



Syria Transition Challenges Project

Discussion Paper (1)

Russian-Syrian Business Cooperation: challenges and prospects

Igor A. Matveev, MGIMO

The Geneva Centre for Security Policy (GCSP)

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Syria Transition Challenges Project

A multilateral dialogue and research project that aims to build bridges between the EU, Russia, Turkey, and the US on the three issues of Reform, Refugees Return, and Reconstruction. The project is run by the GCSP in collaboration with European University Institute (EUI), Syrian Centre for Policy Research (SCPR), and swisspeace.

Editors:

Abdulla Ibrahim, project lead researcher

Lorraine Charles, research associate

Author

Igor Matveev

Dr. Igor A. Matveev is a Russian expert on Syria and the Middle East with both academic and diplomatic background. He is currently a visiting lecturer at the School of Government and International Affairs at the Moscow State Institute of International Relations (MGIMO University). During 2014-2017, he headed the Trade and Economic Division of the Russian Embassy in the Syrian Arab Republic. Matveev is the author of a series of books and articles dedicated to Syria's history, economy and foreign policy, including his latest "*The Economic Impact of the Syria Crisis: Lessons and Prospects*" (Beirut: Arab Scientific Publishers, 2018) and publications for "Al-Monitor.

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Published in December 2019

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Introduction

In order to achieve the goals of the “Rebuild Syria” strategy, Damascus has been trying to attract investment from friendly countries, viewing business cooperation with Russia as a cornerstone of such efforts. Moscow has not yet made a final choice between a comprehensive “broad” approach, aimed at building a long-term economic presence in Syria, and a “narrow approach” of outsourcing the country’s reconstruction to selective Russian companies capable of securing rapid compensation for Russia’s expenditures during the Syrian war. Currently the second approach seems to prevail.

The modalities of the Russia-Syria business cooperation are based on the “government-to-government” (G2G), “business-to-government” (B2G) and “business-to-business” (B2B) formats with the first two being preferable for Russian partners. Traders and industrialists from Russia encounter opportunities and challenges in Syria, related to the need of Damascus to restore and modernise the national economy amidst the disruption of the territory and to socioeconomic life, disconnection from the global financial system, Western sanctions against Moscow and Damascus, a history of unsuccessful B2B practices and over-bureaucracy in Syria, hence a preference for G2G and B2G.

Future mutual economic ties depend on the evolution of the environment around Syria, reconciliation inside the country and the improvement of the domestic business climate. Moscow is making an effort to push the UN, the EU and GCC states to become donors; although Syria-Russia-EU coordination on other matters seems unlikely due to the latter’s negative political image inside Syria and Damascus’s reliance on Russia and Iran.

The “Rebuild Syria” strategy and approaches and modalities of Russian-Syrian business cooperation

In mid-2017, the Syrian government adopted an ambitious national strategy of “Rebuild Syria”, aimed to address the post-war periodⁱ. Its main postulates were pre-formulated in April 2017 during a meeting of the Central Committee of the Al-Baath Arab Socialist Party, chaired by President Bashar al-Assadⁱⁱ. From this point, the focus shifted away from the “economy of war” toward the “economy of peace”, meaning the nation-wide reconstruction of the country. The new strategy aimed to revive the economic and social life, minimise the negative impact of Western sanctions, overcome isolation in the Arab world, particularly from Qatar, Saudi Arabia and other GCC statesⁱⁱⁱ, and to attract the support from UN agencies. In order to embark on this reconstruction effort, Damascus has sought to secure investment and technological aid from Russia, Iran and China^{iv}.

Two trends have become evident within Russia’s political establishment and business circles toward its role in Syria’s reconstruction. The first (“broad”) trend is the intention to increase trade and economic cooperation to the level of mutual coordination in military and diplomatic spheres. This means providing direct governmental assistance to Russian large- and medium-size businesses to access local markets, creating a long-term economic presence in Syria in the energy and trade sectors as well as for industrial cooperation^v.

The second (“narrow”) trend is the intention to outsource the reconstruction to select businesses, such as *JSC “Stroytransgaz”*^{vi}, one of the largest construction companies in Russia,

with a record of successful work in Syria before and during the crisis¹. An affiliate, “*Stroytransgaz Logistic*”, was reported to receive the rights for two local deposits of phosphates^{vii}, allegedly via a Russian-Iranian-Syrian gentlemen’s agreement, since IRGC had previously liberated this area from ISIS^{viii}.

Regardless of the approach, the three modalities characterise the Russia-Syria business relations are government-to-government (G2G), business-to-government (B2G) and business-to-business (B2B). Since 1993, the G2G format has been based on the Permanent Commission on Trade, Economic, Scientific and Technical Cooperation. The Commission addressed interests of Russian large- and medium-size businesses, reflecting a “broad” approach to Syria’s reconstruction. This did not preclude the use of the “narrow” approach, as demonstrated by a recent visit to Damascus by Russian Vice-Premier Yuri Borisov to discuss the leasing of Tartus by “*Stroitransgaz*”^{ix}.

The B2G format regulated by the Russian Ministry of Industry and Trade is conducted mainly through Russia’s regular presence at exhibitions in Syria, such as Damascus International Fair or “Rebuild Syria”, combined with official contacts and visits to government facilities and public companies². Russia also invited potential Syrian business partners to fairs and forums including the Arabia-Expo exhibition^x in Moscow and the 5th Yalta International Economic Forum in Crimea^{xi}. Moscow then signalled to Damascus that Russian efforts to ensure trade preferences for Syria³ might depend on Syria’s readiness to develop trade links with Crimea.

The B2B format is facilitated by business missions to Syria, carried out under the auspices of the Syrian-Russian Business Council, Federations of Commerce and Industry and other Syrian associations (Russian-Syrian Business Council is still inactive)⁴.

Opportunities and challenges for Russia-Syria business cooperation

Opportunities:

The interests for Russian business activities in Syria are evident. First, the extraction of oil, gas, phosphates and other mineral resources, as well as reconstruction of deposits, mines and the relevant infrastructure provides valuable business opportunities for Moscow. Second, the modernisation of transport arteries (Syrian railways and the Tartus seaport) and facilities (renovation of Damascus International Airport)^{xii} could provide lucrative construction contracts to Russian business. Moreover, the IT-sector provides promising business opportunities⁵, as the Syrian government is interested in building an “information society”^{xiii}. Gaining access to unique Russian software solutions means that Syria can upgrade to Western technology, yet

¹ *Stroytransgaz* was also given a partnership with a state-own fertilizer company in Homs and most significantly a 49-year lease contract for Tartus to build a complete extracting/transporting/loading industry for exporting phosphates

² Many Russian entrepreneurs recognise that participation at G2G and B2G meetings in Syria is a sign of their loyalty to the Russian state, expecting some return rewards inside Russia.

³ This includes the creation of a joint trading house and a shipping company along with trading wheat, metal and other products for Syrian citrus, legumes, nuts and phosphates.

⁴ The Syrian-Russian Business Council is considering a reciprocal visit to Russian regions in mid-2020.

⁵ A recent example is an “open keys” project, part of e-signature led by *JSC “Rusinformexport*”, an affiliate of “*Rostec*” State Corporation, with Syrian National Agency for Network Services (NANS) by launching Electronic Certification Centre

bypass sanctions. Russian industrialists analyse prospects for the localisation of production in Syria wishing to gain access to Iraq and other Arab states through the “Syrian industrial hub”, using mechanisms of intra-Arab trade. Some Russian business view engagement with Syria as a sign of their loyalty to the Russian state with expectations for rewards in contracts inside Russia.

Challenges:

The geographical and functional scope for cooperation with Russia is limited by disruption of the territorial integrity of the Syrian state as Idlib and vast territories in the northeast are still out of government control as well as SDF’s overwhelming access to Syria’s oil and cultivated lands and water resources.^{xiv} Large Russian companies seem to prefer a G2G format, fearing Western sanctions (given Russia’s stronger links with the global economy compared to Iran’s) and relying on the bilateral inter-governmental Commission along with Russian Ministry of Industry and Trade as intermediaries in talks with the Syrians. However, medium-size businesses demonstrate more flexibility and are increasingly interested in B2B-B2G modalities, based on the traditional role of the Syrian private sector as an intermediary between foreign entrepreneurs and the local public sector.

Syria’s disconnection from the international financial system negatively affects banking mechanisms for financing Russian-Syrian trade in USD/EUR and in national currencies⁶. This is a result of Western sanctions on both Moscow and Damascus. Consequently, a deficit of hard currency in the Syrian public sector for financing imports hinders timely payments and the ability to carry out projects with Russian companies in B2G format without aid from the Russian state.

Rather complicated, often corrupt and over-bureaucratic business practices in Syria^{xv} make it difficult for Russian businesses to operate. According to views expressed anonymously by Syrian businessmen, the fulfilment of joint projects with the Russians might provide local entrepreneurs with an opportunity to secure themselves against raider-attacks by military commanders (who often feel entitled to exclusive rewards due to the contribution in war) and state-affiliated businessmen known as “children of the authority” (*awlad al-sulta* in Arabic). This is mostly applicable to the old Syrian business elites, either to the expatriates, who had left the country and accumulated much of wealth in the Arab Gulf and Lebanon, or their dependents, not linked to the Syrian state by social or family ties^{xvi}.

The lack of positive B2B history between the private sectors of Russia and Syria in comparison with Syria vs. the rest of the Arab world, the EU member-states, China, India and even Iran means that all Syria-Soviet trade and economic cooperation have been conducted in G2G and B2G formats.

Finally, the largely negative environment around Syria’s reconstruction, embodied by the EU’s unwillingness to make official investment before the completion of constitutional reform, the hostile attitude of the U.S. toward President al-Assad and the UN viewing the reconstruction through the lens of the early recovery and humanitarian aid also casts a shadow on the Syria-Russia business cooperation

⁶ The 2017 collapse of Moscow-based *Tempbank* which had been specialising in transactions with Syria and Iran caused significant problems for foreign exchange in Syria.

Improving the business environment/Public-Private Partnership (PPP)

In discussions with the Syrian agencies (State Commission for Planning and International Cooperation and the Syrian Investment Agency) Russian entrepreneurs expressed a number of concerns and made suggestions on how to improve the institutional and legal environment, and practices in order to improve the Russian business involvement in Syria. Those concerns were aimed to fulfil investment projects via B2B-B2G formats in consortiums with Syrian partners and consultants close to the Syrian government, while defining public private partnerships (PPP) priorities for 2018-2022. Russian participants outlined the need for a real-life adaptation of the PPP, covering the timing of relevant projects, as well as legal guarantees for the return on their investments.

The Russians emphasised the importance of coordination with Syrian agencies^{xvii} in order to find ways to export products to Syria while localising their manufacturing on Syrian territory. When applying for tenders, Russian traders, especially those who had never worked in Syria, expect clear guidance and transparent procedures including being provided with relevant information in English. They also require information about investment, export and the processes for public-private partnership. They acknowledge the need for the reform of Syrian mechanisms for the resolution of commercial disputes, remaining reluctant to use Syrian state courts because of previous negative practices and the high costs of judicial representation. Damascus is being encouraged to implement full-scale structures and mechanisms of international arbitration, similar to the Lebanese Arbitration and Mediation Centre (LAMC), which is quite often used by the Syrian private sector.

In order to address the fundamental task of attracting foreign investment, the Syrian Council of Ministers finalised its review of the new investment bill, which replaced the 2007 Investment Promotion Law.^{xviii} The new law is expected to consolidate economic sectors under the umbrella of one legislative act with an emphasis on setting up special economic zones to encourage investment in the reconstruction. This will reduce the bureaucratic process for obtaining licenses and launching a one-stop shop where all licenses and permits could be obtained. The new law would also introduce tax and customs duties exemptions for certain imports. A centre for the settlement of investment disputes would be also inaugurated. Prime Minister Imad Khamis was reported to issue a circular calling for closer cooperation between public bodies and the Syrian Investment Agency to make investors benefit from speedy licensing procedures.^{xix}

Russia's view of economic reforms in Syria

Russia viewed economic reforms in Syria as a “national objective” that required both the mobilisation of the domestic resources through cooperation between the Syrian state and private entrepreneurs, and the cultivating of Syria-friendly international environment without further politicisation of the Syrian conflict. The Russian business community monitors the future of the constitutional reform (work of the Syrian Constitutional Committee)^{xx} with expectations of economic reunification, finding a real solution of the Kurdish problem and opening ways to attract the large-scale finance from foreign sources. Politically, Russia has been trying to persuade Western and Arab countries to make donations and to invest in Assad's Syria^{xxi}, while many Russian businessmen view their counterparts from the UAE^{xxii}, Saudi Arabia, Kuwait and other GCC states as rich co-investors in the reconstruction. Russian entrepreneurs are also

analysing prospects of synergy with Lebanon^{xxiii}, which positions itself as a “gateway” to rebuild Syria.

In parallel, Moscow is calling on the EU^{xxiv} to break with Trump^{xxv} and contribute to the reconstruction in order to allow Syrian refugees to return home, while at the same time, appealing to the UN bureaucrats to abandon the “political solution comes before reconstruction” approach, despite systematic underfunding of UN’s humanitarian programs related to Syria^{xxvi}.

Conclusion

Prospects of coordination between Syria, Russia and the EU within the framework of economic reforms in Syria seem unlikely in the foreseeable future, due to the existing European sanctions and amidst the decisiveness of Damascus to “save political face” in its relationship with the EU. Most EU members, with the exception of the Czech Republic (which kept an embassy in Syria throughout the conflict) are not positively viewed in Syria. Under such circumstances any type of assistance from the EU can be interpreted as interference in domestic affairs. While there are certain opportunities for business cooperation between Russia and Syria, the challenges need to be carefully managed. The success will depend upon the following:

- The approach (“broad” or “narrow”) that Moscow adopts for its role in rebuilding Syria;
- The division of roles between Russia and Iran, but also with China, Hezbollah and other actors, which are or will be involved in the reconstruction;
- The structure of the regional geopolitical landscape (based on the roles, played by the U.S., Turkey, Saudi Arabia) with a view for possible economic reunification of the country and incorporation of the Kurdish areas into the economic and social life;
- The fate of anti-Syrian sanctions, imposed by the Western and Arab states;
- The development of Syrian relations with GCC and other Arab countries, including possible donor participation in Syria’s reconstruction;
- The future of EU-Syria cooperation and prospects for the reestablishment of traditional business ties;
- The political architecture of Syria in the aftermath of constitutional reform.

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ⁱⁱ “President al-Assad: Leaderships of Al-Baath Party must encourage spirit of initiative in Party members”. Syrian Arab News Agency, April 22, 2017: <https://sana.sy/en/?p=104799>

ⁱⁱⁱ “GCC states boxed in by US sanctions on Syria”. Al-Monitor, February 1, 2019:

<https://www.al-monitor.com/pulse/originals/2019/02/gcc-us-dilemma-assad-arabs-qatar-lebanon-netanyahu.html>

^{iv} Maysam Bizaer. “Race for reconstruction heats up as Syrian war winds down”. Al-Monitor, February 1, 2019:

<https://www.al-monitor.com/pulse/originals/2019/02/iran-syria-cooperation-economic-agreements-trade-jahangiri.html>

^v Fahad Shabbir. “Russia, Syria Expected to Sign Road Map for Industry Cooperation in Damascus – Ministry”. Urdu Point (web-resource), December 13, 2018: <https://www.urdupoint.com/en/business/russia-syria-expected-to-sign-road-map-for-i-504976.html>

^{vi} JSC “Stroytransgaz”: <http://www.stroytransgaz.ru/en/>

^{vii} “Russian Ambitions for Syrian Phosphates”. The Syrian Observer (based on Al-Modon, Lebanese News website), August 3, 2018: https://syrianobserver.com/EN/features/19755/russian_ambitions_syrian_phosphates.html; “Moscow collects its spoils of war in Assad’s Syria” Financial, Times, 1 September 2019, <https://www.ft.com/content/30ddfdd0-b83e-11e9-96bd-8e884d3ea203>

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^x “Syria participates in Russian-Arab Business Exhibition “ARABIA-EXPO”. Syrian Arab News Agency, April 8, 2019: <https://sana.sy/en/?p=162809>

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