Russia's Financial Tactics in the Middle East

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Summary

Russia's strategy to build a greater presence in the Middle East and North Africa (MENA) region, and specifically the Persian Gulf, by using finance to influence geopolitics has become an integral part of Putin's foreign policy.

Since 2007, Russia has increasingly focused on financial tactics to achieve its strategic policy goals in the Middle East. This "soft power" links Russia to the Middle East in new and creative ways, a trend that has continued without letup since Russian President Vladimir Putin visited the region twice 10 years ago. These financial ties are both formal and informal: public transactions but also gray zones of monetary interaction between Russia and Arab states that are illustrative of a far more robust set of monetary connections than recognized by policymakers and analysts.

Middle Eastern states are an attractive market for Russian state-owned and private companies, such as Stroitransgaz, Rosneft, LUKOIL Overseas Holding Ltd., Russian Railways, Magnitogorsk Metallurgical Factory, Hydromashservice, Technopromexport, KAMAZ and Russian Helicopters. ROSTEC and other defense and aviation companies are also making inroads. It should be noted that Russian small and medium enterprises, too, contribute to trade and economic cooperation with many of the MENA countries. Russia's industrial giants are able to compete for project tenders at reasonable prices against other competitors despite Russia's flagging economic performance and increasingly strong Western sanctions against Moscow that may or, may not, be working.

Since 2007, these Russian tactics are:

- Creating a "north–south" corridor of economic connections based on a confluence of Russia's historical and cultural drive to achieve a rightful place in the Middle East;
- Pushing connectivity through soft power instruments such as "Roadshows" but also through Russian business councils activity;

- Signing Russia-Arab finance agreements, especially between Sovereign Wealth Funds (SWFs) and other Gulf Arab government–owned investment vehicles;
- Printing currency for distribution in Middle East war zones.

Russia's ability to use finance as a tactic is new to the Kremlin's arsenal, with most of the financial activity occurring in the Persian Gulf states. The Russian goal is to build greater ties between the Middle East and Russia-dominated Eurasia, despite a history of some bad deals during the global financial crisis. Russia sees the utility in being contractually tied to Arab funds given that the Russian SWF's parent, Vnesheconombank (VEB), has been under US sanctions since 2015.[1] Russia's financial tactics in the Middle East undermine US foreign policy by manipulating local economies with the aim of winning the hearts and minds of civil servants, soldiers and state employees in Arab lands supported by Moscow.

Thus, Russia's desire to have a greater presence in the MENA region and specifically the Gulf is a critical part of Putin's foreign policy in terms of finance and influencing geopolitics.

Introduction

Russia's characterization of the West as immoral and corrupt as well as its dismissals of Western styles of democracy resonate with Arab leaders, who see Russia's approach as correct since they believe strong governance is required in today's Middle East. Thus, Russia's moral vision involving "spiritual sovereignty," great national wealth in strategic minerals and energy, plus Moscow's relationship with China and the rest of the Far East appeal to Arab authorities and businessmen.[2]

The Russian Federation is building robust financial ties with key Arab states, and probing others for future investment opportunities. Russia's goal is to build on the goodwill of the Gulf States in various business sectors, thereby building geopolitical advantage that elicits Arab cooperation, for Russia to enter into other areas of the Middle East as a strategic partner.[3] The development of a "north–south corridor" based on finance and politics, initiated by Putin in 2007 and since grown, plays an important part in linking the two regions.[4] The north–south corridor is a strategic reality that allows Russia's relationship with Arab states to serve as a jumping off point for Russian economic initiatives in Africa and the global South.[5] Despite Russia's domestic economic woes, the Kremlin's financial tactics aimed at the Middle East seem well grounded.

On the flip side, Arab Sovereign Wealth Funds (SWF) are engaged in receiving their own political dividends from Russia that appear to be tied directly to the immediate future of the Levant and other warzones. Gulf SWFs are looking for help from Moscow to power the region's reconstruction. A "Grozny Plan" or an "Arab Marshall Plan" to rebuild the region's shattered cities would join Russia with Middle East states in ways that would encourage new geostrategic realities.[6]

Russia's Emerging Financial Approach to the Persian Gulf

In 2007, two drivers were noticeable between Russia and the Persian Gulf states. The driver is the north–south corridor between the Gulf and Russia. This is historical in nature—going back through the Soviet era to Imperial Russia—and has implications for the current and future relations between the regions. The second driver is in the political and economic sphere. When Vladimir Putin visited Saudi Arabia, Qatar and Jordan in early 2007, it was the first visit of a Russian president to these countries.

In a second trip to the region in September 2007, Putin, accompanied by the heads of Rosoboronexport, Aeroflot and Roskosmos, visited the United Arab Emirates (UAE), where economic, cultural, and military deals were signed—including for Arab access to Russia's space launch facilities in Kazakhstan—and a foundation stone was laid for the Arabian Peninsula's first Russian Orthodox church in Sharjah.[7] The establishment of a Russian Orthodox Church in the conservative emirate holds special significance for the current status of Russo-Islamic relations by building on Emirati concepts of tolerance. A second Russian Orthodox Church is now open in Abu Dhabi. The collection of alms is part of church operations and is allowed by UAE authorities.

Putin's visits in 2007 were a masterstroke for Russia. His trip to the UAE accelerated Moscow's interest in bidding for—and winning—energy projects. For example, in July 2008, Stroytransgaz won a $418 million contract to build a gas pipeline from Abu Dhabi to Fujairah. And the traffic is two-way. At the time, UAE investments in Russia totaled about $3.5 billion dollars, mostly equity in state and private companies, but several businesses in the UAE are investigating further ventures in Russia. Dubai World, for instance, is looking at ports, logistics and infrastructure investments, while Limitless, Dubai World's real estate arm, is building more than 150,000 homes in Russia.[8] Russia was moving from a bilateral relationship with the UAE based solely on shuttle trade and tourism to inter-state relations at the highest levels of government.

In the wake of Putin's visit to the Gulf region in 2007, Russia began to use its financial might to launch two different, successive tactics for Russian investment into the Gulf States.[9]

A key tool used by Russia to build local connections was "The Roadshow." The Roadshow concept brought Russian business leaders to the Gulf, and specifically to the UAE. These events attracted wealthy Russian investors into the Dubai property market, which at that time was valued at $1.5 billion.[10] One result of interactions in Russia's Roadshow concept was Russia becoming active in Iraq's oil sector through the training of Iraqi technicians.[11]

The Roadshow was augmented by meetings of the Russia-Arab Business Council (RABC) and the Russia Business Council, Dubai (RBC-Dubai). The RABC—naturally—was founded by Yevgeny Primakov when he served as chairman of the Russian Chamber of Commerce and Industry (CCI) a few years prior to the Roadshow effort, with up to 12 individual councils across MENA. Primakov's vision for the MENA region is instituted in the RABC's mission as part of a soft power outreach to major UAE and other GCC authorities.[12] Both the RABC and the RBC-Dubai held key meetings of business leaders not only in the UAE but also in Iraq, Egypt and other MENA countries. At these meetings, discussion involved ways to improve the investment climate between Russia and MENA in areas such as commercial aviation, real estate, banking, and general trade. Moscow-based officials from the Ministry of Trade frequently visited these meetings specifically to float ideas about how Russia and Arab states can cooperate better together. Support for the RABC and the RBC-Dubai came from a combination of sources, including respective Russian embassies but also local Russian expatriates. Gulf businessmen were interested in opportunities in Russia with favorable conditions guaranteed for easy market entry.[13]

The onset of the global economic crisis led to a retreat for Russia's push in MENA. Russian Railways' bid to be part of Saudi Arabia's "land-bridge" project failed but succeeded in having a Lukoil subsidiary operating in the eastern province. Moscow also wanted to discuss a gas suppliers' equivalent of OPEC—a "Gaspec"—between Qatar, Russia and Iran. However, the idea failed due to a number of political and economic factors, including the fact that all parties did not trust each other.

Russian businesses were eager to benefit from the innovative opportunities available in the Gulf—where infrastructure and industrial projects are estimated to be worth more than $2 trillion by 2020. Again, Moscow was set back by economic conditions globally but also in Russia itself. A preliminary deal was to have Dubai's SWF, Dubai World,[14] invest up to $5 billion in the Russian energy concern OGK-1. But the deal broke down due to poor market conditions, according to Russia Direct Investment Fund (RDIF), Russia's SWF.[15] The opportunity for an SWF purchase of a Russian energy operation was premature.

Russia and Gulf States Move Into Sovereign Wealth Funds

The OGK-1 case represents what later became one of Russia's primary approaches to large-scale financial investment deals between the Gulf States and the RDIF. Despite the low price of oil, both Russia and wealthy Arab states with sovereign monies, are beginning to seek new, unique, large-scale, high return investments for political purposes. These emerging relationships are opening a new chapter in to the conduct of countries with large sovereign national assets as a tool to gain access to other markets that were unreachable just a few years ago.

Russia's development of ties with Middle East states based on interactions with their SWFs has become an important part of the Kremlin's tool box. SWFs, besides being state-owned entities, are used as a political tool by their governments to achieve geopolitical and strategic advances. The activities of Saudi Arabia's Public Investment Fund (PIF), the Qatar Investment Authority (QIA), and the UAE's Abu Dhabi Investment Authority (ADIA) investment vehicle, Mubadala, all serve as good examples of this.[16]

Now, the Gulf states are using their economic strength to flex their political muscle, in order to invest in Russia at a time when Moscow's embattled economy is struggling with low oil prices. Investments by Saudi Arabia, the UAE and Qatar into the RDIF reaches well into the tens of billions of dollars, although the actual amount of money delivered via Memorandums of Intent (MoI) vs Memorandums of Understanding (MoU) is unknown; the distinctions are important in terms of any payments to lock in terms.[17] All three GCC states are using investments as a political tool to gain leverage over Moscow by investing in Russia through their SWFs.[18]

Qatar

Qatar's SWF activity is probably the most advanced of any Arab state, a function of Doha's craftiness and Russia's requirements to influence Gulf politics. Doha is using its financial muscle to woo Moscow in a bid to regain lost political influence in the Syrian conflict and the broader Middle East.[19] Qatar's Emir Sheikh Tamim bin Hamad al-Thani visited Russia in January 2017 to address Middle Eastern geopolitics and energy issues. Tamim stated, "Russia plays a leading role in stability in the world," while Putin said, "Qatar is an important component of the situation in the Middle East and the Gulf." Tamim's visit was to achieve an equilibrium between actions in the Levant and Qatar's energy influence via its liquefied natural gas (LNG) exports, while Putin knew that Doha was ready to negotiate on the outcome of several regional conflicts.

From Doha's point of view, the Qataris are attempting to leverage their investment portfolio with Moscow by flexing their country's wealth. Qatar is a useful partner for Russia regarding alternative sources of financing and investment, and has used its large SWF to obtain political influence with the Kremlin by investing in Russia. The Qatari Investment Authority (QIA) is worth $335 billion in global assets, as of the June 2017 Qatar crisis, making it the 14th largest in the world.[20] Through three main investments, the QIA now has over $2.5 billion worth of assets in Russia.[21]

In 2013, the QIA purchased a $500 million stake in VTB, a Russian bank sanctioned by the West.[22] That year, the QIA's CEO, Hamad bin Jassim bin Jaber al-Thani, became a board member of the RDIF. In October 2016, the QIA made its second Russian investment to become a 25 percent stakeholder in St. Petersburg's Pulkovo airport.[23]

Factors driving Qatari investment in Russia sought political leverage in the regional geopolitical environment. Doha saw Russia as a way to voice unhappiness about Bashar al-Assad while supporting various groups in the jihadist opposition.[24] The Qataris recognized that Doha's network of Syrian rebels is unable to achieve its objective. As the Syrian Civil War draws to a close, Doha needs Moscow more than ever due to the Qatar Crisis. Doha is finding itself thrust into the Russia/Iran/Turkey camp on Syria by Saudi/UAE actions via the Anti-Terrorism Quartet (ATQ) made up of Bahrain, Egypt, Kuwait, Saudi Arabia, and the UAE. This development is a net positive because the reconstruction of Syria is set to be a lucrative and politically-charged process.

Thus, Qatar's deals with Moscow through investments in Rosneft give Doha a better bargaining position across the Arab world as the Emirate's political investments in Cairo and in Field Marshall Khalifa Haftar's Libya have produced diminishing returns.[25] Now, Qatar is employing the unique political tool that is its SWF to influence the Syrian endgame. Qatar is hoping its SWF activity will achieve positive results on the ground in Syria, which Doha has thus far failed to secure during the civil war.

Saudi Arabia

Until 2013, the RDIF had established partnerships with Western sovereign funds. But Russia's political stand-off with the West over Ukraine has made US and European funds cautious about teaming up with a Russian state-backed entity that may eventually be sanctioned. Since then, the Russian fund's new partnerships have been dominated by entities in Asia and the Middle East.

With the war raging in Syria, Saudi Arabia's sovereign wealth fund agreed to invest $10 billion in Russia in 2015, in a powerful sign of the rapprochement between Moscow and Riyadh to discuss regional issues.[26] The passing of King Abdullah and the accession to the throne of King Salman in January 2015 opened a new relationship between the Kremlin and the Kingdom.

Then–Deputy Crown Prince Mohammed bin Salman (widely referred to as MBS) traveled to the St. Petersburg Economic Forum, where discussion over investment ideas were first broached between the Kingdom and the Kremlin. The RDIF CEO Kirill Dmitriev said that, "The first seven projects have received preliminary approval, and we expect to close ten deals before the end of the year," apparently in reference to infrastructure and food security projects.[27] Importantly, the RDIF's campaign to attract Saudi investment began in 2014, illustrating Russia's persistent determination to convince Saudi Arabia to give Moscow $10 billion.

With King Salman's visit to Moscow in 2017, the links between the RDIF and Saudi Arabia's SWF—the Public Investment Fund (PIF)—became clearer. Russia and Saudi Arabia established a $1 billion fund to invest in technology and innovation and another $1 billion fund to invest in energy projects, including Saudi investment in Russian toll roads that are coming out of the PIF fund too. The Russians are to invest in Saudi projects linked to infrastructure, retail, logistics and agriculture over a period of up to five years, and the Saudi investment vehicle would invest together with other foreign sovereign wealth funds mostly from Asia, including the Russia-China Investment Fund, a two-billion-dollar vehicle backed by the China Investment Corporation and the RDIF.[28] The Russian sovereign fund also agreed to invest jointly with the Saudi Arabian General Investment Authority (SAGIA) in projects in Saudi Arabia and other Middle Eastern countries. The PIF's commitment adds to earlier pledges from Asian and Middle Eastern sovereign wealth funds to invest in Russia.

A key goal is to open the Arctic to PIF investment. Saudi Arabia sees Arctic resources as a necessary potential strategic and economic opportunity. Security factors are also in play: Riyadh is concerned about what will happen next in what can be termed a "pivot to the north policy" over Arctic energy extraction and transit as part of a hedging strategy. To be sure, the PIF's actions in Russia cannot be taken as an isolated event. Arab Gulf States have opportunities for their SWFs to invest in the Arctic region. Forward-leaning SWFs, such as the UAE's Mubadala, already work with Russia and Norway. The QIA is investing in Rosneft and the RDIF for Arctic projects. It serves the Arab Gulf states interests to make investments in Arctic countries, which have contributed both resources and guidance to the Arabian Peninsula states across a number of spheres from finance to security.[29]

Both the PIF and the RDIF agreed to collaborate on two new platforms to invest in Russian energy services and technology sectors.[30] The RDIF's Dmitriev said, "Thanks to the team at Saudi Aramco, the world's largest oil producer, the platform will be able to help portfolio companies enter new markets. Our Saudi partners highly value the development potential of leading Russian energy companies, and the Russian energy sector can benefit from their expertise to further cooperate in the Middle East."[31] In addition, the PIF and the RDIF are to focus on IT-sector opportunities, including big data, digital infrastructure and e-commerce. The two funds are also evaluating investment prospects in retail, real estate, transportation and logistics infrastructure. The intent, from the Russian point of view as articulated by the RDIF's CEO, is for Russian high-tech companies to deliver to the Kingdom innovative solutions specifically designed for Saudi Arabia's efforts to achieve fourth industrial revolution status.[32]

From the Russian side, the RDIF is supporting the Russian Export Center (REC). Headed by Petr Fradkov, the ambitious son of former foreign intelligence (SVR) chief and current CEO of Almaz-Antei Corporation Mikhail Fradkov, the REC is working with the PIF to coordinate the entry of Russian companies into the Saudi market in energy and strategic minerals; two dozen such companies have already establishing their presence in the Kingdom.[33] Fradkov's REC operations throughout the MENA region are facilitating the entry of Russian high-end products in IT and communications, in addition to supply chain support.[34]

MBS's determination to bring Saudi Arabia into a new era is attracting Russian investment. Russia's interest in Saudi Arabia's NEOM Project—a planned futuristic transnational free trade zone based on Artificial Intelligence (AI) and robotics—is a case in point. In October 2017, Saudi Arabia's PIF, hosted the Future Investment Initiative, at which MBS unveiled his country's plans to build a 10,230-square-mile business and industrial zone that would link with Jordan and Egypt through energy and water, biotechnology, food, advanced manufacturing and entertainment industries. The project is to be the first trans-boundary free trade zone, which will represent new opportunities for both Egypt and Jordan, two of Russia's partners in the region.[35] The NEOM project will be backed by more than $500 billion from the Saudi government, the PIF, and local and international investors. RDIF CEO Dimitriev immediately pledged "several billion dollars" to the project.[36] NEOM is ambitious, transformative and potentially lucrative.

Saudi Arabia sees Russia's SWF as a way to bring Moscow into a relationship that helps to make the Kremlin a partner in areas necessary to the joint interests of both countries in terms of security, energy and innovation. In turn, the Kremlin sees Saudi Arabia as the key to its planting deep roots in the Kingdom's Vision 2030 strategic development plan.

UAE

In 2013, Abu Dhabi established with the RDIF a $3 billion fund to develop infrastructure in Russia's south, with Mubadala investing in Russia's agricultural sector.[37] Simultaneously, Russia seeks to build an air hub in the UAE to deliver aid and knowledge transfer to Africa. This facility is to act as a bridge to Africa, where Russia, with its extensive air cargo-carrying capabilities, can help develop infrastructure and provide health services in areas affected by conflict and famine.[38] It is interesting to note that Russia and the UAE, through Mubadala, are cooperating to build a $750 million airport in Cuba, as well as redeveloping a port and building a railway line in the Caribbean country.[39] Ties between the UAE and Russia are robust thanks to inter-SWF investment and well-developed in terms of geopolitical and economic engagement. These look to continue, with many plans for productive collaboration.[40]

In the UAE case, Russia's SWF is making agreements in Abu Dhabi's defense sector. The RDIF has formed a consortium with Abu Dhabi to finalize a deal to acquire a minority stake in Russian Helicopters, which is part of the Rostec State Corporation.[41] Rostec is a Russian company created in 2007 to promote development, production, and export of high-tech industrial products for civil and military purposes. It is comprised of over 700 organizations, and its portfolio includes brands such as the Russian car-maker Avtovaz, the truck-maker Kamaz, the arms manufacturer Kalashnikov Concern, Russian Helicopters, and the world's largest titanium producer, VSMPO-Avisma, among others.[42]

The transaction consists of two stages.[43] The first involves the sale of a 12 percent stake and an investment of $300 million, as well as an agreed-upon subsequent potential increase to $600 million.[44] The deal will help the company to implement its strategy and business plan, including the development of new types of helicopters. The company's range of helicopters includes light-lift models such as the Ansat GMSU 2 and the Ka-226T. [45]

Russia's military offerings to the UAE include the Mi-28 rotor-wing attack aircraft. RFID CEO Dmitriev said, "The RDIF consortium's investment in Russian Helicopters will enable the company to continue its expansion into new markets, particularly in the Middle East, thanks to the participation of our partners from the region."[46] Sergei Chemezov, chief executive of Rostec, said the company's value is estimated at more than $2 billion: "Today we have agreed with the [RFID] and Middle East investors, on the final parameters of the deal and signed documents for the sale of a minority stake in Russian Helicopters, based on the valuation of the company at $2.35 billion."[47]

At the time, the UAE launched an alternative investment approach to Russia's. Under the Abu Dhabi Investment Authority (ADIA), the UAE's parent SWF, there are dozens of multi-billion dollar companies, including International Golden Group (IGG) and Royal Group. These companies conduct UAE foreign policy in what can be called "a backchannel."[48] Both IGG and Royal Group made substantial investments in Chechnya during the reconstruction phase of the Russian republic, "and thanks to Emirati generosity, [the Chechen capital of] Grozny now looks like Dubai," according to a senior Emirati official's remarks to the author in 2015.[49]

Out of all the Gulf states, the UAE sees a special utility in investing in Chechnya, which is now helping out in Syria and Libya with counterterrorism and constabulary responsibilities in the former and negotiations with the city of Misrata for an overall Libyan settlement in the latter.[50] Thus, the political dividend from an SWF investment is fully revealed. In the early days of the Arab Spring, the Royal Group, a subsidiary of the ADIA, began to invest in Grozny.[51] Chechen President Ramzan Kadyrov and the president of Royal Group, Sheikh Tahnoon Bin Zayed Al Nahyan, meet on a regular basis.[52] Chechnya also receives sizable payments annually from UAE foundations such as the President Khalifa Foundation, which donates to construction projects in Grozny.[53] For the Emiratis, the Moscow-Grozny relationship represents a good opportunity. For the Russians, the Abu Dhabi–Dubai relationship gives a menu of options for Moscow, which is quite familiar with the UAE's internal politics and financial sector.

Russia's relationship with Dubai is different than with Abu Dhabi. Dubai has a number investment vehicles investing in Russia tied to the emirate's core sovereign fund, Dubai Holdings. Under this entity, DP World is now investing in Vladivostok to enhance the port's capacity, and Dubai Multi Commodities Centre (DMCC) is exploring investing in strategic minerals extraction for export from Russia through this key Pacific Ocean maritime outlet.[54] Russia, as a major player in the strategic minerals market, uses diamond and gold markets effectively for leverage in other political arenas, specifically in Israeli and South Africa.[55] Russian and Emirati interests converge from the Arctic to Africa in the growth of global requirements for strategic minerals.[56] In December 2017, REC CEO Petr Frolov established a Skolkovo Foundation IT cluster in Dubai. Seven Russian hi-tech companies working in areas including infrastructure security, cybersecurity, artificial intelligence, 3D modeling and automated industry have already committed to having a permanent presence at the hub. Frolov's relationship with Dubai government officials related to innovation and fourth industrial revolution technologies helps to marry Russia's tech industry with Dubai's innovation hub concept and financial backing.[57]

Both Abu Dhabi and Dubai have interests that are complimentary and competitive through their use of SWFs. For Russia, the competition is welcomed, given the boost the UAE's investments provide for current and future bilateral financial relations. Moscow sees Abu Dhabi as a gateway to achieve Russia's strategic plans in the region. Notably, Russia's relationship with the UAE has allowed for Chechnya's growing role in the Levant and Libya. Chechen President Ramzan Kadyrov's strong relationship with Gulf monarchs, specifically with the UAE, plays an important role in bringing Moscow closer to Arab states as a result of UAE SWF activity.

Russia's Currency Tactics

Russia's tactic of printing currency for the region's warzones helps to establish Moscow not only as a reliable partner with the receiver but also links Russia to that country's future economy. Undoubtedly, Russia seeks to prop up governments in times of state failure.

GOZNAK Joint Stock Company, which is owned 100 percent by the Russian government, prints these currencies.[58] GOZNAK also prints money for Lebanon Guatemala, Rwanda and Angola, among others. Russia's printing money for Middle Eastern governments under duress allows additional political and military influence in the countries in question. GOZNAK operates under Russia's Ministry of Finance (MINFIN).[59] Thus Russia's MINFIN plays an important foreign policy role in MENA, using currency as a tool.

Russia is printing money for Syria, Libya and Yemen to achieve a solid presence on the ground in these complex civil wars. In each case, Russia plays a critical role in introducing new currency into war theaters. These currencies are difficult to duplicate and launder due to the high quality of security (thread, banding) in GOZNAK's products.

In Syria, Russia began to print currency for the al-Assad regime in 2012 in order to pay Damascus' two million civil servants.[60] The currency, according to Syrian bankers, entered circulation because the civil war interrupted traditional government revenues.[61] Under Russian

Ministry of Finance supervision, the production of currency from GOZNAK 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.[62] It should be noted that US and European sanctions forbid the printing of Syrian currency, and thus Damascus turned to Russia and GOZNAK for its currency requirements.[63] Syrian Deputy Prime Minister for Economic Affairs Qadr Jamil called the currency deal with Russia a "triumph" over sanctions.[64]

In Libya, Russia's GOZNAK is providing Libyan Marshal Khalifa Haftar as well as the government in Tobruk (the House of Representatives, HOR), with fresh Libyan banknotes.[65] Less than two years ago, GOZNAK printed 20- and 40-dinar denominations for circulation in Libya, which were transported by Russian cargo craft. However, with the complex civil war in Libya, the government in Tripoli, did not recognize the validity of the over 4 billion dinar Russian-made banknotes.[66] This fact led to a financial dichotomy in Libya that helped to boost the morale of Tobruk at the expense of Tripoli, which prints its money in Britain thereby making it subject to London's jurisdiction.

The fresh banknotes from Russia are intended to support Haftar and the Tobruk government. Additional deliveries from Russia to the Labraq Airbase of 20-dinar notes occurred on several occasions.[67] Interestingly, the banknotes helped to break the jihadist financial networks in and around Benghazi and Sirte by reducing the ability of extremists to use cash transactions as Jihadists were using older dominations.[68] In addition, the banknotes also became a useful tool for winning hearts and minds in Libya's east and south, when fresh dinars were distributed before Islamic holidays, especially Ramadan.[69] In this manner, Russia is able to use currency as a tool to build influence with Libya's Tobruk government.

Yemen is beset by a severe shortage of cash since the internationally recognized government relocated the headquarters of the Central Bank to Aden in September 2016 in order to stop the Houthis in Saana from plundering the bank's reserves.[70] The first cargo carrier to bring GOZNAK-minted royals arrived in June 2017.[71] Russia's GOZNAK is supplying the Aden government with 400 billion Yemeni royals to pay salaries for the army and security forces.[72] Yemen's internationally recognized leader, President Abd Rabbuh Mansur Hadi, is an old friend of Moscow's, dating to Hadi's history in the country's south when Yemen was two states, one supported by the Soviet Union. Hadi, who is beholden to Saudi Arabia and the UAE, is seeking a solution to the country's complicated civil war. Just as in Syria, Russia is gaining leverage in Aden by coming to Hadi's rescue, which is under sanctions by both Riyadh and Abu Dhabi.[73]

Overall, whether in Syria, Libya or in Yemen, Russia provides currency for these governments to stay afloat and to continue financing their respective efforts at governance and security. Russia uses currency as a tool to influence local economic conditions, curry favor with local elites, and win the hearts of minds of locals who see hope when receiving salaries or gifts of shiny new banknotes.

Conclusion

For Russia, the Kremlin sees its historical mission coming to fruition in the MENA region, where it is using financial tools that are helping to guide these states firmly within Moscow's orbit and influence. The Kremlin's move is smart and timely. The status and prospects for Arab-Russian bilateral relationships are growing, and both the Arab states and the Kremlin are expanding their financial connectivity. The United States needs to pay closer attention to Russia's financial tactics in the Middle East in order to gauge Moscow's successes and failures over the coming years.

The growing financial cooperation and interconnectivity between Russia and Arab Middle East states raises a number of troubling questions. To what extent are Arabian Peninsula states enabling Russian foreign objectives? What is the impact of Russia's financial tactics on the interests of American allies in the Middle East? How do these activities affect their relations with the US? How do Asian countries, and specifically their SWFs, interact with Arab SWFs that conduct business with Moscow? Is there a triangulation effect ongoing that shifts the geo-economic center of global economics eastward?

Russia's ability to use finance as a tactic is new to the Kremlin's arsenal, with most of the financial activity seen in the Persian Gulf states. The goal is to build greater ties between the two regions. Arab states that are open to and engaging with Russia's financial tactics are enabling Moscow to further cement itself in Middle Eastern affairs. America's Gulf allies are conducting business with Russia, a country that sees itself on a historical mission.

Overall, Russia's financial tactics in the Middle East undermine US foreign policy and are contributing to an unhealthy financial environment for the United States by manipulating local economies in order to win the hearts and minds of civilians but also of the civil servants, soldiers and employees of the states supported by Moscow in the region. Russia's use of finance to build a presence in the MENA region and specifically the Gulf is a critical part of Putin's foreign policy. The US would be wise to track these developments and assess their implications for Washington's foreign security strategy.

Endnotes

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[4] Interviews with Russian Embassy–Abu Dhabi and participation in the Dubai-based UAE-Russia Business Council functions and events, 2012–2016. It should be noted that a major theme for several meetings was how BRICS fits into the UAE hub strategy for supply chain trade. The focus of BRICS was on strategic minerals and energy given the interests of each member of the trans-regional economic bloc.

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