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Can Assad Survive?

Since the beginning of the year, rebels in Syria have been making steady gains against forces loyal to the Assad regime. Over the past six weeks, these gains have accelerated. The recent rebel victories are raising questions about the Assad regime's ability to survive.

In this report, we will recap the problems the Syrian government faces, including internal dissention and military losses. We will discuss the growing evidence of a Turkey-Saudi axis that may be aiding the rebels to weaken or eliminate Assad and pressure Iran. From there, we will examine the potential Iranian and American responses to the rebel gains and support from Riyadh and Ankara. As always, we will conclude with potential market ramifications.

A Regime in Trouble?

The Assad regime has, in reality, been fighting a full-blown civil war since 2011. In what started out as protests that were part of the Arab Spring, different groups have been fighting the government for over four years. The conflict has become sectarian over time; Sunni groups (some jihadist, some secular) have become the primary opposition. Minority sects, mainly Alawite, Christian and Druze,¹ form the loyalist forces opposing the rebels. The Assad

regime has tried to characterize the war as a fight against jihadist terrorism, but it is probably best described as yet another front in the ongoing Sunni/Shiite conflict in the region.

The Assad government, like many of the regimes in the region, is heavily represented by family members. Nepotism is a common trait, not just in Syria, but in most of the regimes in the Middle East and northern Africa. These governments tend to be brutal as well, so purges are not just about the elimination of rivals and potential threats. They often have an element of family dynamics. Recently, former high-ranking officials have been removed from government, in one fashion or another.

Rustom Ghazaleh: Ghazaleh was the Assad government's intelligence chief. Recent reports indicate that Ghazaleh was killed. Although no details have been confirmed, it appears he was attacked by the bodyguards of Lt. Gen. Rafik Shehadeh, the former head of military intelligence. According to reports, Shehadeh was fired after the attack. Although Ghazaleh was not a family member, he was a lifetime member of the military and received intelligence training in the Soviet Union. He was the head of Syrian intelligence during the occupation of Lebanon and was alleged to be involved in the assassination of Rafik Hariri, the former PM of Lebanon. It is unclear how or why Ghazaleh was killed, but the death of a high-ranking official in a sensitive position raises concerns about potential infighting.

¹ Alawite and Druze sects are usually characterized as Shiite, although they incorporate other religious and philosophical positions, including Gnosticism, Neoplatonism, etc.

Hafez Makhoul: Makhoul, a cousin of President Assad, was the former head of security for Damascus. According to reports, he was a passenger in the car accident that killed Hafez Assad's oldest son, Basil, who was being groomed to succeed his father. Although there were rumors Makhoul was killed in 2012, there have been unconfirmed reports he is alive and living in Belarus. The fact that a highly connected member of the family is living in exile probably indicates internal tensions.

Munzer al-Assad: Al-Assad is another cousin and leader of Shahibba, a Baathist militia known for harsh repression during the early stages of the rebellion. Rumors indicate he has been arrested on suspicion of coup plotting.

It should be noted that authoritarian regimes, like the Syrian government, have periodic purges. Loyalty is critically important to such governments. In the colonial structure, minority groups were often granted power by the colonial rulers. In this way, the local governments would be compliant with the colonial powers, knowing that ousting the foreigners might lead the majority to rise up against the ruling minority sect. Thus, in the transition to independence, these same minority groups continue to cling to power through repression of the majority group and by demands of unwavering loyalty from the minority factions within the regime.

These events could be important because the government of Bashar Assad is under tremendous pressure. The *New York Times*² recently reported that the regime is increasingly relying on Hezbollah for military support. At the beginning of the war, the Syrian Army had 250k soldiers.

² Barnard, A., Saad, H., & Schmitt, E. (2015, April 28). An Eroding Syrian Army Points to Strain. *New York Times*.

The number has declined to half that level. The force has been bolstered by militia groups, including Hezbollah and Syrian sectarian groups. Unfortunately for Assad, the militias are not under his direct control and tend to have their own agendas and are only interested in protecting their own areas. For example, the article reports that Hezbollah tends to concentrate its forces in the south on the Lebanese border. Thus, in the recent fight in Idlib (see below), Hezbollah was not supportive of government forces. One point of contention is that Hezbollah fighters are paid in U.S. dollars whereas Syrian soldiers are paid in the rapidly depreciating Syrian pound.

The regime is losing economic power as well. Its foreign reserves are down to \$1.0 bn from \$30 bn when the conflict began. According to this report, desertion is increasing and even the minority sects that support the government are increasingly unwilling to allow their sons to join the military, preferring to send them abroad or have them join local militias.

Since the beginning of the year, rebel forces have been making steady gains. Over the past month, these gains have accelerated. Rebels, led by two groups, Jabhat al-Nursa and Ahrar el-Sham, have taken key cities in the Idlib province.



(Source: Wikipedia)

On the above map, the Idlib province is located in the northeast and colored pale green. This is a key Alawite region, so gains here threaten one of the government's strongholds.

Jabhat al-Nursa is formally allied with al Qaeda and is on the U.S. list of terrorist organizations. Ahrar el-Sham isn't formally on the terrorism list and is considered more centrist (although jihadist). The goal of these groups operating in Syria is to overthrow the Assad regime and create an Islamic Syrian state. However, unlike IS,³ Jabat al-Nursa and others are not seeking to create a Caliphate. In fact, IS tried to command fealty from Jabat al-Nursa and the group refused. For a while, IS fought al-Nursa and other jihadist groups in Syria. Those attacks appear to have subsided as IS finds itself occupied fighting Iran, the U.S. and Iraqi forces in Iraq.

There have been reports that jihadist groups in Syria, including Jabhat al-Nursa, are reconsidering their ties with al Qaeda. A formal renunciation would weaken claims by the Assad government that the rebels are trying to create a terrorist haven in Syria, similar to what the Taliban created in Afghanistan 15 years ago.

The recent campaign by these insurgent groups, which are mostly jihadist but do have secular groups operating as well, has been very impressive. Here are some of our observations:

- There appears to be a high degree of coordination among the groups, something that was lacking before. These groups often quarrel with each other, so the ability to work together is a threat to the regime, who has successfully used “divide and conquer”

³ See WGR, 4/27/2015, [The Ideology of IS](#).

tactics against insurgencies in the past.⁴ This coordination has allowed the militants to strike multiple points simultaneously, increasing the effectiveness of their assaults.

- There has been a high degree of secrecy reported. This suggests a couple of developments. First, the regime hasn't been able to penetrate these groups and gather intelligence. Second, operational secrecy becomes a force multiplier. Loyalist forces cannot easily predict where the next attack is coming from and so they must defend multiple points, further stretching their already thin resources.
- Training appears to have improved. The militants have not only become proficient at using anti-tank weapons,⁵ but they have also captured tanks and other armored vehicles from loyalist forces and are using them effectively.

At the time of this writing, rebel forces are threatening several key roads in the Idlib province and elsewhere. Loyalist forces' supply lines are in growing danger. Due to operational security, government forces are not sure when or where the next attack will originate and so they are forced to defend multiple positions, reducing their effectiveness. Although the current rebel campaign doesn't immediately threaten the

⁴ In fact, Assad has purposely avoided attacking IS, and instead has conducted “pincer” style operations where loyalist forces and IS insurgents jointly attack Syrian jihadist positions. This coordination between the Syrian regime and IS has been absent recently.

⁵ Reportedly, the insurgents have been using U.S.-made TOW anti-tank missiles. Although it is possible that the rebels are getting these weapons from the U.S., this anti-armor weapon has been in service since the 1970s and is used by over 45 militaries worldwide. Thus, any number of countries could have provided the weapons and training.

regime militarily, high profile victories could undermine confidence in Assad and bring internal unrest. We view the current rebel campaign as significant.

A Saudi-Turkey Axis?

The Obama administration's proposed nuclear deal with Iran likely presages the eventual normalization of relations. In addition, the U.S. desire to "pivot to Asia" means the Middle East will be less of a priority for American policymakers in the future. The rapid expansion of U.S. oil production supports the gradual withdrawal from the region.

In response, the Sunni powers in the region, fearful of the expansion of Iranian Shiite influence and realizing they can't rely on the U.S. to protect them, have clearly decided to defend their own interests. The Saudis are taking the leadership role in organizing resistance to Iranian/Shiite power. This is most evident in Yemen, where the kingdom has led a 10-nation coalition against the Houthis, a Shiite group with ties to Iran. One of these nations is Sudan, which had been a beneficiary of Iranian aid. Sudan apparently expelled Iranian advisors as part of joining the coalition.

The *New York Times*,⁶ quoting Jamal Khashoggi, a long-time Saudi journalist and former government advisor, indicated that Turkey and Saudi Arabia are backing a coalition of jihadist groups operating in Syria. He specifically noted the successful operations in Idlib as part of that coalition, intimating that Ankara and Riyadh are directly cooperating with jihadist rebel groups. The Lebanese media indicates that Turkey and Saudi Arabia are helping rebel groups in Syria coordinate attacks by

⁶ Kirkpatrick, D. (2015, March 31). As the U.S. and Iran Seek a Nuclear Deal, Saudi Arabia Makes its Own Moves. *New York Times*.

providing logistical support.⁷ In fact, the Syrian national media is accusing Turkey of having its soldiers on the ground, providing logistical and fire support.⁸ It is very possible that the improved coordination we noted above may be due to support from Turkish and Saudi military trainers. However, at this point, we have no firm evidence that there are troops on the ground. On the other hand, the rising proficiency in using sophisticated armor suggests someone is training them to use these weapons.

It should be noted that the *Washington Post*⁹ has recently reported that the rebels are operating under what appears to be a unified command. The rebel groups have recently organized under an umbrella group called the "Army of Conquest." The article suggests that Turkey and Saudi Arabia, with some assistance from Qatar, are behind the creation of this unified group.

The U.S. has been trying, with little success, to encourage Turkey to support operations against IS. For the most part, the Erdogan government is less concerned about IS but wants any military operation to also end the Assad regime in Syria. Despite administration calls for Assad to leave during the early stages of the Syrian Civil War, the Obama administration seems to be content with leaving Assad in place, fearful that his removal might not improve conditions. In addition, the U.S. is much more focused on IS.

⁷ Rowell, A. (2015, April 16). A Saudi-Turkey Intervention in Syria? *NOW Lebanon*.

⁸ Karouny, M. (2015, April 29). Syria Accuses Turkey of Direct 'Aggression' Alongside Militants. *The Daily Star Lebanon*.

⁹ DeYoung, K., & Sly, L. (2015, April 29). U.S. Allies in Middle East Ramping up Support for Rebel Forces in Syria. *Washington Post*.

Turkey and Saudi Arabia have historically been at odds diplomatically. The Saudi kingdom has generally opposed Turkey's support of Hamas, which is an offshoot of the Muslim Brotherhood (MB). The Saudis have opposed the MB on the grounds that it offers an alternative Islamic state compared to the kingdom. In addition, the Saudis have seen Turkey as a traditional rival since the days of the Ottoman Empire.

However, a combination of factors has led Turkey and Saudi Arabia to expand their cooperation. First, the recent elevation of King Salman appears to have changed the kingdom's policy in the region. The king's son, Mohammad, the Saudi Defense Minister (and recently named Deputy Crown Prince), has been aggressive in promoting the kingdom's interests. Whereas the late King Abdullah was cautious, King Salman appears to be more aggressive in promoting Saudi influence. Second, King Salman has softened the Saudi position on the MB, suggesting that the Shiite threat is significant enough that Sunni divisions are counterproductive. Third, there may be an element of "calling in markers"; Turkey has \$320 bn of hard currency debt, most of it amassed since 2008. Much of this debt has come from Turkey borrowing from Arab Gulf banks. It is possible that debt servicing may be eased for Turkey's cooperation.

Overall, if Turkey and Saudi Arabia are cooperating, Iran will struggle to expand its influence. In fact, the surprising leadership being shown by Saudi Arabia is impressive and adds a new element to the geopolitics of the region.

Iranian and U.S. Responses

Iran has persistently shown that it will defend and support Bashar Assad. We doubt Iran will simply allow the jihadist insurgency to continue to roll up victories

without a response. However, Iran has two constraints on its behavior. First, Iran is heavily invested in fighting IS in Iraq. The presence of IS prevents the creation of the "Shiite Arc" that runs from Tehran to the Mediterranean Sea. If IS controls what is now eastern Iraq and western Syria, then the Assad government's survival is trivial; the arc will be broken. Second, Iran is currently managing major issues. Not only is it dealing with IS and Iraq, it is also negotiating a nuclear deal with the U.S. that will probably lay the foundation for normalizing relations. Countries only have so much bandwidth, and there simply are fewer available resources to support Assad. If the nuclear deal comes to fruition next month, we would expect Iran to refocus on Syria.

The U.S. position on Syria is somewhat convoluted. As noted above, in the early stages of the rebellion, the U.S. called for Bashar Assad to step down. However, after the regime used chemical weapons, crossing an Obama administration "red line" that was expected to lead to airstrikes, the U.S. president decided not to attack after the regime made promises to rid itself of chemical weapons.¹⁰

It appears that President Obama has become reluctant to promote regime change. Given the continued turmoil in Libya and Iraq following the ousters of Qaddafi and Hussein, respectively, the administration is concerned that removing a tyrant may not necessarily improve conditions. From the administration's perspective, removing Assad from power may not improve conditions or support America's interests. In addition, if the U.S. actively supports the removal of Assad, it would probably undermine current P5+1 nuclear negotiations with Iran. Thus, the U.S. may

¹⁰ See WGR, 5/6/2013, [Syria and the Red Line](#).

oppose, or at least may not support, Turkey and Saudi Arabia's efforts to overthrow Assad.

At the same time, the U.S. has tolerated Saudi action in Yemen, although there have been reports of quiet U.S. opposition to airstrikes. Simply put, American policy seems to oppose Sunni efforts to oust Assad in Syria but offer limited support for actions in Yemen against the Houthis. However, a recent Reuters report indicates that the U.S. has asked Iran to help bring the factions in Yemen to the bargaining table.¹¹ Inviting Iran into the negotiations will infuriate the Saudi coalition and will further convince them that the U.S. intends to support Iran's regional hegemony. As U.S. policy becomes increasingly complicated, it will be difficult for the nations in the region to accommodate U.S. actions.

In the end, however, we doubt the Obama administration will aggressively oppose the Sunni coalition that appears to be forming. After all, the president has essentially forced the Sunni states to create this coalition by changing America's involvement in the region. In effect, when a superpower adopts a stance of offshore rebalancing,¹² it has to accept that regional powers may not act in ways that are completely in the interests of the offshore rebalancing power. Thus, we would not expect the Obama administration

¹¹ Mohammed, A. (2015, April 29). U.S. Asks Iran to Help Bring Yemeni Parties into Talks. *Reuters*.

¹² See WGR, 11/5/12, [The Foreign Policy Choice](#).

This report was prepared by Bill O'Grady of Confluence Investment Management LLC and reflects the current opinion of the author. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.

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to rescue Assad from the Sunni coalition, but we would not expect America to support its efforts, either.

Ramifications

As U.S. policy changes in the Middle East, risks to the region are rising significantly and in ways that are hard to forecast. For example, the flood of refugees heading to Europe is due, in part, to America's reduced involvement in the region. By allowing an increasing number of wars to develop, the number of refugees from these engagements are rising. Civil conflicts are becoming more common and are being left to resolve themselves for the most part.

As the Saudis vie for regional dominance against Iran, we would expect an increase of proxy conflicts. Although regional wars would be bullish for oil prices, at least in the short run, the kingdom will primarily undermine Iran through lower oil prices. Thus, we will likely see increasing oil price volatility.

As the U.S. reduces its global involvement, we would expect a rising level of unexpected events. These incidents will, over time, support U.S. safe haven assets. While this outcome won't be pronounced in the short run, we do believe it will become a significant long-term factor.

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