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Trade Between Russia and Petro-Monarchies: New Perspectives, New Challenges
Igor Delanoë

Although one could have expected a degradation of relations between Russia and the Gulf monarchies in the context of the Syrian crisis, they have actually expanded the scope of their bilateral agenda since 2015. During the two past years, almost all Arab leaders from the Gulf have paid at least one visit to Moscow, where they promised big investments in Russian economy and participation in Russian energy projects. Overcoming a difficult historical background, Russia and the petro-monarchies have intensified their contacts in the double context of the Syrian conflict and the deflation of oil prices. Their bilateral trade has benefited from this new impetus, despite poor geographical connections and the relative incompatibility of their respective economies, oriented toward energy exports.

Through the analysis of Russian Federal Customs’ database, this paper tackles the economic ties between Russia and the Arab petro-monarchies of the Gulf since the end of the 2000s, highlighting the deep trends characterizing their business relations. Understanding the economic dynamics between Russia and the Gulf monarchies requires looking back before the Syrian crisis, since some positive signs had already appeared way before Russia’s military campaign in the Levant. Focusing on the commercial balance and the flux of foreign direct investments to and from Russia allows us to better grasp the fluctuation of the Russia-petro-monarchies political-economic agenda. Although substantial progress has been achieved, persisting challenges still hamper the positive development of Russia-Gulf monarchies relations.

Since 2014, Russia’s economy has experienced several challenges: brutal deflation of oil prices down to less than $30 per barrel in January 2016, Euro-American sanctions, economic slowdown, etc. In that context, expanding its commercial trade to new partners while enhancing economic cooperation with other countries has been a key objective for Moscow. In the Middle East, the countries belonging to the Gulf Cooperation Council (GCC) have particularly attracted Russia’s interest. However, Moscow has had to overcome a series of challenges: Russia has had to develop a “business approach” it is not really familiar with. In the Middle East, Moscow previously articulated its policy around axes like Egypt, Syria Iraq, Iran or Yemen. Therefore, it has had to enhance its knowledge of the GCC countries’ social, political and economic realities. Moreover, bilateral relations between the Kremlin and Sunni petro-monarchies have historically been thorny. Today, although these relations have expanded, they are still characterized by a poor level of trust.

In addition, broadly speaking, GCC countries still belongs to the Western area of influence. Russia’s widening business interest with Middle Eastern states was not born in the aftermath of the Ukrainian crisis. During the 2000s, Russia had already undertaken
to build up its relations with the region. However, the 2008 economic crisis convinced Moscow that it was in its interest to broaden its economic partnerships, and not rely on trade and financial relations with the Western world. Later, Vladimir Putin’s return to the Kremlin in 2012 gave an impetus to Russia’s relations with the East (Middle and Far East). Therefore, the 2014 crisis has somehow fostered a dynamic that was already active prior to the Ukrainian crisis, although a few achievements could have been noticed by then. The region fits in with Russia’s policy of diversification of export and import markets, on the one hand, while on the other, it can offer some options for Moscow’s localization of production policy. Both were initiated in the aftermath of the 2014 crisis, in the context of EU-US sanctions on Russia and the Russian embargo.

In less than four years, Russia has achieved more, politically and economically, with the GCC countries than at any other time in the 2000s. Discussion platforms have been multiplied over the past years: OPEC+ dialogue, the Russian-Arab Cooperation Forum, the Ministerial Strategic Dialogue between the Russian Federation and GCC countries, etc. However, despite noticeable progress in their trade, Russia and GCC countries still face structural challenges which hamper them in critically widening the volume of their commerce: low economic compatibility, poor Russian supply which can hardly meet GCC’s demands, lack of connections between the two worlds and others.

Chart 1: Russian foreign trade volume and Russia-Middle East commerce turnover (2008-2017), $US thousands

![Chart 1](chart1.png)

Chart created by the author based on Russian Federal Customs Service database

Since 1995, Russia’s trade with Middle Eastern countries\(^1\) has expanded: in 1995, it accounted for 3.9% of the overall Russian foreign trade; it was already 6.6% by 2004; and in 2017, it amounted to $38.7 billion (6.6%).\(^2\) While the Middle East’s share in overall Russian trade has increased since 1991, it remains at a modest level. For example, in

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1. Turkey, Iraq, Iran, Kuwait, United Arab Emirates, Bahrein, Saudi Arabia, Oman, Qatar, Yemen, Jordan, Syria, Lebanon, Israel, Palestinian Authority, Egypt.
2015, trade between Russia and Germany reached $25 billion, while Russian-Chinese commerce amounted to $64 billion. Under Dmitri Medvedev’s tenure, Russia’s commerce with the Middle East steadily decreased, reaching its lowest volume for the 2008-2017 period in 2013 (5.3%), when Vladimir Putin was back in the Kremlin. The highest volume of exchange was reached in 2015, when Russia-Middle East trade represented around 7% of Russia’s foreign trade. Over the decade of 2008-2017, Russia-Middle East trade has demonstrated its resistance to economic crisis (2008) and geopolitical shocks (Arab Spring, 2011; Syrian crisis) while staying at a modest level.

Russia enjoys a positive trade balance with all Middle Eastern countries, with the exception of Qatar. Yet, Russia’s trade remains highly unbalanced since Russian exports (wheat, hydrocarbons, woods, diamonds, meat, etc.) far exceed Russian imports (agricultural products, petrochemical products, manufactured goods, high technologies, textile, etc.) from the region.

Russia’s main trade partner in the Middle East is, by far, Turkey. In 2017, Russian-Turkish commerce amounted to $21.6 billion, which represented a 37% growth in comparison with 2016. Moscow and Ankara have continued mending their business ties since the 2015 dispute over Syria. In 2017, they traded roughly as much as in 2015 ($23.4 billion). Russia’s second trade partner is Egypt with $6.7 billion of trade volume in 2017, which is 1.5 times more than in 2016. Russian-Egyptian trade crossed a threshold in 2014: while between 2008 and 2013, it had revolved around $2 billion or, at best, $3 billion per year, it reached $5 billion after 2014 and has never dropped below $4 billion per year since then. Dynamic bilateral economic ties illustrate the vitality of the Moscow-Cairo partnership that has been revived since Marshal al-Sissi took office in 2013-2014. Russia’s third main trade partner in the Middle East is Israel, with $26 billion of aggregated commerce over 2008-2017 - an average of $2.6 billion per year.

**Chart 2: Russian trade balance with GCC Countries (2008-2017), US thousands aggregated**

Chart created by the author based on Russian Federal Customs Service database

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3. With Bahrein also, but year on year, the trade balance could be positive.
Where does the GCC fit in the picture of Russia's trade with Middle Eastern countries? Russia-GCC trade turnover represents 6.1% of Moscow’s commerce with the region for 2008-2017. However, for the same years, the GCC share in Russia’s foreign trade turnover was 0.5%. While modest in volume, Russia-GCC commerce increased almost constantly during the 2008-2017 period, from $1.4 billion in 2008 to $3.4 billion in 2017 – a peak for that decade. Over this period, the aggregated volume of commerce between Russia and the Sunni petro-monarchies amounted to $24.8 billion, with the United Arab Emirates (UAE) being Moscow’s main trade partner among GCC countries. In 2017, Russia and the UAE traded $1.6 billion, 30% more than in 2016. For 2008-2017, the Russian-Emirati commerce turnover amounted to $13.3 billion. On the other hand, Russian-Saudi economic ties remain deeply underdeveloped. In ten years, Moscow and Riyadh traded as much as Moscow and Damascus, respectively $8 billion (Russia-Saudi Arabia) and $8.6 billion (Russia-Syria). Moscow has committed efforts to depoliticizing its economic agenda with Riyadh. The visit of King Salman to Moscow in early October 2017 has yet to give an impetus to Russian-Saudi business.

**Chart 3: Russia-Iran and Russia-GCC trade - Converse dynamics**

If we compare Russia-GCC trade on the one hand, and Russia-Iran trade on the other, we can see totally converse dynamics. If the former expanded over the 2008-2017 period, the latter constantly deflated, down to $1.7 billion in 2017 from $3.3 billion in 2008. The incoming US sanctions may give an impetus to Russia-Iran commerce, but they are unlikely to make a tremendous difference since Russian-Iranian trade has been deflating since the end of the 2000s, when Teheran was under international sanctions. The overall Russia-Iran and Russia-GCC trade turnover for 2008-2017 is relatively similar: $24.8 billion and $22.8 billion respectively. In order to foster their bilateral trade, Moscow and Teheran have figured out various options: the creation of a free trade zone between Iran
and the Eurasian Economic Union;⁴ the establishment of a north-south corridor with Azerbaijan.⁵ Back in 2007, when their commerce amounted to $3 billion, the Russians and Iranians set the objective of $100 billion of trade volume by 2017.

In the context of post-2014 Euro-US sanctions, Russia has sought to attract foreign direct investments (FDI) to bring fresh money to a Russian economy under pressure. Middle Eastern countries in general, and GCC states in particular, have been solicited by Moscow, which has undertaken to privatize some large state energy and defense corporations (Helicopters of Russia; Rosneft) and airports (Pulkovo, in Saint-Petersburg) since 2014. The Russian Direct Investment Fund (RDIF) – a federal structure responsible for engaging foreign sovereign funds – has forged partnerships with 25 foreign investment funds, including nine Middle Eastern ones.⁶ During the 2015 Saint-Petersburg International Economic Forum, Saudi Arabia committed to invest up to $10 billion in the Russian economy within the next five years. The Emirati fund Mudabala, for its part, committed $7 billion, and DP World, $2 billion.⁷ Although modest in volume, GCC FDI in Russia have constantly increased over the past decade, with critical investments recently committed. Qatar, for instance, played an apparently major role in the Rosneft privatization in late 2016, where it reportedly invested $2.5 billion.⁸ Earlier, in the summer of 2016, the Qatar Investment Authority bought stakes in the Saint-Petersburg airport.⁹ More recently, Rosneft opened a representative office in Doha in late March 2018. In many respects, these financial operations reflect expanding political ties.

In summary, Russian commerce with GCC countries has expanded over the 2008-2017 period, while staying at a modest level in relation to the tremendous economic and financial potential of Sunni petro-monarchies. Although Russia has successfully depoliticized its economic ties with the Gulf petro-monarchies, direct investments remain deeply tied to the political agenda Russia has with each of the GCC countries. In that regard, the UAE turns out to be Moscow’s best trade partner among them by far. Growing trade turnover has opened new perspectives for Russia-GCC business. Yet, a glass ceiling seems to prevent Russia and Sunni petro-monarchies from further expanding the scope of their commerce. Poor economic compatibility – both are among the world greatest energy exporters – and GCC demands for high technology products are persistent challenges, while Western influence has been partially alleviated since

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⁴ "Russia Ratifies Interim Deal on Iran-EEU Free Trade Zone", Financial Tribunes, November 30, 2018.
⁵ Yana Zabanova, “Connecting Iran and the South Caucasus: Competing Visions of the North-South Corridor”, Caucasus Analytical Digest, no 92, February 2017, p. 7.
⁶ Qatar Holding, Mudabala (UAE), DP World (UAE), le Public Investment Fund (Saudi Arabia), Kuwait Investment Authority, Mumtalakat (Bahrain), Ronesans Holding (Turkey), Turkiye Wealth Fund Management and the Egyptian Ministry for Investments.
⁷ Russian Direct Investment Fund website.
⁸ "Russia Sells $11 Billion Stake in Rosneft to Glencore, Qatar", Bloomberg, December 7, 2016.
⁹ "Qatar Investment Authority buys stake in Russian airport", Doha News, August 1, 2016.
the beginning of the 2010s. Russia and GCC, however, share the need to diversify their respective economies and to break their dependency on gas and oil exports. This new challenge could pave the way for them to enhance their economic agenda around a new axis of growth and partnership (logistic, ports, ground transportation, etc.).

**Bibliography:**


