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Syrian Surprise: Implications of a Sudden Regime Change

On December 8, 2024, the world awoke to a dramatically changed order in the Middle East. Seemingly out of nowhere, the Assad family regime, which had stood for 54 years and withstood 13 years of civil war, fell to a sudden rebel onslaught. What seemingly began only 11 days prior as an [isolated effort by a rebel group in the northwest corner of Syria](#) quickly became an unstoppable advance through the country's major population centers and culminated in the overthrow of the regime, the flight of its leader into exile, and the ascendancy of a new governing authority. Since the new power in Damascus has entirely different loyalties than the regime it deposed, this development throws the regional balance of power into question, with geopolitical and global investment implications.

This report begins with a review of Syrian history and continues with an overview of the pertinent facts of 21st century Syria and the surprise rebel initiative that led to the change of power. Upon this backdrop, we discuss the interests and priorities of the significant regional and global players who have a stake in the future of Syria. As always, we conclude with implications for investors.

Historical Background

As a geographic area, Syria has rarely enjoyed independence, but rather has been conquered by outside powers or dominated by them through proxy arrangements. The

following narrative illustrates a 500-year period in which Syria was either the province of another empire or a highly dependent client of another country.

Ottoman Empire. The Ottoman Empire, based in modern-day Turkey immediately to the north, first [conquered Syria and made it an imperial province in 1516](#). Syria remained an Ottoman province for just over 400 years. Even as the empire was declining and steadily losing other parts of its dominion, it clung tightly to Syria as it was the back door to the imperial homeland. Only through the devastating effects of World War I, in which the Ottoman Empire misguidedly allied itself with the losing Central Powers (German and Austrian Empires), did this arrangement end as the dissolution of the Ottoman Empire separated Syria from the newly established country of Turkey. For a short time in 1920, Syria stood as an independent country.

Wars of the Twentieth Century. Syria's newfound independence did not last. During World War I, while anticipating victory, the French and British devised a secret arrangement, known as the [Sykes-Picot Agreement](#), in which they divided the former Ottoman parts of the Middle East into zones of control and influence based on their economic interests in the area. France gained control of Syria, whose newly formed, artificial boundaries carelessly cut through ethnicities and homelands with little regard for anything other than European economic interests. By the end of 1920, France had deposed the new Syrian government and reasserted its control.

World War II caused multiple changes in control. A power struggle between Britain and France at the end of that war ultimately resulted in an independent but weak Syria, characterized by struggles for influence among the many ethnic groups, a series of coups, and bids for influence by the United States and Soviet Union in the rapidly developing Cold War.

Assad Regime. Ultimately, the forces of the Cold War and the emergence of a strong local dictator would determine the fate of Syria for the rest of the 20th century. The Syrian government forged its first mutual security pact with the Soviet Union in 1956, and the powerful Ba'ath party gained control in 1963; however, [the decisive moment came in 1970, when Ba'athist Hafez Assad took power](#). The very capable Assad leveraged his relationship with the Soviet Union and formed a ruthless security organization, with which he established firm and durable control of the state and cultivated his position as a key Soviet ally in the Middle East. Although the Assad regime lost its strategic patron with the collapse of the Soviet Union in 1991, it had managed by this time to thoroughly penetrate society with police-state controls.

A New Patron. Hafez Assad wasted no time replacing the Soviets with a new sponsor. Since his family came from the Alawite sect, an offshoot of Shi'a Islam, he found a natural partner in Iran, whose militantly Shi'ite Islamist government — at that time having been in power for just over 10 years — was seeking opportunities to expand its regional influence. [Assad had offered Iran critical assistance during its eight-year war with Iraq](#) due to the simmering animosity between Assad and Saddam Hussein of Iraq. Assad welcomed increased Iranian aid to his government, which bolstered his regime's staying power and made him a critical link

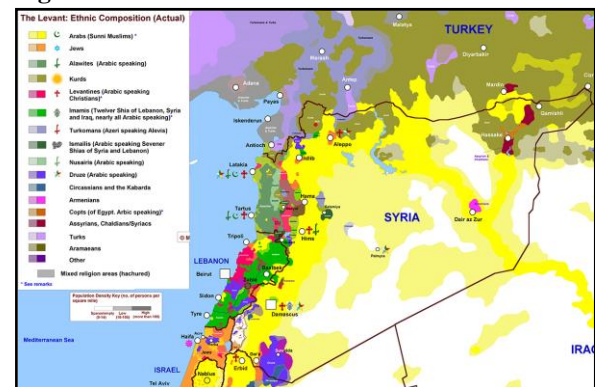
in Iran's Middle Eastern strategy. When Hafez died in 2000, his son Bashar took the reins and maintained this course until his overthrow last month.

21st Century Syria

A shift of focus to the present reveals a Syria whose demographic diversity, weak economy, and war-torn landscape predispose it to remain subject to the agendas of the powers that surround it.

Population. The Syrian population is a [mosaic of cultures and ethnic groups](#) that has evolved over thousands of years. These groups have typically been insular and factional, making it difficult to build political cohesion. Currently, Syrian Arabs are the largest group, making up about 59% of the population. The Assad family's Alawite sect makes up only about 11% of the population, while Levantine Christians and Kurds each make up about 9%. Druze Christians and other groups make up the remainder.

Figure 1



(Source: Heritage for Peace)

The religious composition of Syria is similarly diverse, roughly mirroring the ethnic composition, and further adds to the country's political factionalism.

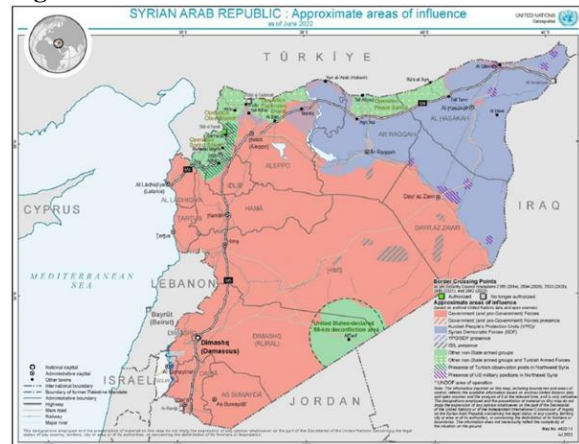
Economy. Syria is not blessed with the prosperity or resources of its neighbors. In terms of gross domestic product, [its economy ranks 114th in the world](#), at roughly the same level as Zimbabwe and Bosnia-Herzegovina. Based on data from the CIA World Factbook, Syria's GDP of \$62 billion in 2021 was only about 94% of Lebanon's GDP, 58% of Jordan's, 13% of Israel's, and 2% of Turkey's.

On a per-capita basis, which serves as a rough measure of individual prosperity, Syria ranks 197 out of 222, on roughly the same level as Haiti. Meanwhile, in a region awash with petroleum, [Syria produces a paltry 95,000 barrels per day of oil](#), which ranks 49th in the world. Before its civil war began, Syria produced about 385,000 barrels of oil per day, but even that was modest for its area.

Civil War. As part of the Arab Spring uprisings that gripped the region from 2010 to 2012, which involved [popular uprisings in countries throughout the Middle East and North Africa](#), Syria descended into a civil war that raged largely uninterrupted from March 2011 through the present. Among the chief results of the war, the Syrian economy suffered significant contraction, and its population suffered grievous loss of life and displacement from homes. Estimates of the human toll vary widely. From a pre-civil war total population of 22 million, roughly six million have fled the country as refugees, while an estimated seven million remained in the country but have been displaced from their homes. Some [90% of the Syrian population is considered to be living in poverty](#). Estimates of the death toll from the war vary widely but generally [exceed 500,000](#).

Beyond these human effects, the country had devolved into zones of control, including those of the regime, various rebel groups, the Kurdish region, areas along the Turkish border under Turkish military control, and a US “safe zone.”

Figure 2



(Source: European Union Agency for Asylum)

Change of Power

Just at a point when the Assad regime seemed to have secured its position and stabilized its control over most of the country (through extensive assistance from Iran and Russia), an unexpected rebel advance toppled the regime. To bridge the gap from background to geopolitical implications, we will take a moment to review who the rebel group is and how it succeeded.

Hay'at Tahrir al-Sham (HTS). [HTS began amidst the 2011 uprising as Jabhat al-Nusra, an openly declared direct affiliate of Al Qaeda](#). It professed itself to be a part of the global jihadist movement, with ambitions to spread its influence throughout the region, inspiring the US, UN, Turkey, and several other countries to designate it as a terrorist organization. During the 2016-17 period, as the fortunes of Al Qaeda and the Assad regime changed, the former waning and the

latter regaining its footing within Syria, the organization changed course. Ahmed al-Shara'a (aka Abu Mohammed al-Jawlani), the group's very skilled, charismatic, and opportunistic leader, declared independence from Al Qaeda, technically disbanded, reformed in union with several other, smaller rebel groups, and rebranded as HTS, which means "Organization for the Liberation of the Levant." In what amounted to a business reorganization, al-Shara'a declared a new, limited charter, focusing on the liberation of Syria from the evil and religiously impure Assad regime.

How They Did It. Assad critically relied on his two external patrons, Iran and Russia; however, both of these patrons were already weakened or preoccupied with conflicts of their own (Iran with Israel and Russia with Ukraine) and had become disillusioned with Assad. Iran had come to expect Assad's loyalty in regional affairs, but Assad was starting to demonstrate unwelcome independence, especially in his relations with regional rivals such as Saudi Arabia. [Iranian leadership decided to reduce the level of support it had previously provided](#), signaling so in a high-level visit at the end of November.

Meanwhile, Russia had received assurances of de-escalation from Assad regarding his attacks on rival groups, which would thereby reduce the requirement for Russian air support upon which Assad relied. Assad routinely reneged on these assurances, and eventually Russia decided to draw a line. At the same time, Israel was conducting air strikes on regime resources in the northwestern vicinity of Syria that was a stronghold for HTS. Turkey, on the other hand, had quietly changed its position on HTS (consequent with the 2016-17

rebranding) and had become its patron by [providing assistance in the forms of equipment, training, and logistical support](#).

The HTS offensive began as an initiative to reconquer its previous base of Aleppo (Syria's largest pre-civil war city), but the extreme weakness or complete absence of resistance by regime forces inspired a further reconnaissance in force that grew into a successful drive all the way to Damascus. Ultimately, the combination of Assad's overconfidence, the lessening of Iranian and Russian support, and the years of Turkey's effective patronage of HTS caused the surprisingly quick HTS victory.

Current State of Affairs. HTS has declared control of the country as its new government. It has clarified its peaceful intentions, its Sunni loyalty, its alliance with Turkey, and its opposition toward Iran. It has taken control of the most populous and economically productive portion of the country — the north-south axis running along the western border of the country from Aleppo in the north to Damascus in the south. It has further assumed authority over the other sections of the country previously considered under regime control. With the exception of pockets of resistance in the Alawite stronghold on the northwest coast, regime forces have surrendered their weapons en masse, with many volunteering to join the new HTS army.

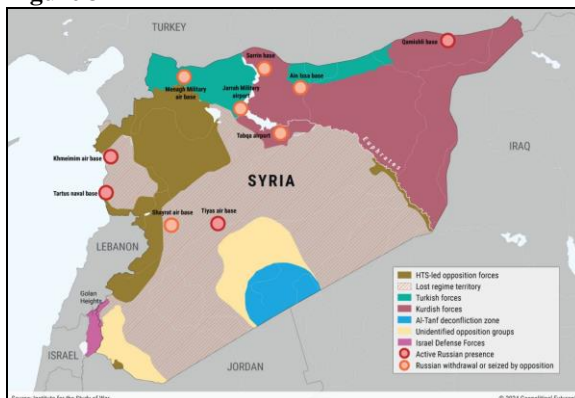
HTS, for its part, is working to transition its organizational structure from that of a rebel force into a conventional government structure, and it has stated that it has [no intention of initiating any conflict with Israel](#) or repressing minority groups. In the north, Turkey has moved reinforcements into the regions of the country along the border that

it controls, and it has massed forces within Turkey in the east, purportedly to guard against any Kurdish action.

In the south, Israel has moved military forces into the Golan Heights and [approved a plan to double its settlements in the region](#), in violation of the 1974 peace agreement, which it now considers void in the absence of the Assad regime. It has also conducted more than 300 air strikes against virtually all of the regime's remaining military assets, including the sinking of its entire navy.

Meanwhile, [Hezbollah has admitted that its secret lines of supply from Iran through Syria have been effectively severed](#).

Figure 3



Territorial Control in Syria – December 2024
(Source: Geopolitical Futures)

Regional Players & Interests

The sudden change in Syria presents a new set of opportunities and threats to the major regional powers, and we expect them to act accordingly.

Israel. Israel's priorities for Syria have historically been to neutralize and eliminate Iranian influence and activity in the country, while encouraging stability on its northeast border. With more than enough conflicts and threats facing it from other directions, Israel

has never wanted to initiate any hostility in this direction, other than its efforts to counter Iranian threats from Syrian soil. [The overthrow of Assad presents a first-rate opportunity to permanently eliminate the Iranian threat](#). Since HTS is also aligned against Iran, we expect Israel to cultivate positive relations with HTS.

Turkey. Turkey has two chief priorities in Syria. The first is to increase its influence over a key geographic region on its southern border that not only was a main province of the Ottoman Empire, but which also has the potential to serve as a staging area for rival powers who might threaten its vulnerable southern flank. Second, eastern Syria is home to a restive Kurdish population that overlaps eastern Turkey and threatens internal security and sovereignty within Turkey itself. Turkey will likely use this opportunity to [establish control over the new government in Damascus](#) and to [severely marginalize Kurdish influence](#) throughout the region. Since HTS owes its success to Turkey and relies on it for immediate sustenance, we view Turkey as the main winner in this regime change.

Saudi Arabia. Along with its [self-image as the leader of the Islamic world](#), Saudi Arabia looks for any opportunity to gain an advantage in its ancient rivalry with Iran. Separately, Saudi Arabia is also extremely wary of any possibility of a Turkish-Ottoman resurgence. As such, it senses an urgent need to wield what influence it can with the new government in Damascus.

Along with other members of the Gulf Cooperation Council, [Saudi Arabia has already expressed strong support of the new Syrian government, including a visit by an official delegation to Damascus on](#)

[December 22](#). We expect Saudi Arabia to use its unrivaled regional financial resources to keep Syria from falling either completely under the influence of Turkey or back into the Iranian orbit at all.

Iran. For Iran, the overthrow of Assad is a catastrophe. Not only has Iran lost a key node in its Axis of Resistance, crippling its ability to provide logistics, military forces, and communications to its regional proxies, but the loss of Assad also carries financial implications. [Iran is thought to have spent as much as \\$50 billion in recent years to reinforce Assad, whose regime is estimated to owe \\$30 billion of debt to Iran.](#) All of this may now be lost. With Iran already suffering increasing economic malaise, we expect the regime in Iran to go into full damage-control mode, seeking to minimize conflicts with other countries while it tries to recover from its losses. The political embarrassment of losing Assad and the worsening economic situation could even hasten the collapse of the Iranian theocracy.

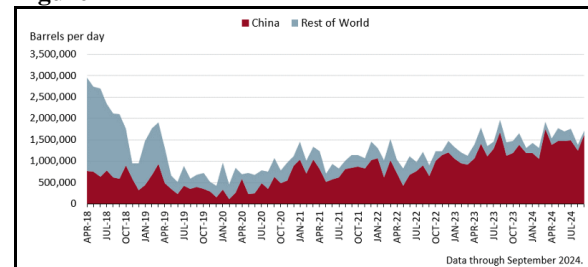
Global Players & Interests

Since the most powerful global players have their own interests in the Middle East, a major change such as this will naturally inspire each one to recalculate its position and act to guard or further those interests.

China. On the surface, China often seems less directly involved in the Middle East; however, China's economic relationships with Iran and Saudi Arabia have grown in recent years, and the Iranian relationship presents intriguing possibilities. In recent years, [nearly 90% of Iran's crude oil exports have gone to China](#), with the share reportedly reaching nearly 100% in recent months. This is largely due to the effects of US and EU sanctions, which China evades. This gives China an extreme amount of economic leverage over Iran at the very time

when Iran's fortunes and its economy have soured. In the background, [Saudi Arabia \(along with the UAE\) has recently been increasing its economic ties with China beyond the energy sector](#), which further threatens Iran. We expect China to increase its efforts to exploit this situation in response to the developments in Syria, especially by increasing its influence over economically dependent Iran.

Figure 4



(Source: Congressional Research Service)

United States. With the transition to the Trump administration, we expect US global foreign policy to shift to a much greater emphasis on countering China, with a consequent priority to de-emphasize other regions as able. [In the Middle East, this means that we expect the US to seek ways to stabilize situations and “make deals.”](#) With the exception of Israel, which the US will continue to staunchly support, US policy may prove flexible and changing with other regional players. For instance, we do not necessarily expect the US to continue to provide its historical levels of support to the Syrian Kurds. Rather, we expect the US to support efforts to permanently degrade Iranian influence in Syria, which implies constructive engagement with HTS in a bid to suppress Iran and foster regional stability. [US diplomats have already met with HTS leadership in Damascus and have indicated that the US will retract its \\$10 million bounty on Ahmed al-Shara'a.](#)

European Union. The EU has a simmering and intensifying refugee problem. In the

volatile election year of 2024, anti-immigration advocacies gained favor across the bloc. One of the largest EU refugee populations is Syrians fleeing the civil war and persecution from the Assad regime. Just nine days after the fall of Assad, [European Commission President Ursula von der Leyen went checkbook-in-hand to Ankara](#) to visit Turkish President Recep Tayyip Erdoğan and pledge one billion euros to assist in the repatriation of Syrian refugees. While the Europeans surely will have other priorities for the transition in Syria, this issue so strongly predominates European politics today that we expect it to drive the agenda.

Russia. Similar to Iran, Russia is in damage-control mode at the loss of Assad, whom it immediately [welcomed in Moscow with a grant of asylum](#). Unlike Iran, however, Russia's interest in the future of Syria is much more specific: the preservation of its Syrian military bases. [Russia has two main bases in the country, including a naval base at Tartus and an air base at Hmeimim](#), which have proven critical to its operations in the eastern Mediterranean region. If Russia loses these bases, it will have to resort to a far less advantageous location, such as [eastern Libya, controlled by its ally the Libyan National Army](#). As expected, [Russia is negotiating with HTS to keep the bases](#), and we expect this will tightly focus its efforts in Syria.

Investment Implications

If it involves the Middle East, it involves oil; however, the impact of the Syrian regime change will likely touch more than just this lifeblood commodity.

Oil. The ongoing Gaza conflict triggered by the events of October 7, 2023, put into motion a series of Middle Eastern conflicts that set the oil market on edge with expectations of sustained higher prices and

volatility. This included the constriction of transportation through the Red Sea and Suez Canal, which is considered a vital artery for oil. Despite these events, the price of oil has remained remarkably stable and has even declined more than 15%. We think this is largely due to record US production. With this trend likely to continue, the added factor of a weak forecast for Chinese oil demand combines with the minimal role played by Syrian oil on the global market to support our view that a regime change in Syria will probably not materially boost the price of oil. In the longer term, if the fall of Assad contributes to an eventual collapse of the Iranian government and its replacement with leaders friendlier to the West, oil prices could come under even greater downward pressure.

Figure 5



West Texas Intermediate Crude Oil Spot Price
(Source: FRED)

Global Fracturing-Bloc Formation: This emerging trend, which we have been emphasizing for quite a while, is [likely to impact a host of asset classes](#). In particular, we expect downward pressure on long-term bond prices, upward pressure on commodities, a strong dollar, and higher and more volatile inflation. It is hard to predict how a regime change in Syria will influence who gravitates toward which competing bloc; however, the suddenness of this change and the momentary power vacuum it has produced are spurring a scramble among regional and global powers alike. This is sure to accelerate the global fracturing and bloc formation process, amplifying the

impact of this megatrend across the spectrum of affected asset classes.

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January 13, 2025

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