

Geo-economics: Russia and Iran in Syria

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This article examines two dimensions of a broader analysis of the geo-economics of reconstruction in Syria: the actions of Iran and Russia in the context of their interests and capabilities. The analysis identifies overlaps and conflicts among these interests and examines the larger geo-economic and geo-political implications. A comprehensive survey of Iranian and Russian involvement in Syria's economy is difficult given the scarcity of reliable data, but this section captures the essential geoeconomic trends involving these two key actors.

The Geo-economics of Russian Involvement

A Brief History of Russia in Syria

In October 2015, Russia entered the Syrian civil war to reverse the regime's deteriorating security situation and ensure its long-term survival. More broadly, Russia sought to preserve its strategic posture in the Middle East and end a perceived Western regime change campaign. Russia ultimately seeks to translate its military gains into a political settlement that would legitimize its role and allow it to draw down its military efforts. Russia has secured some economic interests in Syria but the profit motive appears subordinated to strategic ones, and Russia lacks the means or appetite to fund Syria's reconstruction on a meaningful scale.

The close relationship between Russia and Syria dates back to at least the mid-20th century. The USSR had maintained close ties with Baathist-led Syria from the 1960s and supported it through at least two confrontations with Israel. Soviet arms exports to Syria [reached](#) \$825 million¹ in 1977, \$1 billion in 1978

and an average of \$2.3 billion per year until 1985. In sum, the USSR supplied some \$25 billion of military equipment to Syria and trained some 10,000 Syrian officers.

Prior to the civil war, Russia was heavily involved in key sectors of the Syrian economy. Political stability and security allowed Russia to pursue profits. Russian companies were important investors in the oil and gas extraction industries throughout the 2000s (the civil war has made this sector far less productive and lucrative). Russian investments in infrastructure and energy totalled \$20 billion in 2008. The Russian energy conglomerate Tatneft [entered](#) the Syrian market in 2010 by developing in South Kishamnear Deir-ez-Zor, which is believed to contain 4.9 million tons of oil. Soyuzneftegaz, which [signed](#) a phosphate-mining deal for a site, made investments in energy as well. The civil war jeopardized those investment prospects. Soyuzneftegaz eventually [terminated](#) its deal in 2015, and Tatneft has suspended its project.

Yet even before the war, strategic considerations factored into the Russian economic calculus in Syria. In addition to providing military aid and fiscal support, Russia has forgiven Syria's debt multiple times. In 2005, Russia absolved Syria of 75 percent, or \$14 billion of outstanding debt.

Russian Geo-economics in the Civil War

Russia is being granted a preferential role in rebuilding Syria's energy and infrastructure sectors. Preferential access to hydrocarbons reserves is just as valuable for the geopolitical leverage they provide in a political settlement and indeed in post-war Syria. In 2015, the executive director for the Russia Union of Oil and Gas Producers, Gissa Gutchel, announced that Russian businesses would quickly fulfill contracts and resume operations in this sector [totalling](#) \$1.6 billion once the situation in Syria had stabilized. On March 2018, Russia's Energy Minister Alexander Novak signed a cooperation [agreement](#) with his Syrian counterpart on oil and gas production. It "implies the participation of Russian companies in Syrian projects, and the negotiations are

conducted on a regular basis,” said Victor Khaikov, president of Russia’s National Association of Oil and Gas Service. Khaikov highlighted Russian participation would be profitable as well.

For its part, the Syrian regime is energetically wooing Russian investment in energy. In February 2016, a Syrian representative travelled to Moscow to meet with the Minister of Energy and the heads of the petroleum industry and requested that Russian oil and gas companies help restore Syria’s destroyed energy sector. Syrian Minister of Foreign Affairs Walid Muallem stated Syria would [allow](#) “all possible incentives” to companies participating in the reconstruction. In July 2017, the Syrian government offered 25 percent of profits from oil and gas fields captured from the Islamic State to Evro Polis, a Russian military contractor allegedly owned by Yevgeny Prigozhin, a Russian businessman close to President Vladimir Putin.

During the war the Syrian government has signed several large military contracts with Russia; a pro-Russian newspaper reported that the two countries signed a \$550 million [deal](#) in December 2011 for the delivery of 36 Yakovlev Yak-130 Mitten combat trainers. The active parts of the arms contracts had, in 2012, an estimated value of \$4.5 billion. Between 75 and 90 percent of new arms purchased by Syria in this period were Russian-made. That year, one quarter of the weapons produced in Russia between 2005 and 2009 were exported to Syria.

In its drive to de-escalate its own military efforts, Russia is likely to prioritize the reconstruction of state security services and army institutions. This simultaneously boosts the legitimacy of its ally the regime, helps the latter impose and enforce local settlements that preserve regime sovereignty, and eases the operational burden on the Russian military. Indeed a political agreement with the opposition is acceptable or even desirable for Russia insofar as it recognizes regime superiority, but that depends on the regime retaining indefinite military superiority given its continued unpopularity among much of the population.

Because rebuilding core infrastructure is of strategic importance to the regime, it is a likely target of Russian support.

Russia's entry into the Syrian civil war was accompanied by a simultaneous commitment to assisting in certain infrastructure projects. Russian **objectives** have included regaining access to key roads and linking this infrastructure. Pro-Russian media outlet *Russia Today* reported that Syrian Prime Minister Wael al-Khalqi **stated**, "The Russian side has responded to the idea of restoring [Syrian] infrastructure. Therefore, a lot of deals were signed, including \$675 million and \$280 million agreements." In 2017, Russia signed a forty-nine year **lease** in Tartus to upgrade a serviceable naval base near the coastal city. Allegedly, plans for Russian forces to further expand infrastructure in Tartus and Hmeimim are underway.

In February 2018, the Russia Chamber of Commerce held a Russia-Syria business **forum** to discuss opportunities with Syria at a time when the war seems to be going in the regime's favor. At the forum, the Syrian-Russian Business Council claimed to have "established contact," and that a number of unspecified contracts have already been implemented. The Syrian government attended and sought Russian investment in twenty-six **projects**. These included a planned rail line linking the Syrian capital to its airport, industrial plants producing a range of outputs from cement to yeast and tyres, and power generation projects in Homs. In any case, the Russian Chamber of Commerce's President made clear that "first priority will, as President Bashar al-Assad has said, be given to Russian businesses."

Russia printed **currency** to support the Syrian government in 2012, initially to pay off the Syrian state's growing budget amid its initiative to create state jobs and maintain subsidies during the civil war. Russia has also **assisted** in stabilizing government revenues. According to the Jamestown Foundation, "Under Russian Ministry of Finance supervision, the production of currency [...] went through a logistic chain of both Syrian and Russian cargo carriers that transported over 200 tons of currency in a ten-week period to the Syrian government with a continuous flow of currency as needed to prop up the Syrian economy."

Implications

Despite fiscal support, promised investments, and close relations, it would be incorrect to assess Russian geoeconomic activity (current and prospective) as ‘reconstruction’ in the development sense. Russia lacks the financial means to shoulder a substantial portion of the hundreds of billions of dollars in estimated reconstruction costs. More importantly it does not prioritize ‘rebuilding’ Syria but rather ensuring regime survival, gaining geopolitical leverage, and exploiting certain lucrative and/or strategic sectors. Reconstruction would offer geopolitical leverage of course, but Russia can generate leverage through diplomatic and military action.

When it comes to reconstruction as development, Russia aims to shift the financial burden to Europe and international agencies. In turn, it will likely hold out the promise to facilitate the return of hundreds of thousands of (Muslim) Syrian refugees. While this would benefit the West and generate international goodwill or at least respect for Russian influence, the Syrian government has a say in this and may be less eager to reabsorb millions of potentially hostile and certainly needy people. The most likely trajectory of Russia involvement amid Syria’s isolation will therefore be targeted investment that secures some of its commercial and strategic interests and preserves core regime military capabilities to the degree possible.

Russia shares with Iran the focus on securing regime survival. So long as that hung in the balance (2011-2016) this convergence of interests was enough to keep differences at bay. As the regime’s military situation has stabilized however, the question of what ought to follow highlights some differences between Russia and Iran over geoeconomic priorities and strategies.

The Geo-economics of Iranian Involvement

A Brief History of Iran in Syria

The Iranian-Syrian strategic relationship dates back to the rule of Hafez Assad in the 1970s, based in large part on shared hostility toward Israel and Saddam Hussein's Iraq. Under Bashar Assad, this relationship deepened in opposition to the United States and Saudi Arabia and support for the Lebanese militia Hezbollah. Bilateral trade between Iran and Syria reached its [peak](#) in 2010 at \$545 million, with Syrian exports to Iran accounting for 30 percent of the figure.

Despite this, Iran's core interests in Syria are largely security-focused. Iran entered the Syrian civil war to preserve Hezbollah's strategic posture vis a vis Israel. Iran calculated that Bashar Assad's fall would threaten supply lines to and the strategic depth of Hezbollah, as Iran expected a hostile, Sunni-led regime to replace it. More broadly, Iran did not want a Sunni-led, Saudi or US-aligned Syria to emerge in the Levant.

Iran entered the civil war in its early stages, largely in a military advisory capacity and by building up and deploying proxies against rebel forces. It too sought to ensure the regime's survival, but for historical reasons the Iranians' institutional relationship with the regime was less comfortable than Russia's, and its standing in Sunni Arab Syrian society is complicated by its Persian and radical Shia character. Yet because the Iranian regime relied largely on local Syrian (and Lebanese) proxies to fight and control territory, it developed an entrenched military and increasingly social presence on the ground. Iran's involvement is therefore simultaneously more intimate and more alien than Russia's.

Iranian Geo-economics in the Syrian Civil War

Iranian geo-economic strategy is shaped by two factors: military priorities relating to the security of Hezbollah and the posture against Israel; and political-economy considerations favoring the Iranian Revolutionary Guards Corps (IRGC). The former will require securing sensitive land and transport rights or direct control, shaping Iran's economic choices. Meanwhile the IRGC will likely be the main beneficiaries of many Iranian activities,

and is likely to crowd out competition from the Iranian private sector or civilian institutions. Despite its deeper military involvement and presence however, an increasingly-isolated Iran is at an economic disadvantage to Russia and China with their superior resources and closer integration into the global economy. Still, its crucial important to the regime war effort has granted it multiple economic opportunities.

Iran and Syria signed a series of agreements that were announced [throughout](#) 2017, including opportunities for Iran to obtain and [build](#) a mobile service network. The IRGC owns much of Iran's telecoms sector after it bought 50 percent-plus-one share in the state telecoms company in 2009. In September 2017, Iran announced it will build [power plants](#) in the coastal province of Latakia with a capacity of 540 megawatts. In a separate memorandum, Iran also committed to a project to reconstruct a 90-megawatt plant in Deir Ezzor. In the same agreement, five gas-fired power plants will be [moved](#) to Syria's northwestern city of Aleppo; the Mapna Group, an Iranian enterprise with possible IRGC ties, will implement the 130-million-euro project.

While these agreements granted Iran large economic [contracts](#) in Syrian telecommunications, electricity, and phosphate mining sectors, other sectors including real estate are also involved. Syria plans to give Iran 5,000 hectares of land for farming and 1,000 hectares for setting up oil and gas terminals, according to Iran's state news agency IRNA. At a news conference in early 2018, a senior official of Iran's Research Center of Petroleum Industry revealed that Iran and Venezuela would construct oil [refineries](#) in Syria, an investment worth approximately \$1 billion. Again, the main [beneficiary](#) of this project would be the IRGC.

On August 2018, Iranian economic delegation headed by Iran's Deputy Minister of Roads and Urban Development Amir Amini [visited](#) Damascus for talks on a long-term economic partnership agreement between the two countries. The details have not been disclosed. Director of the ministry's International Affairs department Teymour Bashir Gonbadi has stated Iranian

companies will be involved in reconstructing Syria's transportation infrastructure and building 30,000 homes in the country. Gondadi also Iran plans to establish a railway connection between Iran and Syria via Iraq, saying that now is an opportune time, given China's desire to secure railroad access to the Mediterranean within the framework of its [Belt & Road Initiative \(BRI\)](#).

One particularly contentious activity has been Iran's acquisition of Syrian land for strategic and religious purposes. Iranian media has confirmed the purchases of [land](#) in parts of Syria. The purchases are reported to be in the Sayyida Zaynab suburb of Damascus, where a prominent Shia shrine exists, and the Old Town of Damascus, although the latter report is less clear. The head of the Iranian Department of Reconstruction of Holy Shrines has quoted saying, "the urban planning of the area near Sayyeda Zaynab is to be revised. A new model is being prepared now and we are buying the properties around the shrine." Unconfirmed reports have circulated around Iranian land purchases in the [Mazzeh](#) district around the Iranian Embassy, in the Bahsa area near the Iranian Cultural Centre, and areas in the strategic city of Homs.

Separate from any civilian or commercial efforts, Iran reportedly is building a permanent [military](#) base 8 miles south of Damascus. Satellite images commissioned by the BBC seem to show construction activity at the site between January and October of 2017. Analysts believe that these [efforts](#) showcase Iran's willingness to fill gaps in regime security, in a geography that is of critical importance to Iran and Hezbollah. This is obviously not reconstruction but still a reflection of Iranian resource-allocation and therefore priorities.

The Larger Picture

Iranian and Russian interests align over the Syrian regime's security, but diverge over post-war Syria's character and place in

the international order. Russia seeks to consolidate and internationally legitimize the post-war order so as to draw down its military and attract foreign funding and reconstruction, securing the regime's long-term future. Iran seeks to entrench itself militarily against Israel with little regard for international repercussions - a goal that is at odds if not completely incompatible with reintegrating the regime into the global order and attracting reconstruction funding. Even as Iran establishes a more robust anti-Israel posture in Syria and enriches the most important player in its political economy, the IRGC, Russia projects the message that the Syrian conflict is over and normalization is on offer, in exchange for international development funds and support.

There is a tension in both countries' geo-economic strategy: the IRGC's commercial interests are at odds with the heightened risk of large-scale conflict with Israel in Syria (the result of Iran's continuing military buildup in Syrian territory). Any Israeli-Iranian war in Syria is likely to further set the Syrian regime back economically, along with any IRGC economic opportunities. Russia's geo-economic challenge is to revitalize an economy in territory governed by an international pariah state and an isolated foreign government. It is perhaps Russia that has the more ambitious and therefore more difficult task.