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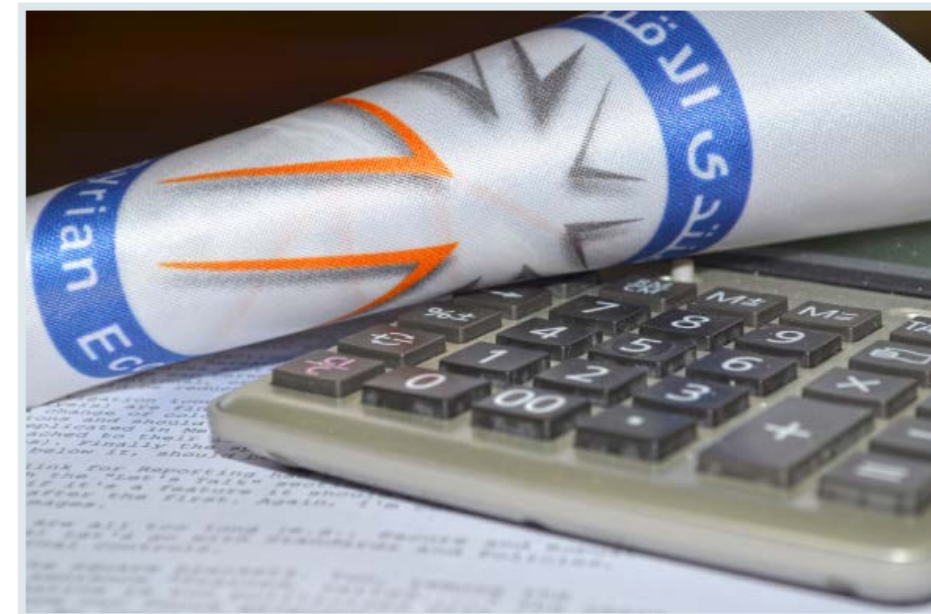
# Implications of the Syrian Crisis on the Iranian Economy

A n a l y t i c S t u d y

April 2015

# Syrian Economic Forum

The SEF is an innovative think tank dedicated to building a free, pluralistic, and independent homeland that rests on a strong economy to ensure a life of freedom and dignity for all Syrians. The organization will serve as an information resource for all matters relating to the Syrian economy, and its members will conduct economic research and publish scholarly reports. Beyond those attributes typically associated with a traditional think tank, the SEF will organize the private sector to advocate for the economic reforms needed in post-Assad Syria. The organization will develop policy proposals necessary for the birth of a free market economy that upholds equal opportunities of access for the welfare and prosperity of all Syrians. The days are coming when a free Syria will be governed by laws and not men, and the SEF will be at the forefront of economic restructuring that will restore the status, dignity, and rights of the Syrian homeland and people.



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# Summary

► Iran is considered one of the most supportive countries to the Bashar Al-Assad regime in Syria—politically, financially, and militarily. Iran's involvement in the Syrian war during the past years has exhausted its economy to the point of collapse. Between 2011 and 2014, this support has formed an enormous economic burden on Iran that led to a currency decline of more than 62%, inflation exceeding 50%, unemployment amounting to 24%, a 15.95% annual decrease in GDP, a 53.23% annual increase in consumer prices, and a 21.23% annual decrease in the trade balance.

Iranian citizens have protested in several cities since the start of the Syrian crisis. Remarkably, one protest toured the exchange markets in Tehran and demanded a stop to Iranian support of Syria and Lebanon, instead giving priority to the Iranian people. They chanted “Neither Syria, Nor Lebanon ... My Life for Iran!”

► It is important to study the impact of the Iranian support to the Assad regime on economic and social life in both Iran and Syria. The goal of this research is (1) to provide evidence for the Syrian people of the economic burdens generated by the Assad regime's policy, (2) to encourage Syria opposition leaders to assume responsibility for pressuring Iran to stop its interference in Syria, (3) to encourage the international community to pressure the Iranian government to end its support to the Assad regime, and (4) to mobilize the Iranian street to mount a media campaign demanding that their government stop supporting the Assad regime due to its implications on their daily life, especially the poor and middle classes.

*All of that will be presented in this policy paper, which sheds light on an important and central topic in the Syrian crisis.*

## Introduction

For more than thirty years, the Islamic Republic of Iran has maintained its strategic relations with the former Syrian president Hafez Al-Assad, then with his successor and son, Bashar Al-Assad. The threat of the regime change in Syria presents tremendous challenges for Tehran, especially for extremists who believe that the Syrian crisis is an American-Zionist conspiracy that aims to weaken and curb the Iranian state and its allies. Syria and Iran also have historical ties going back to the Syrian regime's support

for the Iranian Republic during the Iran-Iraq War of 1980 to 1988.

Therefore, Iran supports the Assad regime politically, financially, and militarily and has interfered significantly in the Syrian war over the past years. This support and intervention has negatively affected Iran's economy to the point of collapse and overburdened the economic life of Iranian citizens due to increased inflation rates and surging prices of basic materials.

## Research Problem

Iran's support to the Assad regime has led to more destruction in Syria on all economic, social, and infrastructural levels, and also led to the decline of the Iranian economy.

## Research Purpose

Through this research, we aim to present the major facets of Iran's support to the Assad regime, demonstrate its implications on Iran's economic and social life, and persuade Iran to end this support in order to recover its economy and participate in solving the Syrian crisis.

## Iran's Support to the Assad Regime

Iran is one of the major supporters of the Syrian authorities, both politically and financially. It provides them with weapons and sends armed men to Syria. While it is impossible to know the exact size of financial and military aid, the official media in both countries confirmed that Iran has supported Syria with more than \$4 billion in the form of credit, and unconfirmed reports assert that Iran is giving Syria about \$700 million per month. Also, in collaboration with Hezbollah, Iran provides military aid and intelligence training to help the Syrian regime end the revolution. It is also said that Tehran helped establish a Syrian paramilitary group of 50,000 men, known as The Public Army, to help the forces of Bashar Assad's regime.

## Iran's Economic Indicators During the Syrian Crisis (2011-2014)

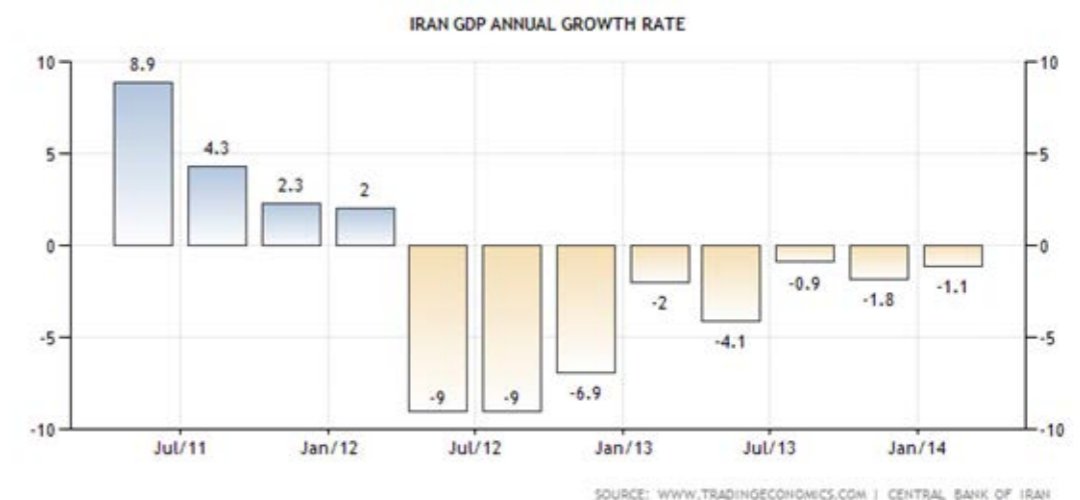
Diagram (1) shows that Iran's GDP has declined by 6% annually in constant prices from 580,000 billion Riyals in 2011 to 480,000 billion Riyals in 2014. By looking at the Iranian currency's drop against the dollar, we note that its GDP volume has decreased by 15.95% per year.

*Diagram (1)*  
*Decline of Iran's GDP by Constant Prices (2011-2014)*



Iran's GDP growth rates have continued to decrease, as presented in Diagram (2). They declined by 9% in 2012, 6.9% in 2013 and 1.8% in 2014.

*Diagram (2)*  
*Decline of Iran's GDP Growth Rates within 2011-2014*



## The Impact of Iran's Support to Bashar Assad on the Iranian Economy

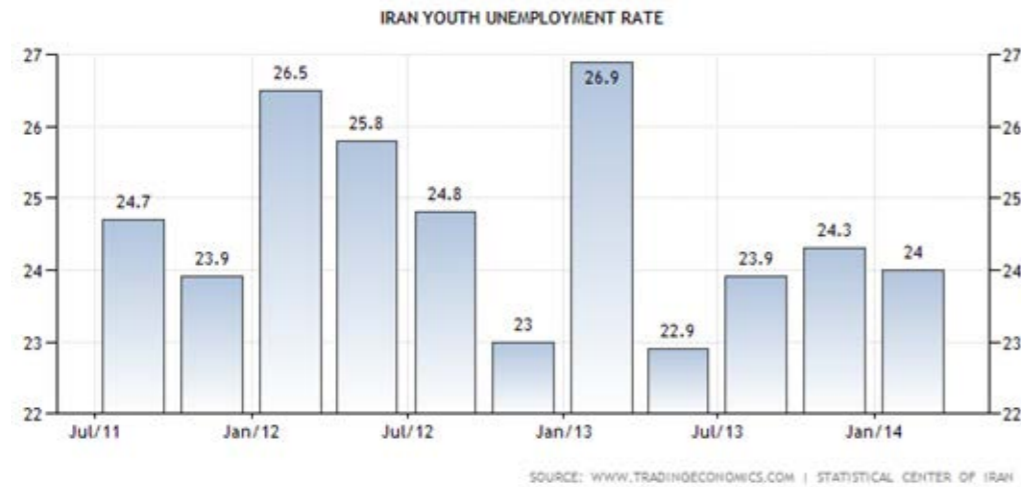
► The life of the Assad regime has become dependent on Iran's financial support, and this support forms an enormous economic burden on Iran. Many political analysts believe that the nonintervention of the United States, the West, and the region's countries in the Syrian war over the past years was a chance to drain Iran economically in Syria until it collapses.

► On July 1, 2012, the European Union imposed new economic sanctions against Iran as a first step under the international efforts to force Tehran renegotiate its nuclear program and contain its growing regional ambitions, including its persistent foreign intervention in Syria and Iraq, which is concealing its internal crises. The sanctions added additional pressure to Iran's already strained economy.



It is noteworthy that between 2011 and 2014, the youth unemployment in Iran ranged between 24% and 27%, as illustrated in Diagram (3). The youth unemployment rate is a crucial problem for the Iranian government and economy, one which President Hassan Rouhani has not succeeded in solving.

*Diagram (3)  
Iran's Youth Unemployment Rates (2011-2014)*



Declining growth and high youth unemployment was accompanied by the collapse of the Iranian currency due to a lack of hard currency, the slowing economy, and increased unemployment. The exchange rate of the Iranian riyal declined dramatically during the Syrian crisis, as presented in Diagram (4).

*Diagram (4)  
Decline of Exchange Rate of the Iranian Riyal Against the Dollar (2011-2014)*



Diagram (4) shows that the riyal exchange rate has risen 62% against the dollar, from 10,383 riyals per dollar in 2011 to 27,027 riyals in 2014.

The collapse of the riyal exchange rate has led to record high inflation, an enormous increase in the prices of goods and basic materials, and the absence of most imported goods. It is widely believed that the foreign currency reserve has declined in Iran because the government has used it to import some basic goods. No alternative method was available to import goods because of the dramatic and sharp decline of oil selling in the international markets.

During his talk to the Parliament about the country's economic situation, President Rouhani emphasized that "his government's priority for this year is to reduce inflation rates, restore economic stability, and control inflation's major factors instead of scaling the prices through decisions." Rouhani promised to "raise the taxation on non-oil products from 47% to 53% in order to reduce the government's dependency on oil revenues," in light of an unprecedented drop of oil prices, upon which the Iranian economy relies.

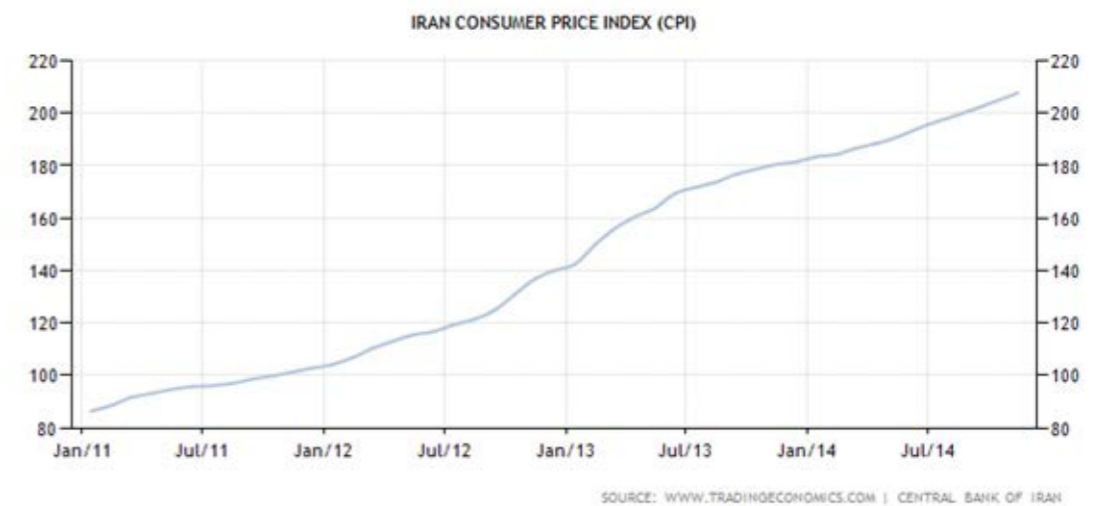
Thus the Iranian government was compelled to raise the prices of oil derivatives in attempt to rescue the coun-

try's economy, which is suffering sharp and continuous deterioration due to the ongoing Western sanctions. Gasoline prices increased by 42%, diesel by 40%, and cooking and heating gas by 32%, causing local economic conditions to suffer. The British newspaper the Financial Times said that rising fuel prices in Iran will instantly affect the poor who benefit from fuel's lower prices. Cheap fuel allows them to secure jobs and additional careers that help them cope with rising prices and poor living conditions. The newspaper pointed out that cheap fuel enables many people move between their first job in the morning and the second one in the evening and allows many employees to work as taxi drivers after they finish their usual work.

The wave of rising prices in Iran is not limited to just fuel. Rather, the recent decision to raise fuel prices in such high percentages came less than a month after a decision to raise the prices of electricity, water, and domestic gas. Price increases for basic goods (especially gasoline, bread, and flour) led to inflation rates of 50% in 2014, which caused economic hardship for ordinary Iranian citizens.

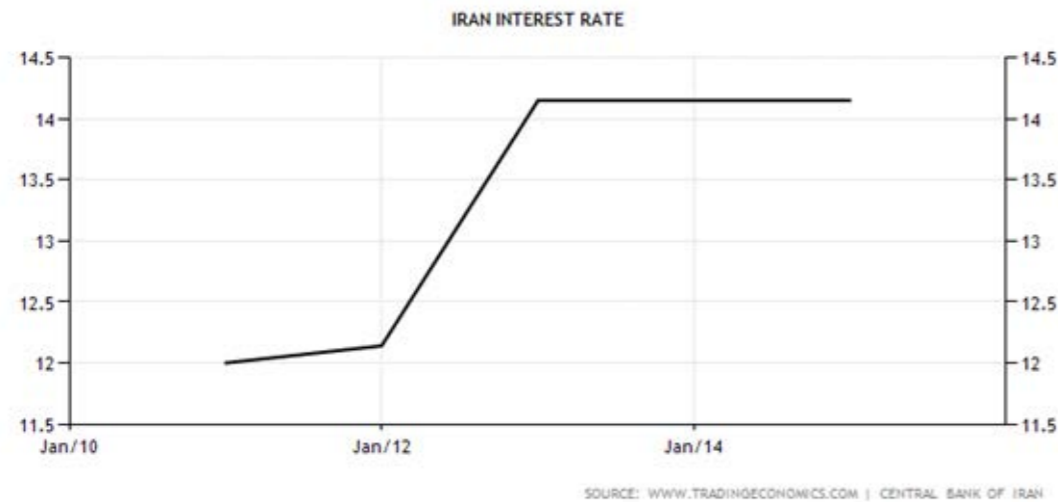
Diagram (5) shows a high index of the consumer prices, which increased 53.23% annually, from 80 in 2011 to 207.8 in 2014.

*Diagram (5)  
Index of Consumer Prices in Iran (2011-2014)*



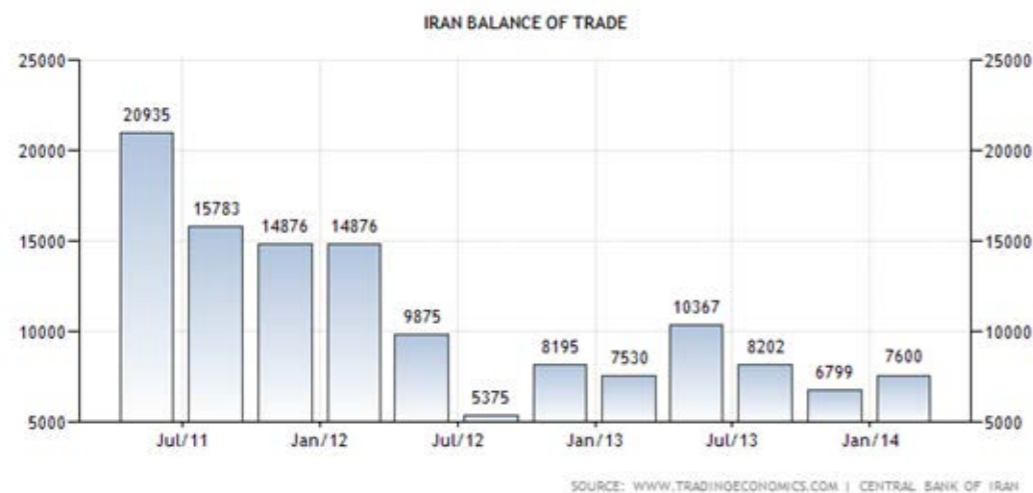
Interest rates have increased as well in Iran, from 12% in 2011 to 14.2% in 2014, as illustrated in Diagram (6).

*Diagram (6)  
Increasing Interest Rates in Iran (2011-2014)*



Iran's trade balance has recorded a sharp decline of 21.23% annually, from \$20.935 million in 2011 to \$7.600 million in 2014, as presented in Diagram (7).

*Diagram (7)  
Declining Trade Balance in Iran (2011-2014)*



The Financial Times also said in its report that “Iranian citizens are displeased with the raised prices. Many of those who voted for President Rouhani last year started expressing their dissatisfaction with his economic policies, saying that he failed to reign in the increasing prices of consumables.”

We note that Iran's support to the Assad regime during 2011 to 2014 negatively affected Iran's economy, particularly in conjunction with the sanctions imposed by Western countries against Iran, which damaged Iran's oil production and export and caused oil revenues to significantly decline.

During a conference about overcoming the crisis in Iran, Ali Tayyeb, Iran's Minister of Economy, stated to Al-Alaam TV channel that the Iranian government should rely on scientific bases in managing the Iranian economy, reduce the reliance on oil and gas, reform the banking system, attract capital, provide facilities for investors, and establish suitable political grounds to raise the volume of export with countries across the world in general and neighboring ones in particular.

Specialized committees are discussing these points, examining data files, and presenting detailed suggestions to the Iranian government.

One area under study is the impact of support for the Assad regime in Syria on the Iranian economy.

## *Is There a Solution for the Syrian Crisis if Iran's Support Stops?*

For more than three and a half years, Iran propped up the Assad regime against the Syrian people—economically, logistically, and militarily. This support has led to a serious economic crisis in Iran, in addition to the pressing international sanctions imposed against the country, especially in the banking and oil fields. The Syrian revolution has put Iran in its worst geopolitical crisis since the war with Iraq that lasted from 1980 to 1988. This crisis is evident in Iran's potential loss of its ally the Syrian regime, in addition to a potential end of the Iranian influence in Lebanon and Iraq.

The Syrian crisis has precipitated Iran's interior disintegration through its position on the Syrian revolution and infinite support to the Assad regime—either directly through the actual presence of the Revolutionary Guard in Syria (confirmed by observers and eyewitnesses in Syria) or through its allies in Iraq and Lebanon. Iran has ignored the Syrian Opposition since the crisis started and continued its actual and logistic support to the Assad regime. Yet Iran frequently surprises us with declarations of its readiness to mediate, as seen in the recent tripartite committee with Egypt and Turkey, which Saudi Arabia did not attend. However, during the negotiations, Iran insisted that Assad stay in power and refused to negotiate his departure, while neglecting the suffering of the regime's victims—the Syrian people. That confirms that the above-referenced speech by Ali Tayyeb was disingenuous, as the Iranian government remains keen to keep its foreign allies in power, despite internal crises and external exposure.

In returning to the potential impact of the severe economic crisis in Iran on funding the war in Syria, we note that it has become a never ending problem. If Iran continues to "invest" in Assad in Syria, it will prolong the war and exhaust Iran's investment capability—a total loss according to the opinion of hardliners in Iran. That makes funding the Assad regime look problematic to Iran.

There is no doubt that the economic sanctions and the Syrian situation might be the straw that breaks the Iranian government's back. The Syrian revolution has exhausted the Iranian economy, for Iran has paid more than \$10 billion to the Assad since the revolution started, only to keep him in power.

## *So does the Economic Crisis Push Iran to Take a Different Stand and Think of a Solution to the Syrian War in Order to Lighten the Burden on Its Economy?*

We predict that the deteriorating of the economic situation in Iran will push the Iranian government to reduce its assistance to the Assad regime. Moscow and Beijing have already gradually retreated in their assistance to Assad, limiting their role to exercising the right of veto in the Security Council and selling arms when they get paid in cash by the Iranian regime. Some predict that this will accelerate the fall of the Assad regime by causing it to lose its ally and main supporter.

## *There Are Multiple Factors Behind a Probable Political Crisis in Iran, which Might Motivate It to Change Its Position in the Syrian Crisis*

Iranian citizens see that their regime's support for foreign parties has negatively affected their lifestyle—both socially and economically.

This has triggered Iranian citizens' criticism of the policy of financial support to external parties, such as the Assad regime and Hezbollah in Lebanon. This was confirmed by a survey conducted by Gallup Foundation in two phases, the first between the November 6 and December 11, 2012 and the second between May 24 and June 6, 2013.

The survey's results, which were published on November 15, 2013, revealed that the percentage of Iranians who support the economic funding provided by Iran to the Assad regime dropped to 45% during June 2013, and their support for military assistance dropped to 37% in June 2013.

Will Iran change its position toward the Syrian crisis due to the escalated public resentment resulting from the growing economic pressure? Inflation rate has risen by 50%, unemployment has risen to nearly 24%, and the national currency has lost more than two thirds of its value since June 2011. Concurrently, the Iranian regime has faced increased criticism from its citizens for using oil revenues to carry out its foreign agenda, such as providing financial assistance to the Assad regime. The resentment was clearly evident in protests held in various Iranian cities, during which citizens chanted, "Neither Syria nor Lebanon ... My Life for Iran".

## *Will the Economic Consequences Push Iran to Solve the Syrian Crisis?*

## Recommendations

In this study, we discussed the Iranian support to the Assad regime. We focused on showing the implications of this support on economic and social life in Iran. In light of the previous results, we recommend the following:

- 1) It is necessary for the Syrian Interim Government to form a legal entity of specialists in legislation and international law, in order to discuss the future economic burdens caused by the war, particularly the long-term debts that the Assad regime has piled on the Syrians' backs. This entity should work on finding legal solutions that suit the Syrian people, as the debts have been incurred to arm the Assad regime to crush the Syrian people. This will include contacting with the countries that are funding the Assad regime, such as Iran, Russia, and China.
- 2) Acquainting the National Coalition for Syrian Revolution and Opposition Forces and the Syrian Interim Government with the volume of debt piled by the Assad regime on the Syrians' shoulders with Iranian support. If this support continues, those debts will only increase.
- 3) Acquainting the National Coalition for Syrian Revolution and Opposition Forces and the Syrian Interim Government with the volume of Iran's support to the Assad regime and its impact on the Iranian economy, in order to use this information in future negotiations with the Assad regime and its allies.
- 4) Acquainting the Syrian regime's Parliament (representatives of a part of the Syrian people) with the debts accrued by the Assad regime, in order to persuade the Parliament to take responsibility and pressure the Assad regime to stop accruing debt to purchase weapons.
- 5) Starting a media campaign, including the publication of this report, directed at Iranian citizens in order to mobilize the Iranian street and draw their attention toward the results of the Iranian support to the Assad regime, particularly the economic burdens on Iranian citizens. Support for the Assad regime is hurting Syrian and Iranian citizens alike, lowering their quality of life and causing long-term economic and social damage to both countries.
- 6) Finally, SEF recommends to the world in general, and to the United States and the European countries in particular, to increase the pressure on Iranian politicians to stop supporting the Assad regime and to work on solving the Syrian crisis.



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The Syrian Economic Forum and Zahra University had a general seminar on "The Impact of the Syrian revolution on the Iranian economy." It was presented by Dr. Ahmed Al-Ashqar (Head of Zahra University) and Dr. Abdullah Hamada (Director of Research department in SEF). They presented the most important Iranian economy indicators, the most important Iranian support for Assad regime, and the effects of this support on the decline of economic indicators during the period from 2011 to 2014, as well as its impacts on Iranian citizens.

The questions of the audience were answered, and in conclusion the most important recommendations were:

- The formation of a statutory body looking for all legal consequences of the economic agreements binding the Syrian people in the future.

- Advocacy campaign highlighting the money, which Iran used to support the Syrian regime, and the negative effects of this on the Iranian people.

- Sending messages to current parliament of the Syrian regime ensuring that they do not represent the Syrian people and cannot sign on behalf of them on any debt.

The lecture was attended by many representatives of the Syrian organizations, gatherings, civil movements, and a group of academics and students of Al-Zahra University.





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