ECONOMY

Syrian Reconstruction Spells Juicy Contracts for Russian, Iranian Firms

The worst violence of the six-year-long Syrian civil war is winding down, as government forces under Syrian President Bashar al-Assad have reclaimed large swathes of rebel-held territory and the Islamic State has been pushed out of its major strongholds.
But where millions of Syrian civilians have seen destruction and hundreds of thousands have died over the last six years, companies inside and outside of Syria now see dollar signs. Almost every destroyed bridge, road, building, and power plant will be a chance for a potentially lucrative government construction contract, which the regime will soon start handing out.
In August, companies from almost two dozen countries flocked to Syria for the Damascus International Fair. The first such expo since the start of the war in 2011, it essentially declared the country open for business again. Well, not entirely companies from countries that fought Assad's regime aren't invited.
But Damascus is also turning to another longtime backer for help. Earlier this year, Iranian firms linked to Iran's Islamic Revolutionary Guard Corps signed deals to rebuild phone networks and mines, and last month Iranian companies signed a host of preliminary accords to build new power plants in a handful of Syrian cities, including Aleppo and Homs. Iranian oil officials have also said the country will build an oil refinery in Syria.
Other countries want in on the action. On Oct. 19, Brazilian Foreign Minister Aloysio Nunes said that Brazil intended to re-establish full diplomatic relations with Syria and open its embassy, which it had closed in 2012, in order to give Brazilian businesses a shot at participating in reconstruction there. And even some small Western firms attended the International Fair last month, hoping for a shot at what aid groups estimate will be at least a $300 billion rebuilding effort.

Reconstruction contracts are likely to go largely to firms linked to Russia and Iran, which support Assad, though China and Brazil also aim to throw their hats in the ring. Most Western companies aren't invited, not that they were going anyway: During the United Nations General Assembly in September, 14 mostly Western and Gulf nations opposed to the regime indicated that they would not participate in Syrian reconstruction until a "political process" to get Assad out of power was underway. U.S. national security advisor H.R. McMaster reiterated that position at an event on Washington on Oct. 19, saying, "We should ensure that not a dollar, not a dollar goes to reconstruct anything that is under the control of this brutal regime."
As early as April 2016, not long after it jumped into the Syrian war, Russia had already signed almost $1 billion in infrastructure and other contracts. In November 2016, Damascus pledged to give Moscow priority in awarding contracts, according to RT. A pair of Kremlin-linked energy firms have already started doing business in oil, gas, and mining in areas just cleared of the Islamic State. The two countries are even considering creating a new joint bank to smooth such transactions.
The reconstruction won't benefit all Syrians, though. Elites who opposed the regime have mostly fled, leaving Assad supporters who are already positioning themselves, by starting new businesses and construction companies, to obtain as many contracts as possible alongside international firms. And not every part of the war-torn country is going to be showered with largesse from Damascus: The regime wants to punish the regions that rebelled by denying reconstruction funds, said Lina Khatib, head of the Middle East and North Africa program at Chatham House.
"The Syrian regime is not interested in reconstructing the whole of Syria, but only the loyalist areas," she said.
Aid groups are worried that the rush to rebuild the loyalist core of postwar Syria will only cement the same kinds of divisions and abuses that have been on display during the six-year conflict. Several aid organizations, including Oxfam, Save the Children, and CARE International, issued a joint statement this spring warning that "a move towards reconstruction assistance risks doing more harm than good" if it takes place within a Syrian government framework that does not respect human rights.

It's No Accident That China's Tycoons Are Bad Investors

The First Priority for Wealthy Chinese has been to Move as Much Money Abroad as Possible. If Beijing has its Way, that won't be an Option Anymore.

By Heiwai Tang, Christopher Beddor

China has been on a spending spree overseas in recent years, with both private investors and state-owned enterprises snapping up acquisitions everywhere from Dar es Salaam to Vancouver. But that's been sharply curtailed in the last few months by the authorities back home.
Tougher restrictions and scrutiny of foreign dealmaking led to a 44 percent fall in nonfinancial outbound direct investment in the first half of the year, according to the Ministry of Commerce. China's regulators have subjected some high-profile outward-looking conglomerates, including Dalian Wanda, Anbang Insurance Group, HNA Group, and Fosun International, to multiple rounds of punishment for their foreign ventures. Companies under investigation for potential violations of the country's new capital controls have already taken significant hits to their valuation.
Officials say they want to stop money laundering and curb "irrational" investments abroad. Media reports suggest the leadership has internally discussed the experiences of Japanese companies in the late 1980s and early 1990s, when a shopping spree of American landmarks such as Pebble Beach golf club and Rockefeller Center ended in disaster.
But are such concerns actually justified? The tentative answer is yes, according to new research conducted by Zixuan Huang and one of us. It turns out that many of the Chinese outboard investment projects aren't just big they also perform poorly.
China's foreign investment has changed dramatically over the past decade. The biggest buyer of foreign assets was historically the People's Bank of China (PBOC), rather than companies. In 2011, for instance, the PBOC accounted for 80 percent of the country's total foreign investment. Most of these purchases were used to build its foreign exchange war chest and suppress the value of the yuan, a move that in turn boosted exports.
However, that pattern changed around 2014. The central bank now accounts for only about half of China's total foreign investment. In its place, enterprises and individuals have surged from just 12 percent of the total in 2011 to nearly 40 percent today.
This change presents a puzzle, however. The PBOC invests in low-yielding, liquid assets such as U.S. Treasurys. Firms and investors, by contrast, typically seek higher-yielding and riskier opportunities. As these companies and investors account for a larger share of the total, one would therefore expect the overall returns on China's foreign investments to rise.
But that is not the case. Data from the State Administration of Foreign Exchange reveal that the rates of return of China's outbound direct investment have been declining since 2014 to only 0.4 percent in 2016, lower than the 4 percent rate of return for the country's foreign reserves, and compared to 6.8 percent for the United States'. In other words, Chinese firms and investors are strikingly bad investors abroad.
There could be many reasons for this. Chinese media often singles out unfamiliarity with the business culture abroad, or the limitations imposed by pesky foreign governments on which sectors Chinese firms can invest in. But the authors' own discussions with staff at China's largest private conglomerates suggest some other intriguing theories.
One employee in the foreign investments office of one of these conglomerates says that his team was given targets to prioritize the speed of acquisition over the quality of investment. Only those in the upper echelons of the firms know exactly why these targets were given.

Turkish Wine Industry Determined to Thrive Despite Pressures

Winemakers in Turkey complain that high taxes, tightening of regulations under current Islamic-rooted government have hampered business.

CANAKKALE - On the verdant, fertile Gallipoli peninsula in northwest Turkey, headscarf-clad women in colourful clothes harvest grapes in the blistering late summer heat.
But they will never taste the flavours from the wine that will emerge from the grapes they pick.
"We eat the grapes but have never drunk wine, none of us drink wine," smiles Aynur, the head of the picking team.
Turkey is an overwhelmingly Muslim country and, with alcohol considered to be haram (prohibited) under Islam, many will not touch a drop throughout their lives.
Yet the country is blessed with an ideal climate for viniculture, with hot but humid weather and even a long winemaking tradition.
"The climate is very suitable, we have warm summers, we have humidity in the air, so the plants are very active and very happy," said Mark Sims, the Australian vineyard manager at Suvla, the main producer on the peninsula.
Suvla started up in Gallipoli in the 2000s, mainly with French grape varieties like Chardonnay, Cabernet Sauvignon and Merlot.
But most wine in Turkey is made from over a half dozen native grape varieties, such as Kalecik Karasi, Okuzgozu and Narince, though growers increasingly use European varieties, partly in a bid to find new markets.

Iraq Calls on BP to Help Develop Kirkuk Oil

BAGHDAD - Iraqi Oil Minister Jabbar al-Luaybi called on British energy giant BP to help develop fields in the northern province of Kirkuk recovered from Kurdish forces last month..
Luaybi appealed to the firm, whose origins lie in the development of oil in then British-ruled Iraq nearly a century ago, to "quickly make plans to develop the Kirkuk oil fields".
The Iraqi oil ministry signed a consultancy contract with BP in 2013 to help the state-owned North Oil Company to develop the Havana and Baba Gurgur fields.
But it was never implemented as Baghdad lost control of the fields to Kurdish forces the following year during the chaos of the Islamic State group's lightning offensive through northern and western Iraq.
BP says on its website that it has "provided technical assistance to the North Oil Company to aid the redevelopment of the Kirkuk field."
It says that the Kirkuk field is estimated to have around nine billion barrels of recoverable oil remaining.
The Baba Gurgur field, which was discovered by the company that later became BP, was the largest in the world when it began production in 1927.
Today it produces around 50,000 barrels of oil per day, while the Havana field pumps between 50,000 and 60,000 bpd, an NOC official said.
Federal troops retook the two fields, and three others that had been held by Kurdish forces, on Tuesday, dealing a body blow to the finances of the autonomous Kurdish region which had derived much of its revenue from their output.