D8%B1-%D8%A7%D9%84%D8%B4%D9%85%D8%B3-%D8%A5%D9%84%D9%89-%D8%B3%D9%88%D8%B1%D9%8A%D8%A9> (accessed 10 Nov. 2018).

<sup>73</sup> The Syria Report (2018), 'Russia to Take Control of Syria's Fertilizers Production Capacity', 26 June 2018, <http://syria-report.com/news/manufacturing/russia-take-control-syria%E2%80%99s-fertilizers-production-capacity-%E2%80%93-report> (accessed 18 Nov. 2019).

<sup>74</sup> RT (2016), 'Syria to replace Turkey on Russia's fruit & vegetables market', 1 March 2016, <https://www.rt.com/business/336601-syria-fruit-russian-market/> (accessed 18 Nov. 2018).

<sup>75</sup> Syria Report (2017), 'Iran to Grant Money for Veterinary Vaccine Plant', 12 December 2017, <http://www.syria-report.com/news/food-agriculture/iran-grant-money-veterinary-vaccine-plant> (accessed 18 Nov. 2018).

<sup>76</sup> Houjan, M. (2013), 'مصادر: سوريا تطرح مناقصات لشراء السكر والأرز والدقيق بانتهاج إيراني' ['Sources: Syria is bidding for the purchase of sugar, rice and flour with Iranian credit'], Reuters, 13 December 2013, <https://ara.reuters.com/article/businessNews/idARACAE9BC03G20131213> (accessed 20 Nov. 2018).

### Tourism and real estate

The tourism sector is also a significant contributor to Syria's economy, accounting for 14.4 per cent of the country's GDP in 2011 (\$64 billion). The war has caused tourism revenues to drop from SYP 297 billion (approximately \$577 million) in 2010 to SYP 17 billion (approximately \$33 million) in 2015, while tourism infrastructure has suffered nearly SYP 14 billion (approximately \$27 million) worth of damage.<sup>77</sup>

Tehran's investment in the tourism sector has been mostly in religious tourism. For instance, the Syrian minister of tourism signed an MoU with the Iranian Hajj and Pilgrimage Organization in 2015 to boost the numbers of tourists visiting religious sites in Syria. There are now estimated to be 225,000 religious tourists from Iran, Iraq and the Gulf countries visiting Syria each year.<sup>78</sup>

Russia attaches importance to the Syrian coastal region and has made it the centre of its tourism investment strategy.<sup>79</sup> These investments benefit from a relatively safe and pleasant environment and the existing infrastructure that has avoided significant damage in the war. By contrast, Iran's focus on religious tourism means its investments tend to be in Shia shrines in the countryside around Damascus and in areas in the governorates of Deir EzZor, Aleppo and Homs, which have seen heavy fighting, as well as in Latakia and Tartous, which have suffered little damage from the war.

The tourism sector has a direct linkage to the real estate market. A major component of Iran's strategy is the acquisition of land and real estate, which Tehran hopes will allow it to benefit when the war ends, with or without Assad at the helm. For instance, Iran has asked the Syrian regime for large concessions in Daraya, the old city of Damascus, Seit Zeynab and Aleppo.<sup>80</sup> Thus far Iran has mostly relied on Syrian intermediaries to purchase real estate. Tehran has also relied on Syrian associations such as Jaafari, Jihad Al-Bina, the Al-Bayt Authority and 'the Committee for the Reconstruction of the Holy Shrines' to expand and acquire new land in or near the holy sites around Damascus, Deir EzZor and Aleppo.<sup>81</sup>

### The impact of sanctions

The sanctions against Syria have had various impacts on Iranian and Russian investments and involvement in the country's economy. The pressure on Russia and Iran has intensified since the US Senate passed the Caesar Syria Civilian Protection Act of 2018, which allows the US administration to impose sanctions on foreign entities trading and financing the Syrian regime.

The US has been imposing sanctions of various kinds on Syria since 1979. In 2004, Washington imposed additional sanctions on a number of Syrian individuals and entities in the banking and technology sectors in response to the Syrian regime's support of terrorism in Iraq, its illegal occupation of parts of Lebanon, and its role in the assassination of Lebanon's Prime Minister Rafik Hariri.<sup>82</sup>

<sup>77</sup> UN ESCWA (2016), *Syria at war: Five years on*, Beirut: NAFS Program, <https://www.unescwa.org/news/syria-war-five-years> (accessed 21 Nov. 2018).

<sup>78</sup> Enab Baladi (2017), 'عائدات السياحة الدينية في سوريا إلى ارتفاع' [Revenues of religious tourism in Syria to rise], 29 November 2017, <https://www.enabbaladi.net/archives/187622> (accessed 23 Nov. 2018).

<sup>79</sup> Enab Baladi (2018), 'دعوة لشركات السياحة الروسية للاستثمار في شواطئ سوريا' [A Syrian Invitation to Russian tourism companies to invest Syria coasts], 13 March 2018, <https://www.enabbaladi.net/archives/213850> (accessed 19 Dec. 2019).

<sup>80</sup> Enab Baladi (2017), 'مشروع إيراني لتوسيع مقام السيدة زينب في دمشق' [An Iranian project to expand the Sayeda Zeinab shrine in Damascus], 17 April 2018, <https://www.enabbaladi.net/archives/221837> (accessed 23 Nov. 2018).

<sup>81</sup> Hassan, M. (2018), 'إيران تعمق بصمتها في دير الزور' [Iran deepens its mark in Deir EzZor].

<sup>82</sup> Department of Treasury (2004), 'Blocking Property of Certain Persons and Prohibiting the Export of Certain Goods to Syria', 12 May 2004, <https://www.treasury.gov/resource-center/sanctions/Documents/13338.pdf> (accessed 21 Jan. 2019).

In 2011, the objectives of US sanctions on Syria changed. Before that time, the US had used sanctions to influence regime behaviour and respond to uses of excessive force and pre-planned attacks by the Syrian regime. However, since 2011, US sanctions against Syria have continued to increase annually. Current sanctions focus on individuals, technocrats and business networks working with Syrian authorities. In 2018, after James Jeffrey was appointed as the US special representative for Syria engagement, the use of sanctions took on a new dimension. Though the nature of the sanctions has not greatly evolved, Jeffrey has used them as a tool to pressure the regime and its allies to participate in the UN-led political process in accordance with the Geneva resolutions and Security Council Resolution 2254. These sanctions exert pressure on foreign companies wishing to enter the Syrian market and target commercial networks and financial assets, as well as crude oil and processed goods.

**The evolution of international sanctions on key Syrian economic sectors and persons will greatly shape both Russian and Iranian interventions in the country. If Washington imposes penalties on foreign companies working in Syria, there is the possibility that US policy towards the regime could actually further empower Iran and Russia in the country.**

The sanctions imposed by the OFAC have the most potential to damage the Syrian regime and economy. Nonetheless, to date, the sanctions imposed by the US and the EU have yet to affect the regime's behaviour. Moreover, allies to the US, such the UAE, Bahrain, Egypt and Jordan, are restoring relations with Damascus. The regime's widening network will enable it to neutralize or bypass sanctions by using commercial brokers and businessmen not yet affected by US measures.

The evolution of international sanctions on key Syrian economic sectors and persons will greatly shape both Russian and Iranian interventions in the country. If Washington imposes penalties on foreign companies working in Syria, there is the possibility that US policy towards the regime could actually further empower Iran and Russia in the country. As Iranian companies are already under US sanctions, additional punishments are unlikely to affect their approach to the Syrian market. Furthermore, although larger Russian and Chinese companies may be discouraged from investing in the key sectors of the Syrian economy – for fear of endangering their projects elsewhere – smaller Russian and Chinese companies may be drawn to Syria to contend with Iranian companies with similar capacities and expertise.

However, US sanctions on Iran will most likely negatively impact Tehran's financial ventures in Syria. The devaluation of the Iranian rial on the international currency market, which began in February 2018, led to a huge decrease in Iranian public and private sector investments in Syria. By April, the impact of ongoing US pressure on the Iranian economy was being strongly felt in Syria. The US has indirectly encouraged the devaluation of the rial by its threats to scrap the Iran nuclear deal, promoting uncertainty and thus making it increasingly difficult for foreign companies to conduct business in Iran. The sharp decline of the rial as a result of this uncertainty and the US withdrawal from the Iran nuclear deal are indications that Iran's economy and security remain vulnerable, regardless of its interests in Syria. A weaker Iranian economy will certainly continue to have an impact on potential Iranian investment in reconstruction efforts in Syria.

## Conclusion

The Russian intervention has been decisive in preventing the military defeat of Bashar al-Assad. Moreover, by manipulating the security imperatives of regional and international actors, either in confronting Islamist radicals or containing Kurdish separatist aspirations, Moscow has seemingly convinced these actors to cooperate or at least tolerate its role in Syria. Indeed, Putin is attempting to redefine his role as a mediator in Syria. This posture has convinced Tehran's enemies of Moscow's potential to counter Iran's growing influence in Syria. Nonetheless, such an objective cannot be attained without considerable Russian investment in dismantling the complex net of Iranian interests in the country.

Thus far, Moscow has shown little aptitude to increase its engagement beyond its mid-to-long term objectives of consolidating Damascus's central authority over the numerous loyalist militias and certain sectors of the economy. To bolster and accelerate such plans, Russia demands unconditional support from the international community for the rehabilitation of Assad as well as considerable investments in the reconstruction of the devastated Syrian infrastructure and economy. But the EU and the US have made it clear that they will not participate if there is no conclusive political agreement to end the conflict. Thus, Moscow for the time being will maintain the modest objective of blocking any foreign attempt to control the Syrian economy while leveraging its dominance over Damascus to allow the Russian private sector to invest in specific lucrative business ventures.

The lack of Russian interest in directly confronting Iran is theoretically allowing the latter to preserve its gains in Syria for the time being. However, US sanctions and its withdrawal from the Iran nuclear deal have placed an enormous burden on Tehran's capacity to expand and even maintain its current assets in Syria. More important, this context has also considerably impeded Iran's ability to compete with Russian investments in Syria especially in the energy, agriculture, tourism and infrastructure sectors. Yet, it would be extremely imprudent to ignore Iranian influence in the Syrian economy. Tehran is a very important trading partner with Damascus, and has been providing the latter with vital commodities in large quantities and at a low price.

Meanwhile, Syrian businessmen with close links to the regime have taken advantage of this status quo and strengthened their grip on the Syrian economy. Both Iran and Russia are looking at consolidating their relationships with this new class of businessmen, who are loyal to Assad and are not immune to his manipulation. However, they remain vulnerable in terms of benefiting from working with foreign funds and interests. The monopolies established by Rami Makhlouf<sup>83</sup> and Samer al-Foz<sup>84</sup> among others, over real estate, transportation, trade and communication present opportunities for Russian and Iranian businesses to infiltrate the Syrian economy through partnerships and influence. The same opportunity is available for international businesses if Assad is able to rehabilitate himself regionally and internationally. For the time being, Assad and the close clique around him are the main benefactors and patrons of these monopolies.

Assad believes he successfully overcame the opposition and he is shifting his focus to achieve two new objectives. First, to regain undisputed control over state functions and sovereignty; second, to rehabilitate his rule in the region and internationally. From Assad's perspective, the proliferation of armed militias that arose to combat opposition forces was a necessity at the time, but it is difficult to

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<sup>83</sup> Oweis, K. Y. (2011), 'Syria's Makhlouf owes fortune and infamy to Assad', Reuters, 17 June 2011, <https://www.reuters.com/article/us-syria-tycoon/syrias-makhlouf-owes-fortune-and-infamy-to-assad-idUSTRE75F7Z420110616> (accessed 21 Feb. 2019).

<sup>84</sup> Makki, D. (2018), *Syria's war economy exacerbates divide between rich and poor*, Middle East Institute, 6 November 2018, <https://www.mei.edu/publications/syrias-war-economy-exacerbates-divide-between-rich-and-poor> (accessed 21 Feb. 2019).

imagine that Assad would tolerate any continued divided authority in a post-war scenario. This has been demonstrated by his successful Russian-aided attempts at dismantling and reintegrating various loyalist armed groups, including many from the National Defence Forces and most famously the Desert Eagles brigade established by the once very powerful Ayman al-Jaber. The regime clearly does not want to see security or governance decentralized. However, this approach requires considerable political and financial support from overseas. In addition to believing that the stability of his rule is mostly dependent on regional and international recognition, Assad needs substantial funds to finance his domestic reconsolidation campaign and to reinforce his agency independently from Iran and Russia. Accustomed to political bargaining, Assad believes that his regional rehabilitation at least will begin with economic recovery. The regime's determination to normalize relationships with its wealthy neighbours is clear through its objectives of reopening the Nassib and al-Bukamal border crossings with Jordan and Iraq, respectively; the reopening of the Emirati and Bahraini embassies in Damascus; and efforts to reintegrate the Syrian government in the Arab League.

Yet Assad still faces many challenges in stabilizing the country. The level of destruction endured by the population cannot be simply fixed through economic growth. In this context, it is important to remember that the Syrian uprising was only partially motivated by the economy. Democracy, greater individual liberties, rule of law, accountability and transparency were and still are legitimate aspirations in the eyes of the people.

To date, economic sanctions intended to induce changes in regime behaviour or persuade Russia and Iran to reduce their support of Assad have been insufficient. Such economic tools can only be effective as part of a comprehensive framework to assist Syria in a meaningful and credible political transition. In this context, sanctions should be used to hinder the regime's capacity to coerce the population into submission; target monopolies and attempts of regime associates to control the Syrian economy; and persuade foreign entities and governments to invest in Syria's political and financial rehabilitation.

The efficiency of US and EU sanctions on the Syrian economy is debatable, in light of the negative impact on civilians. However, it is necessary to impose and maintain sanctions on key individuals involved in financing the regime's activities. Each time a new name is added to the growing list of sanctioned individuals, the regime is forced to find alternatives. If sanctions were to include foreign entities and individuals associated with the regime and its associates – as is expected once the US ratifies the Caesar Syria Civilian Protection Act – Russia and Iran's protection of Assad may waver. US sanctions against Iran have hindered the latter's activities in Syria. Potential sanctions on Russia have yet to be tested. The prospect of sanctions for those engaged in economic investments in Syria has already put off Chinese and Indian companies.

The regime and Russia are betting on their ability to exploit regional security concerns to induce reconciliation and push for the acceptance of Assad as the Syrian leader. Furthermore, they also wish to create a perception of a promising Syrian economy that attracts foreign funds to invest in the reconstruction phase. While the US and some European countries have ruled themselves out as participants in any future reconstruction of the country before there is a meaningful political transition, more needs to be done to persuade regional allies to follow suit. It is particularly important that Washington accommodates its partners' security concerns, especially if it requires their participation in countering Iran's expansion in the Levant.

Nonetheless, exercising economic and financial pressures on Assad will have severe consequences for the Syrian people. The UN in this context can play a positive role in alleviating the suffering of the most unfortunate. More efficient procurement procedures should be put in place to ensure higher levels of transparency and accountability when working with Syrian actors. On several occasions UN agencies have fallen victim to regime tactics and ended up financing those with close links to Assad or even Iranian and Russian local partners. To overcome this, donor countries should be able to monitor UN activities in Syria. This would allow them to prevent reinforcing blacklisted warlords and also to take cautionary actions if the UN fails to. In addition, UN agencies should be encouraged to increase their personnel through hiring vetted individuals, conducting continuous evaluation of their employees and limiting their dependencies on local organizations that are often affiliated with the regime indirectly. Finally, the return of refugees should be voluntary and donor countries and the UN should intensify their efforts to relieve the burden of host communities that accommodate refugees, especially as Russia is actively pressuring them to recognize Assad's authority in exchange for the refugees' return.

### About the author

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