Forging New Strategies in Protracted Refugee Crises: Syrian Refugees and the Host State Economy

Regional Case Study

WANA INSTITUTE

"Knowledge from the region, action for the region"

Executive summary

The year 2014 saw the number of asylum-seekers, refugees and internally displaced persons exceed 50 million globally—more than at any point since the end of the Second World War. The international refugee regime (the norms and institutions that have evolved to coordinate international responses to refugee crises) is struggling to deal with the scale and complexity of this displacement. Host states in refugee affected regions are obliged by international law not to forcibly return refugees to areas where they face the threat of persecution, yet the amount of international aid available to support refugees and host communities is normally woefully inadequate. This central problem is reflected starkly in the current situation of many Syrians who have found refuge in Syria's immediate neighbouring countries. There have been chronic shortfalls in funding since the beginning of the Syrian refugee crisis, but as the situation becomes more protracted the gaps in funding have become wider. This has placed increased pressure on refugees and host communities, who often feel that they are being neglected by the international community and left to deal with the situation alone. It is in this context that refugees can come to be perceived as an economic burden or even a threat to security in the host state.

The three orthodox durable solutions for addressing mass displacement (local integration, third country resettlement and repatriation) are failing to meet the challenges posed by global displacement. It is clear that new ways of conceptualising refugee management need to be devised that respond to the priorities of host states, the international community and refugees. Host states need more and better options to encourage them to keep their borders open. Phrased another way, if refugees are unable to return home, and the international community is unwilling to host them in large numbers or finance the cost of hosting (at least over the long-term), then states must be offered solutions that work for or are, at minimum, not contrary to their national interests. This implores a transition to approaches that look more closely at host state needs and priorities in the first instance and that create space to craft innovative solutions.

This paper proposes that refugees could be better conceptualised as embodying new opportunities, rather than hardships, for host states. In doing so, it poses the following question: how might host states raise policies to mitigate the negative impacts associated with refugee hosting, whilst simultaneously supporting their long-term security and economic policy goals? The paper begins with a comprehensive overview of the current economic trajectories of the countries neighbouring Syria, identifying some of the main strengths and weaknesses and the outlook for the future. It then considers the impacts, positive and negative, that the Syrian refugee situation has had on these countries and what further impacts could arise over the longer term. Finally, it explores some of the ways in which host state economic interests might be reconciled with the imperative of refugee protection in ways that could lead to mutual benefits for refugees and host communities.

One clear option is to view refugees as a structural economic opportunity: to harness their skills and expertise as an asset for private sector growth, with a view to both creating a self-sufficient population and effecting macroeconomic policy goals. Chapter 6 details some basic examples of how this might materialise: encouraging large-scale investment in manufacturing and agriculture and creating employment opportunities for both Syrian refugee and host country workers at pre-established ratios. This model has the potential to reduce hosting costs by increasing refugees' self-sufficiency in the context of severe shortfalls in international humanitarian assistance. Moreover, it would constitute an important step towards host states' longer-term economic resilience by promoting strategic investment in underdeveloped areas of the economy and by facilitating increased tax revenues.

Introduction

The civil conflict in Syria poses the most complex and immediate humanitarian challenge to the West Asia-North Africa (WANA) region. It is estimated that over half of the Syrian population has now been forcibly displaced, with several million having fled across the borders into neighbouring states. More than 2 million Syrians are currently registered in Turkey, and Lebanon has become the highest ranking country globally in terms of numbers of refugees per capita, closely followed by Jordan. There are over 249,000 Syrian refugees in the Kurdistan Region of Iraq, representing just one of myriad displacement challenges affecting this area, and over 134,000 in Egypt.[1] The scale of displacement and the increasingly protracted nature of the Syrian crisis are having a dramatic impact on the ability of host states and international actors alike to respond effectively.

The orthodox approach under which refugee crises are managed around the globe follows a predictable sequence: host states, overwhelmingly in the so-called 'global south', provide a protection space while the costs of refugee hosting are borne by the international community. There is a serious flaw with this model, namely: whereas the existence of the peremptory norm of *non-refoulement* obliges host states not to return a refugee to territory where they fear a genuine threat of persecution, there is no equivalent onus of responsibility on the international community in the processes of burden-sharing. When a crisis becomes protracted, host states and humanitarian agencies routinely face the difficult situation of having to continue to support a displaced population but in a context of diminishing donor contributions. This imbalance between protection and burden-sharing is compounded by the fact that, in most host states in the global south, there are restrictions on refugees' ability to enter the workforce, except in very specific cases. The result is that refugees very often are caught in the middle of the competing interests of host states and the various international donors.

Refugees predominantly rely on savings and assistance from humanitarian agencies. As these resources wain, more refugees may seek work in the informal sector, where they are exposed to exploitation, unsafe working conditions and other risks. Growth of the informal sector has negative implications on the economic development of the host state, by undermining the tax base, distorting spending and compromising the rule of law. This situation feeds the perception of refugees as inherently burdensome. The three orthodox durable solutions for addressing mass displacement (local integration, third country resettlement and repatriation) are failing to meet the challenges posed by global displacement and hence alternative solutions need to evolve. In recognising these factors, the WANA Institute has sought to re-frame the problem and propose new approaches to refugee management. For instance, how might the presence of a large refugee population come to be reconceived as a genuine opportunity for the host state? What scope is there for greater inclusion of refugees in the economic development of host states in ways that would also yield tangible benefits to refugees themselves? Might it even be possible to harness refugees' skills and expertise on a larger scale to effect transformational change vis-à-vis the host state's macroeconomic development goals?

[1] UNHCR et al, *3RP Regional Progress Report* (2015) <http://reliefweb.int/report/syrian-arab-republic/3rp-regional-progress-report-june-2015> at 24 November 2015.

1: Turkey's economy: an overview

Turkey is an upper-middle income economy that is well-regarded as one of the fastest growing economies in the world. Despite large domestic energy consumption and a lack of abundant natural resources such as oil and gas, the Gross Domestic Product (GDP) in Turkey stood at USD799.54 billion in 2014, positioning it as the sixth largest economy in Europe and eighteenth in the world.[23] With a GDP per capita of USD8871.91 in 2014 (an all-time high), Turkey is globally identified as a newly industrialised economy or an emerging market economy.[4]

Turkey's economy is perhaps most notable for undergoing a profound transformation that commenced in the 1970s and gave rise to the solid growth trajectory upon which its current successes are built. Much can be attributed to an ambitious qualitative leap that was made in the country's manufacturing sector. In the years between 1990 and 2014, Turkey's per capita income nearly tripled, while the total economy expanded 110 percent.[5] The average growth rate in the last decade was around 5 percent, the fastest among the Organization for Economic Cooperation and Development (OECD) economies, which grew at an average of 1.7 percent.[6] Fundamental reforms carried out after 2001 allowed Turkey's financial sector to remain relatively strong during the global economic crisis. As the rest of Europe was grappling, the Turkish economy expanded by 9.2 percent in 2010, and 8.5 percent in 2011.[7] Moreover, Turkey was the only member state of the OECD that did not provide public sector support to the banking sector in the wake of the global financial crisis.[8] A well-articulated and well-implemented development plan continues to contribute to Turkey's commendable regional and global economic position. In sum, and in the wake of cross-border economic slowdowns and refugee crises, Turkey serves as a useful model to learn from, but also one that can be improved and built upon.

Like any other emerging economy, Turkey's impressive economic conditions are coupled with challenges. The series of events that occurred in 2012, both internally and externally, revealed that the Turkish economic success story is not as resilient as once presumed.[9] After being among the world's fastest growing economies in 2011, the country plunged into weaker growth and higher spending, and growth fell to just under three percent in 2014.[10] This can be attributed to a combination of domestic factors like corruption scandals and mismanagement coupled with external events, such as the Eurozone crisis and massive refugee influx. In order to decipher which of these factors contribute the most to the fragility of Turkish economic performance, it is first important to understand what drives the Turkish economy, the components of its balance sheet, the challenges it needs to overcome, and the direction it needs to be taking in order to sustain the successful policies that have contributed to the Turkish economic 'miracle'.

Main Incomings

Industrial and manufacturing activity

[2] *Turkey: latest killer facts about the economy* (2014) UK Foreign and Commonwealth Office <https://www.gov.uk/government/publications/turkey-latest-killer-facts-about-the-economy/turkey-latest-killer-facts-about-the-economy> at 5 November 2015.
[3] *Turkey GDP* (2015) Trading Economics <http://www.tradingeconomics.com/turkey/gdp> at 10 November 2015.
[4] *Turkey GDP per capita* (2015) Trading Economics <http://www.tradingeconomics.com/turkey/gdp-per-e
[5] Note 1:*Turkey Overview* (2015) The World Bank. <http://www.worldbank.org/en/country/turkey/overview> at 3 November 2015.
[6] UK Foreign and Commonwealth Office, above n 2.
[7] R Hutt, *4 things to know about Turkey's Economy* (2015) World Economic Forum <https://agenda.weforum.org/2015/11/4-things-to-know-turkey-economy/> at 10 November 2015.
[8] World Bank, above n 5.
[9] 'Turkey posts sharp fall in growth rate for 2012', *Hurriyet Daily News,* (Istanbul) 1 April 2013.
[10] R Hutt, above n 7.

Turkey's status as a 'newly industrialised economy' is derived from the strong and competitive manufacturing sector it has built for itself. While the sector made considerable progress in the 1960s and 70s, it remained mostly inward-oriented with few exports.[11] Ironically, industrial elites at the time were opposed to economic integration with Europe for fear that they would not be able to compete with European products. [12] However, the economic crisis the country endured in the end of the 1970's instigated more competitive and liberal economic policies, including those aimed at driving exports.[13] Total exports increased from less than 3 billion dollars in 1980 to 20 billion dollars in 1990, and more than 100 billion dollars in 2007, whereas exports as a percentage of GDP rose from less than 3 percent in 1980 to more than 25 percent in 2007. Critically, almost all of this increase was due to the rise in exports of manufactured goods; manufactured goods as a percentage of total exports rose from about 35 percent in 1979 to more than 95 percent in 2007.[14] Today, the manufacturing industry is one of the main drivers of the Turkish economy, accounting for 24.2 percent of total GDP.[15] Improvements in manufacturing quality and competitiveness mean that these goods compete with American, European and Japanese products.

Turkey's export volume stood at USD157.6 billion in 2014, more than quadrupling since 2002.[16] Basic metals had the highest share in total manufacturing exports with 20 percent, followed by textiles and apparel at 18 percent.[17] The textile and clothing industry was the first industrial sector that developed in Turkey. The establishment of a customs union with the European Union in 1995, allowed it to grow to make it the largest manufacturing subsector in Turkey in terms of production and employment, Europe's largest textile manufacturer, and the fourth largest producer in the world.[18] Many of the world's major textile brands such as Esprit, H&M, Hugo Boss, S. Oliver, Adidas, Nike and Zara source their clothing from Turkey. Turkey's textile industry employs an estimated 2.5 million people and provides indirect jobs for 6.5 million others. The sub-industry alone contributes around 10 percent of the GDP.[19]

Turkey is the world's sixteenth largest manufacturer of commercial vehicles and buses.[20] In 2012, 1.1 million vehicles were produced, 66 percent of which were exported.[21] Today, 17 companies including Fiat, Honda, Hyundai, Renault and Toyota, Mercedes-Benz and M.A.N are based in Turkey. It also provides autoparts for brands such as GM, Mercedes, BMW, Opel, Toyota, Fiat and Ford.[22] Turkey is also Europe's largest home appliances and TV manufacturer; Vestel and Beko making up half of all TV sets manufactured in Europe.[23]

An export that deserves particular attention within Turkey's manufacturing sector is its homegrown arms industry. While traditionally led by the United States, Turkey (along with China and the Czech Republic) now sit at the top of the list of the world's top small arms exporters.[24] Turkey-based Defense and Aerospace Industry Exporters' Association (SSI) announced that Turkey's defense exports reached USD1.4 billion in 2013, a 10 percent increase from the previous

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[11] S Pamuk, 'Globalization, industralization and changing politics in Turkey' *New Perspectives on Turkey* (2008) 267.
[12] C Karayalcin, 'Romes without Empires: Urban Concentration, Political Competition and Economic Growth', (2011) 34.
[13] S Pamuk, above n 11, p 268
[14] Ibid.
[15] *The Manufacturing Industry in Turkey* (2014) Investment Support and Promotion Agency of Turkey < http://www.invest.gov.tr/en-US/infocenter/publications/Documents/MANUFACTURING.INDUSTRY.pdf> at 10 November 2015.
[16] Ibid.
[17] *Economic Complexity of Turkey* (2013) The Observatory of Economic Complexity <http://atlas.media.mit.edu/en/profile/country/tur/> at 10 November 2015.
[18] Euromoney Institution Investor Company, *Turkey Textile and Clothing Sector Report,* (2013) <https://www.securities.com/emis/sites/default/files/EMIS%20Insight%20- at %20Turkey%20Textile%20and%20Clothing%20Sector%20Report.pdf > at 12 November 2015.
[19] L Bosscher, *Mapping Turkey's Apparel and Textile Industry'* (2013) Dutch Culture <http://www.culturalexchange-tr.nl/mapping-turkey/fashion/sub-disciplines/apparel-textile-industry> at 12 November.
[20] UK Foreign and Commonwealth Office, above n 2.
[21] Ibid.
[22] Ibid.
[23] Ibid.
[24] 'Turkey and China among major small arms exporters:UN', *Hurriyet Daily News, (Istanbul) 17 June 2014* <http://www.hurriyetdailynews.com/turkey-and-china-among-major-small-arms-exporters-un.aspx?pageID=238&nID=67890&NewsCatID=359> at 12 November 2015.

year.[25] According to the same source, in 2012, 60 percent of parts in Turkish defense equipment were locally sourced, compared to 25 percent in 2003. Turkey now imports only 10 percent of its equipment from foreign suppliers.[26]

Agricultural activity

While historically Turkey's largest employer and a major contributor to the country's GDP, the agricultural sector has decreased consistently over the past few decades. Agriculture as a percentage of GDP was almost 50 percent in 1950, decreasing to 25 percent in 1980, 15.3 percent in 1990, 11 percent in 2005, and finally to 8 percent in 2014.[27] This has caused a (natural) fall in the economic standards of farmers and contributed to emigration from rural to urban areas. Today, agriculture employs around a quarter of the workforce, as opposed to 50 percent in 1999.[28]

Despite its decline relative to overall economic activity, agricultural production remains among the country's most important and productive sectors. The sector produces USD150 billion in domestic agricultural product and USD40 billion in agricultural exports.[29] Turkey is one of the few self-sufficient countries in the world in terms of food. Its fertile soil, climate and abundant rainfall permit almost any kind of crop to be grown.[30] It is one of the top 10 producers of fruit, wheat, and cotton in the world,[31] mainly exporting to the EU and the United States.[32] More impressively, it ranks among the top five producers of vegetables, tea, and raw wool, the latter serving as a key driver of the domestic textile industry.[33] The comparative advantage Turkey enjoys in many agricultural products supports a positive trade balance and provides a positive boost to the country's overall budget.

Tourism and related services

The growth in Turkey's tourism industry has exceeded the global average in recent years, with its direct contribution to GDP reaching USD34 billion in 2014[34] and, when taking into account indirect benefits, USD96 billion.[35] The direct contribution of the sector to GDP thus expanded by 256 percent between 1990 and 2014.[36]

> Based on its direct, indirect, and induced GDP impact, travel and tourism generated 12 percent of Turkey's GDP in 2014, higher than the global average of 9.8 percent. This is nearly twice the size of banking's GDP impact at 6.4 percent.[37]

According to the country's Ministry of Culture and Tourism, Turkey receives more than 30 million tourists annually, marking an almost 200 percent jump since 2002 alone.[38] It is worth noting is that regional and global instability will likely

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[25] G Turnball, *Turkey formidable defence Industry: rising star or Nato's unruly ally?* (2014) Army Technology http://www.army-technology.com/features/featureturkeys-formidable-defence-industry-rising-star-or-natos-unruly-ally-4207115/ at 10 November 2015.
[26] Ibid.
[27] *Agriculture value-added (% of GDP)* (2015) *World Bank.* <http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS> at 10 November 2015.
[28] S Geurin and Y Stivachtis, *On the Road to EU Membership: The Economic Transformation of Turkey* (2011), 204.
[29] Ibid.
[30] Ibid.
[31] Ibid.
[32] *Invest in Turkey: Agriculture and Food* (2014) The Republic of Turkey Prime Ministry Investment Support and Promotion Agency <http://www.invest.gov.tr/en-US/sectors/Pages/Agriculture.aspx> at 10 November 2015.
[33] S Geurin and Y Stivachtis above no 29, 205. The presence of raw material and industrial production in the same domestic market is rare and serves as a model of comparative advantage and self-sufficiency.
[34] *Invest in Turkey: Wellness and Tourism* (2014) The Republic of Turkey Prime Ministry Investment Support and Promotion Agency <http://www.invest.gov.tr/en-US/sectors/Pages/WellnessAndTourism.aspx> at 12 November 2015.
[35] World Travel and Tourism Council, *Travel and Tourism Turkey 2015 Economic Impact* (2015) 1.
[36] 'Travel, tourism sectors generate 12 percent of Turkey's GDP: report', *Hurriyet Daily News, (Istanbul)* 28 May 2015 < http://www.hurriyetdailynews.com/travel-tourism-sectors-generate-12-pct-of-turkeys-gdp-report.aspx?pageID=238&nID=83118&NewsCatID=349> at 12 November 2015.
[37] World Travel and Tourism Council, above n 35, 3.
[38] The Republic of Turkey Prime Ministry Investment Support and Promotion Agency, above n 36. .

leave their mark on Turkey's above-than-average performance; it is estimated that this year, the tourism sector may close with a USD10-11 billion loss due to a decline in Russian tourists.[39]

Construction and real estate

Construction has been a modest, but reliable contributor to Turkey's economy and a motor of economic growth in recent years. The sector grew by 4.7 percent in the first six months of 2014 but it showed a slight slowdown in the same period of 2015.[40]

Turkish contractors are especially active the Middle East, Central Asia and Sub-Sahara Africa, and are estimated to employ more than 2 million people.[41] In addition, Turkey has the second largest number of active construction companies in the world after China.[42] Since 1970, Turkish contractors are estimated to have completed around 6,500 projects in 93 countries with a total of USD205 billion project value.[43] The construction sector in Turkey grew at a rate of 8.5 percent between 2009 and 2014, but may experience a 2.5 percent contraction in the third quarter of 2015 due to a "political uncertainties, an economic slowdown, and rising security concerns".[44]

Turkey's real estate sector is another attractive market for investors, accounting for around 4.6 percent of GDP in 2014, a 2.6 percent increase from the previous year.[45] According to the Knight Frank Global House Price Index, which allows investors and developers to monitor and compare the performance of mainstream residential markets across the world, Turkey ranked second only to Hong in the first quarter of 2015.[46] Since 2008, residential, office and commercial properties have consistently been the main drivers of the Turkish real estate market.[47] Particularly noteworthy is that real estate and construction claim the lion's share of Turkey's Foreign Direct Investment (FDI) inflow; of the USD12.5 billion FDI inflow in 2014, the sector garnered USD4.3 billion.[48]

Foreign Direct Investments

Turkey has made considerable advances in attracting foreign capital in the past decade. Over the past five years alone, FDI grew from USD1 billion to an average of USD13 billion.[49] In 2014, FDI was USD12.1 billion, accounting for 1.6 percent of GDP, making Turkey the 22nd most popular spot for investors in the world.[50] A conspicuous sign of investor confidence is the number of large multi-national corporations headquartered or regionally headquartered in Turkey; including Benetton, Bosch, BP, Citibank, Coca-Cola, General Electric, GlaxoSmithKline, Hewlett-Packard, Hyundai, Imperial Tobacco, Intel, LG, Mercedes-Benz, Microsoft, Pepsi, Procter Gamble, Samsung, Siemens and Unilever.[51] In terms of the sectorial division of FDI inflows, around 55 percent of inflows were directed to the industrial sector and 45

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[39] 'Turkey's tourism sector may close this year with 10 billion loss in income', *Hurriyet Daily News, (Antalya)* 12 October 2015 <http://www.hurriyetdailynews.com/turkeys-tourism-sector-may-close-this-year-with-10-bln-loss-in-income.aspx?pageID=238&nID=89746&NewsCatID=349> at 12 November 2015.

[40] 'Contraction in Turkey's construction sector in third quarter: association' *Hurriyet Daily News, (Istanbul)* 16 October 2015 <http://www.hurriyetdailynews.com/contraction-in-turkeys-construction-sector-in-third-quarter-association-.aspx?pageID=238&nid=89969> at 15 November 2016.

[41] N Kaymaz, *Economic Outlook and Construction Sector in Turkey* (2015) Investment Support and Promotion Agency of Turkey <http://www.slideshare.net/necmettinkaymaz/economic-outlook-and-construction-sector-in-turkey> at 10 November 2015.

[42] Ibid.

[43] UK Foreign and Commonwealth Office, above n 2.

[44] Ibid.

[45] *Invest in Turkey: Real Estate.* (2014) The Republic of Turkey Prime Ministry Investment Support and Promotion Agency <http://www.invest.gov.tr/en-US/sectors/Pages/RealEstate.aspx> at 10 November 2015.

[46] Ibid.

[47] Deloitte. *Turkish Real Estate Market* (2014) <http://www2.deloitte.com/content/dam/Deloitte/tr/Documents/Real%20Estate/EN_RealEstate2014_11072014.pdf> 10.

[48] The Republic of Turkey Prime Ministry Investment Support and Promotion Agency, above n 49.

[49] UK Foreign and Commonwealth Office, above n 2.

[50] *Foreign Direct Investment, net inflows (% of GDP)* (2015) <http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS> at 10 November 2015.

[51] UK Foreign and Commonwealth Office, above n 2.

percent to services.[52] Food products, beverages and tobacco led the manufacturing industry, receiving USD1.9 billion, or 49 percent in total FDI to the manufacturing industry, followed by chemicals and pharmaceuticals at 12 percent. Within the services sector, finance followed by construction received the most investment at 31 percent and 30 percent respectively.[53]

This said, Turkey still falls short from meeting its FDI ambitions. It ranks 55 out of the 189 countries surveyed for the World Bank's 2015 Ease of Doing Business report, dropping four slots from last year, and capturing only 1 percent of global FDIs.[54] In 2013, Turkey vocalised its aims to attract USD110 billion in FDIs over the next five years.[55]

Minerals and natural resources (rents)

Unlike many economies in the region, Turkey has a negligible amount of rent-driven sources of income (mineral rents are the difference between the value of production for a stock of minerals at world prices and their total costs of production). The percentage of GDP contributed by mineral rents in Turkey measured only 0.29 in 2013.[56] Turkey has the largest prospective land area in Europe, and hosts diverse mineral deposits.[57] This enables it to self-supply most of its raw materials, one of the few countries in the world to be able to do so.[58] Things may, however, be changing. According to the Istanbul Minerals and Metals Exporters' Association, Turkey's mining sector exports jumped to USD3.3 billion over the first eight months of 2013, up 26.5 percent from the same period in 2012.[59]

Main outgoings and expenditures

Energy imports

Turkey's dependency on foreign sources of energy has been described as the 'Achilles heel' of its budget. Unable to meet its energy demand domestically, the country must import oil, natural, coal and electricity for domestic consumption and industrial purposes. Its lack of abundant domestic reserves combined with its fast-growing energy market (the fastest in the world), has resulted in a massive yearly energy bill. In the years between 2009 and 2013 alone, Turkey paid USD239 billion for it energy imports, spending an average of USD50 billion dollars a year.[60] In 2014, around 26 percent of Turkey's energy demand was met by domestic resources, while the remaining 74 percent was imported.[61] This has partially been relieved by the recent fall in oil prices; estimated spending for 2016 was revised down to USD39.2 billion from USD60.1 billion.[62] This 'saving' will not, however, make up for the striking current account deficit that has been accumulating over the past years. Irrespective of where global oil prices stand, energy imports will continue to a significant driver of the economic superpower's current account deficit.

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[52] Yased International Investors Association, *Foreign Direct Investments Evaluation Report* (2013) 4, 1.
[53] Ibid.
[54] 'Turkey ranks 55 out of 189 countries in ease of doing business report', *Hurriyet Daily News, (Istanbul)* 30 October 2015 http://www.hurriyetdailynews.com/turkey-ranks-55-out-of-189-countries-in-ease-doing-business-report-.aspx?pageID=238&nID=73641&NewsCatID=345 11 November 2015.
[55] *Turkey aims high in FDI: ISPAT president* (2013) http://www.invest.gov.tr/en-US/infocenter/news/Pages/050913-turkey-aims-high-in-fdi-ispat-president.aspx
[56] *Turkey Mineral Rents (Percent of GDP)* (2015) Trading Economics <http://www.tradingeconomics.com/turkey/mineral-rents-percent-of-gdp-wb-data.html> 12 November2015.
[57] *Mining in Turkey* (2015) Turkish Minerals <http://www.turkishminerals.org/Page/3/MiningInTurkey> at 10 November 2015, 3.
[58] Ibid.
[59] Ibid.
[60] 'Turkey's import cost 50 billion per year on average', *Daily Sabah* (Ankara) 2 October 2015 <http://www.dailysabah.com/energy/2014/10/02/turkeys-energy-import-costs-50-billion-per-year-on-average> at 10 November 2015.
[61] *Energy imports, net (% of energy use)* (2013) World Bank, <http://data.worldbank.org/indicator/EG.IMP.CONS.ZS>
[62] 'Turkeys imports to decrease with lower energy bill', *Daily Sabah* (Istanbul) 18 October 2015 <http://www.dailysabah.com/energy/2015/10/19/turkeys-imports-to-decrease-with-lower-energy-bill/>.

Imported goods

Like any other globalised economy, Turkey's trade balance includes imported items to support its wide consumer and manufacturing base. As at September 2015, Turkey's exports were valued at USD154.5 billion for the year, after reaching an all-time high of USD232.5 billion in 2013.[63] In 2014 alone, Turkey bought USD242.3 billion worth of imported products, a 30.6 percent increase from 2010,[64] mainly comprised of:

1. Oil: USD54.9 million (22.7 percent of total imports)
2. Machines, engines, pumps: USD28.1 billion (11.6 percent)
3. Electronic equipment: USD18 billion (7.4 percent)
4. Iron and steel: USD17.6 billion (7.3 percent)
5. Vehicles: USD15.7 percent (6.5 percent)[65]

It is worth noting that the top items imported by Turkey are brought in to support its manufacturing industry (oil, machinery, iron and steel). As the Turkish economy developed beyond the traditional labour-intensive industries of textiles, manufacturing required more raw materials and sophisticated machinery and equipment, most of which continues to be imported.[66] A survey of 145 leading manufacturing companies found that in key sectors, such as electronics and metals, imports accounted for more than 80 percent of raw material and equipment expenditures. In petrochemicals, imports account for 87 percent of total inputs, while in the automotive sector, they account for almost 60 percent.[67] Consumer goods are also significant; they include gems, precious metals, sugar, cereals, vegetable fats and food waste.[68]

Military and defence spending

The Turkish Armed Forces make up the second largest army in NATO, after the United States, explaining the country's large and serious investment in its military capabilities. Turkey is estimated to devote around 2 percent of its GDP to military expenditure,[69] and to spend around USD18 billion a year on defence, with just over half of its equipment made domestically.[70]

Main challenges faced by the Turkish Economy

Unemployment

Like many of its WANA counterparts, Turkey's population and labour force are experiencing a 'youth bulge'. Today, Turkey has the youngest population in the EU. The age composition has shifted significantly in the last decade. As of

[63] *Turkey Economics* (2015) Trading Economics <http://www.tradingeconomics.com/turkey/imports> at 9 November 2015.
[64] *Top Turkey Imports* (2014) < http://www.worldsrichestcountries.com/top_turkey_imports.html9> at 9 November 2015.
[65] Ibid.
[66] D Edgerly, 'Turkey's current account deficit is economy's Achilles heel', *Foreign Times* 27 November 2013 < http://www.ft.com/intl/cms/s/0/f3389efe-4d40-11e3-9f40-00144feabdc0.html#axzz3r82NY05b> at 10 November 2015.
[67] OZ Orhan and E Nergiz, 'Turkey's current account deficit problem and its effects on European Accession' *Istanbul Gelism University (2015),* 8.
[68] Ibid.
[69] *Military Expenditure (% of GDP)* (2015) The World Bank <http://data.worldbank.org/indicator/MS.MIL.XPND.GD.ZS> at 15 November 2016.
[70] J Hogg and C Sezer, 'Erdogan aims to turn Turkey into major defense industry power' *Reuters* (Ankara) 27 May 2015 < http://www.reuters.com/article/2015/05/27/us-turkey-election-defence-idUSKBN0OC0FT20150527> at 10 November 2015.

2014, up to 17 percent of the population belonged to 18-24 age group;[71] whereas in Spain and Italy, who have the highest youth population rate in Europe, the rate is only 10 percent.[72]

Like young people almost anywhere else in the world, employment has proven to be a sought after, yet scarce, 'luxury'. Despite Turkey's exceptional levels of economic performance, overall economic activity falls short in providing employment for all those searching for it. With a labour participation rate of 51.1 percent (71.2 percent for men, and 31.4 percent for women), the unemployment rate in Turkey stood at 9.6 percent in April 2015.[73] In comparison with its OECD counterparts, Turkey has the second lowest labor participation rate and, despite an increase by 7 percentage points between 2007 and 2013, the lowest labor participation rate by women.[74] The Turkish economy needs to grow at least 5 percent each year in order create enough employment for its young population;[75] in 2014 growth was 2.9 percent and current forecasts estimate that it will grow no more than 3 percent by the end of 2015.[76]

Poverty and inequality

Despite being an OECD and G-20 economy that has succeeded at sustaining positive GDP growth, Turkey has not been able to keep its entire population out of poverty. In 2014, 16.3 percent of the Turkish population lived below the poverty line,[77] and disposable household income is about 45 percent of the OECD average.[78] One in every five Turks is poor, compared with just above one in ten across the OECD; similarly, one out of three Turks report that they cannot afford sufficient food, compared with an OECD average of less than one out of seven.[79]

What makes Turkey's poverty figures more disturbing is that they exist relative to widespread wealth, meaning that this poverty is not just absolute but also relative.[80] The income of the richest 20 percent of Turks was 7.7 times more than the income of the poorest 20 percent[81] A similar report by the OECD reveals that, as at 2014, Turkey had the third highest level of income inequality and the third highest level of relative poverty in the OECD.[82] A significant share of inequality in Turkey is explained by differences in endowments, geography and opportunities faced in the labor market, a fact that future economic policies must grapple with.[83]

Current account deficit and foreign debt

Its current account deficit is Turkey's most discussed economic shortcoming, mainly due to energy imports.[84] Turkey has been hailed for meeting the Maastricht Criterion on public debt since 2004; in 2012 its debt-to-GDP ratio stood at 36

[71] 'Turkey has EU's youngest population: Turkstat', *Daily Sabah* (Ankara) 15 July 2014 <http://www.dailysabah.com/nation/2014/07/15/turkey-has-eus-youngest-population-tuik>.
[72] Ibid.
[73] 'Turkey's unemployment in single digit after 9 months', *Hurriyat Daily News* (Istanbul) 15 July 2015 < http://www.hurriyetdailynews.com/turkeys-unemployment-in-single-digits-after-9-months.aspx?pageID=238&nID=85463&NewsCatID=347> at 10 November 2015.
[74] Organization for Economic Cooperation and Development (OECD), *Society a Glance 2014 Highlights: Turkey OECD Social Indicators* (2014) <http://www.oecd.org/turkey/OECD-SocietyAtaGlance20142014-Highlights-Turkey.pdf> at 10 November.
[75] *Turkey Economic Outlook (2015)* Focus Economics < http://www.focus-economics.com/countries/turkey> at 10 November 2015.
[76] Ibid.
[77] '16 percent of Turkey's population under poverty line' *Today's Zaman (Istanbul)* 8 July 2014 <http://www.todayszaman.com/anasayfa_16-percent-of-turkeys-population-under-poverty-line_352414.html/>.
[78] OECD, above n 78.
[79] Ibid.
[80] Relative poverty refers to the segment of a country's population that earns less than half of that country's median income.
[81] 'Income Of Turkey's Richest 7.7 Times That Of Poorest' *AlBawaba News* 22 September 2014.
[82] '1 in 5 live in poverty in Turkey' *AlBawaba News* 27 March 2014.
[83] Turkey: Economic Reforms, Living Standards and Social Welfare Study (2000) *World Bank* < http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPA/0,,contentMDK:20205436~menuPK:435735~pagePK:148956~piPK:216618~theSitePK:430367,00.html> at 10 November 205.
[84] Foreign Times, above n 66.

percent in 2012, which is well below the Maastricht Criterion of 60 percent.[85] However, there are structural weaknesses in Turkey's management of its current account deficit. Although the current account balance as a percent of GDP reduced from 9.7 percent to 6.1 percent in 2012 compared to 2011, it increased to almost 8 percent in 2013.[86] As a function of this widening deficit, Turkey's foreign debt increased to USD49.9 billion in 2013, the highest single-year increase in the history of the Turkish Republic. Aside from energy imports, another vulnerable aspect of the Turkish economy is its dependency on external financing due to the trade deficit and historically low level of domestic savings.[87] Nevertheless, Turkey continues to meet the Maastricht Criterion (33 percent debt-to-GDP ratio) which is the qualification necessary to join the EU from an economic standpoint.[88]

The way forward

A series of corruption scandals, a power struggle between parliament and the Central Bank, inflation, a devaluing lira and consequent stock market plunges have called into question Turkey's economic resilience in past two years. But what stands in the way of Turkey's ambitions is mostly a matter of a number of policy shifts, rather than a complete economic overhaul away from rentierism and towards productive economic activity as is the case in other WANA economies. These stories of financial vulnerability do, however, point out the need for reforms that prioritise long-term development over short-term political goals. Besides this, most of Turkey's economic shortcomings, be they unemployment, poverty, or inequality can be attributed to what most other WANA economies are facing — a level of economic activity that does not generate sufficient employment. As the chairman of the Turkish Industrialists and Businessmen's Association (TUSAID) recently stated, "We can't fight income inequality with only macroeconomic policies. Turkey should increase its production capacity."[89]

According to a recent report put forth by Deloitte, the 'structural problem' the Turkish economy is currently facing is as follows: if the Turkish economy is to continue to grow at the rate of 5 percent or higher, which is the minimum growth rate to create enough employment opportunities for its young population, this will inevitably lead to a higher current account deficit. Turkey's immediate attention should thus be devoted to structural reforms that ensure sustainable GDP growth and hence reduce the deficit.[90] While Turkey's economic outlook remains favorable compared to the rest of Europe or indeed the region, the country's medium-term challenge is to increase productivity and competitiveness while simultaneously reducing its reliance on foreign savings to make growth less volatile and more sustainable. Luckily, Turkey has multiple avenues to do this.

By most criteria, Turkey has established itself as a global industrial center. However, the sector is increasingly coming under the spotlight for losing its competitiveness. The main challenge for the textile and clothing industry is that it is losing its cheap labour cost advantage. The average hourly wage more than doubled between 1980 and 1996,[91] and is four or five times more than in China, India, Thailand and Indonesia.[92] The industry also uses more expensive energy and financing than Europe and the Americas. While short-term solutions, like the devaluing the Turkish Lira can help boost competitiveness and reduce external deficits, it also causes inflationary pressures and increases financing costs. The only way forward for achieving long-term sustainability is increasing overall productivity and adopting more innovative technologies. Despite possessing the large advantage of having many of its own raw materials like in the sector textile and apparel, Turkey can also increase manufacturing competitiveness through the equipment it utilizes.

[85] UK Foreign and Commonwealth Office, above n 2.
[86] Deloitte, above n 47.
[87] Foreign Times, above n 66.
[88] *Turkey government debt-to-GDP ratio* (2015) Trading Economics <http://www.tradingeconomics.com/turkey/government-debt-to-gdp> at 11 November 2015.
[89] 'Turkey third in income inequality, says TUSIAD', *Today's Zaman* (Istanbul) 27 June 2014.
[90] Deloitte, above n 47.
[91] Ibid.
[92] Dutch culture, above n 19.

Turkey is an export-driven economy, with around 75 percent of its manufactured goods intended for exportation.[93] Meeting its own export benchmarks and sustaining momentum will require it to step away from labour-intensive manufacturing and adopting more competitive technology.[94] Turkey's 2023 goals include reaching certain export benchmarks, including: machinery (USD100 billion), chemicals (USD50 billion), textiles (USD20 billion), automotive industry (USD75 billion), and electronics (USD45 billion).[95] According to the World Bank's Country Economic Memorandum for Turkey, achieving these goals will require that Turkey targets productivity,[96] including through greater FDI, innovation, improving workforce skill sets and improving links between research and business applications.[97]

Turkey holds an undeniable comparative advantage in agriculture by virtue of its land, climate, workforce and level of industrialisation. The sector's steady decline is the common trend in newly industrialised economies. Although laws of economic development call for specialisation, Turkey's multiple comparative advantages call for simultaneous and compatible investments in both manufacturing and agriculture. At a time where food security is a luxury enjoyed by a few, the country's USD5.6 billion worth of agricultural trade surpluses is a formidable advantage.[98] Besides the natural migration of agricultural workers from rural to urban areas, Turkey's agricultural potential is being held back by low technology utilisation, scarcity of capital intensive investments and scale problems (ie. unconsolidated land) independent from increases in demand and price.[99] Farmers have been slow to adopt modern techniques and much of the potential land and water resources are inefficiently managed.[100] Addressing these issues of innovation and productivity are imperative given that agriculture is also directly tied to Turkey's textile and apparel manufacturing sub-sector. From a policy stand-point, Turkey has enjoyed a Customs Union with the EU since 1995, but agriculture remains outside the Union today; further steps to ensure that Turkish agricultural standards meet EU criteria and to ensure wider market access need to be taken.

Policy shifts and incentives to increase the competitiveness of the agricultural and manufacturing sectors need to be set in place by the government. There is also huge potential for private sector involvement, particularly in real estate, energy and investments. One of the most important sub sectors which is expected to shape Turkey's real estate market in the future is urban renewal. It is estimated that around 6.7 million units nationwide will be demolished and rebuilt over the next 20 years, requiring USD15 billion each year and a total of USD400 billion in total.[101] In addition, the Public-Private-Partnership (PPP) model is being widely used across Turkey for infrastructure and energy projects. This model holds great potential, especially in economies with large current account deficits, and highlights the significant role the private sector can play in aiding in development.

Turkey underwent a qualitative leap which translated into consecutive years of double-digit growth. Like in other emerging economies, this boom cycle can only be sustained for a finite number of years. Moving forward, growth will not come as easily and economic policy needs to be more active and in order to sustain momentum. Turkey's economic transformation is a testament to how sincere and wide-ranging economic reforms can improve a country's standard of living, but also how, even with the highest growth rates, some are left behind to grapple with poverty and inequality. This does not reflect a failure in the adopted economic model, but emphasises that the only way forward is higher productivity and investment in value-added economic activity.

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93 *Increasing Turkey's Export Competitiveness* (2014)The World Bank <http://www.worldbank.org/en/results/2014/08/27/engine-of-growth-for-turkey> at 10 November 2016.
94 Republic of Turkey Prime Ministry Investment Support and Promotion Agency, above n 15.
95 Ibid.
96 The World Bank, above n 93.
97 Ibid.
98 The Republic of Turkey Prime Ministry Investment Support and Promotion Agency, above n 33.
99 *Agriculture Sector in Turkey* (2014) EGC Agri Capital <http://www.egcyo.com/en/corporate/agriculture-sector-in-turkey> at 10 November 2015.
100 Nations Encyclopedia, above n 26.
101 Ernest and Young, *Turkey's Attractiveness Survey* (2013), 8 <http://www.ey.com/Publication/vwLUAssets/Turkey_attractiveness_survey_2013/$FILE/turkey_attractiveness_2013.pdf> at 20 November 2015.

2: Lebanon's Economy: an overview

The World Bank's 2014 Lebanon Economic Monitor report describes the Lebanese economy as 'sluggish in a highly volatile environment'. This provides an apt description of the country's current state of economic and political affairs. Categorically, the Lebanese economy is an upper-middle-income economy, with a GDP per capita of USD7315.19 in 2014, and a total GDD worth USD45.73 billion.[102] These above average growth rates were buttressed by preceding years of exceptional growth and a favorable macro-economic environment. After the Israel-Hezbollah war in 2006, the Lebanese economy recorded exceptionally high growth rates for four consecutive years, an average growth 9.2 percent, after a 2.5 percent average between 1998-2006.[103] Since 2011, however, growth has declined, ranging between 1-2 percent with a 2015 projection of 1 percent.[104] External events including the global financial crisis, a massive refugee influx[105] to the country and internal political constraints are the obvious causative factors, but there are also structural weaknesses in Lebanon's socioeconomic arrangements that leave it vulnerable to internal and external shocks.

The Lebanese economy belongs to the cohort of WANA states identified as 'resource-poor, labor-abundant economies'. This group is characterised as being import-dependent for meeting their energy needs and, despite a large native workforce, economic activity falls short of providing sufficient employment, especially for youth. This has led to severe 'brain drain' and unsustainable dependence on external finance. Although not the most conspicuous in the region, Lebanon arguably displays symptoms of rentierism. Between 1993-2010, the World Bank estimated that the Lebanese economy's dependence on external finances[106] totalled USD147 billion. Another symptom of rentierism is that very little production takes place domestically; the economy is mostly service-oriented, this sector accounting for almost 60 percent of GDP.[107]

Both in the past and present, Lebanon's economic shortcomings have been political at their core. The Lebanese Civil War, which lasted from 1975-1990, came to symbolise the country's industrial 'de-development' and foregone economic potential.[108] This political paralysis was exemplified in the country's ongoing presidential vacuum since May 2014, which has dampened investor and consumer confidence.[109] Conflict spillovers, a worsening security environment, and a series of bomb explosions and targeted assassinations have further depressed the country's economic activity.[110] A more persistent impediment to growth has been the post-war tradition of "politically sterile administrative reforms".[111] Since the end of the war in 1990, this has translated into crippling delays of the country's most-economically pressing legislation, including ratifying the Public-Private Partnership law and the oil and gas extraction and bidding process.[112]

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[102] Note 1: Countries whose GDP per capita fell between US$4036 to US$12745 in 2014 were classified as upper-middle income in 2014.
[103] International Monetary Fund (Beirut office), *Lebanon : Real GDP Growth Analysis 1997-2010* (2011), 2.
[104] *Lebanon's annual GDP growth* (2015) 'Trading Economics' <http://www.tradingeconomics.com/lebanon/gdp-growth-annual> at November 15, 2015.
[105] As of 2015, Lebanon has the highest refugee per capita rate in the world. There are an estimated 1.15 million refugees in Lebanon altogether, equating to 232 per 1,000 inhabitants. Source:http://www.forbes.com/sites/niallmccarthy/2015/06/18/the-countries-with-the-most-refugees-per-1000-inhabitants-infographic/
[106] Combination of aid, remittances, and foreign deposits in Lebanese banks.
[107] *The Economy* (2015) 'The Embassy of Lebanon in Washington D.C.' < http://www.lebanonembassyus.org/the-economy.html> at 15 November 2015.
[108] By 1981, the Lebanese Industrialists Association reported a 25-percent decline in industrial capacity, and more than 70 percent of all industrial capacity was believed to have been idle for at least 500 days during the previous 6 years. Source: http://www.ghazi.de/industry.html
[109] The World Bank, *Lebanon Economic Monitor: A Sluggish Economy in a Highly Volatile Environment* (2014), 16.
[110] Ibid.
[111] R Leendersin, *Spoils of Truce: Corruption and State-Building in Postwar Lebanon* (2012) 236.
[112] The World Bank, above n 109, 16.

Incomings

Services, banking, and tourism

Services, whose major subsectors are finance and tourism, contribute 70 percent to Lebanon's overall economic activity.[113] Services also dominate Lebanon's modest list of exports; services are 20-25 percent larger than goods exports.[114] Banking is the largest sub-sector; from the 1950s up until the start of the civil war in 1975, Beirut was well-regarded as the region's epicenter of financial services. This was further enabled by the oil boom that started in the 1960s, Lebanon-based banks being the main recipients of the region's petrodollars.[115] Currently, the main financial services offered in Lebanon are commercial banking, investment, and insurance;[116] total deposits made in commercial banks jumped from USD6.5 billion at the end of 1992 to USD33.9 billion at the end of 1999.[117]

The size of the banking sector is equivalent to more than 3.5 times its overall economy, earning it the epithet of being the 'Switzerland of the Middle East'. [118] One offshoot is that the majority of the country's economic activity is instigated by the private sector and relies on offshore sources of capital. The sector's high liquidity has made it a major pillar of economic stability,[119] and imbued Lebanese banks with a degree of immunity to sudden instability and a capacity to absorb shocks.

Lebanese banks play the key economic role of being both attracters and providers of capital, and to both the public and private sectors.[120] Consequently, the banking system is considered a key entry point for the capital inflows needed for development. But the sector is displaying a slowdown, with the deposit growth rate falling from 9 percent in 2013 to 6.1 percent by the end 2014.[121] This is important to monitor given that the sector needs at least 6 percent growth per year in order to cover public and private sector needs.[122]

Another significant sub-branch of Lebanon's service-driven economy is tourism. According to the World Travel and Tourism Council (WTTC) 2015 report, Lebanon ranked 32nd in the world in terms of its contribution to GDP, which stood at 21 .1 percent in the end 2014 (or around USD9.84 billion), significantly exceeding the world's 9.8 percent average. [123] These contributions are forecast to rise by 2.4 percent in 2015 and by 5.7 percent per annum to reach USD17.5 billion (25.2 percent of GDP) by 2025.[124] Such projections need to be closely monitored against security deteriorations since August 2013.[125] Because of this, total employment in tourism dropped by 20.9 percent to reach 225,000 employees in 2013.[126]

Aid and remittances

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[113] The Embassy of Lebanon, Above n 107.
[114] The World Bank, *Lebanon Economic Monitor: the Economy of New Drivers and Old Drags* (2015), 26.
[115] The Embassy of Lebanon, above n 107.
[116] Ibid.
[117] Ibid.
[118] Note 1: Ibid.
Note 2: The 'Switzerland of the Middle East' epithet was derived from the country's banking secrecy laws.
[119] Ibid.
[120] *Lebanese Banking Sector Main Characteristics* (2012), 'Association of Banks in Lebanon' < http://www.abl.org.lb/subPage.aspx?pageid=360> at 1 December 2015.
[121] G Wazni, 'Tough road ahead for Lebanese banks', *Al-Monitor* (Beirut), 3 June 2015.
[122] Ibid.
[123] BankMed*, Lebanon's Weekly Report* (2015), 3 http://www.bankmed.com.lb/LinkClick.aspx?fileticket=Q9RAVNQR2PY%3D&portalid=0 accessed 24 November 2015.
[124] Ibid.
[125] The World Bank, above n 114, 8.
[126] Bank Med, above n 123, 4.

The size of Lebanon's banking sector and its capital inflows (which exceed the country's GDP by more than three-fold) are a clear indication of the country's staggering reliance on external finances. The solvency of Lebanon's commercial banks is heavily buttressed by remittances, which act as a 'safety net' for the overall economy in periods of turmoil. Total domestic income also far exceeds GDP rates, reaching 135 percent of GDP in 2010 (an all-time high). [127] This discrepancy between GDP and income is the direct result of private transfers received from the Lebanese diaspora. Lebanon is one of the largest remittance-receiving countries worldwide; they exceed 20 percent of Lebanon's nominal GDP as well as financial inflows from productive economic activity like exports of goods and services and foreign direct investments.[128] According to World Bank figures, remittances contributed 17.7 percent of GDP by the end of 2014;[129] increasing from USD7.86 billion in 2013 to 8.9 billion in 2014. The World Bank recently attributed the increase in remittances, in part, to those sent to Syrian refugees in Lebanon by relatives abroad.[130]

The political and consequent economic vulnerability of Lebanon has made it increasingly reliant on foreign aid for reconstruction. The 1975-90 civil war seriously damaged Lebanon's physical and economic infrastructure, cutting national output by half.[131] Rebuilding was initially financed by debt accrued by the government from domestic banks, but when the burden proved too large to be shouldered by the government alone, a series of Paris Conferences to collect aid ensued. By the Paris II conference held in November 2002, a total of USD4.3 billion in financial aid was pledged — including by Malaysia, Oman, United Arab Emirates, Kuwait, Saudi Arabia Qatar and France — and an additional USD4 billion was extended in interest-free credit.[132] The 2007 Paris III conference following the 2006 war raised pledges for relief, reconstruction, and recovery from international and Arab donors amounting to more than USD2 billion (not enough to cover the war's estimated USD15 billion cost).[133][134]

Lebanon's status as the country with the highest refugee per capita rate in the world has also left it in dire need of humanitarian aid; a joint UNDP-UNHCR reports reveals that aid extended to Lebanon alone had reached around USD2.2 billion.[135] This reiterates how political strife has left Lebanon unable to independently cater to its economic needs. The country has thus become severely reliant, if not dependent, on foreign cash flows — be they aid, remittances, or foreign investments.

Construction and real estate

Lebanon's real estate sector has long been considered a magnet for foreign capital flows. Prior to the civil war, Beirut experienced an uninterrupted boom in the property sector triggered by the city's rapidly increasing population.[136] But the trend of locally-generated demand shifted dramatically in the post-war era, the country witnessing a steep rise in real estate prices, mostly fuelled by Lebanese expatriate and Gulf demand.[137] In 1995, construction activity accounted

[127] IMF, above n 103, 2.
[128] A Awdeh, *Remittances to Lebanon: Economic Impact and the Role of Banks* ESCWA, (2014),1.
[129] *Personal Remittances, Received (%of GDP)* (2015) 'World Bank Indicators' <http://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS> at 10 November 2015.
[130] Note 1: H Cuevas-Mohr, *Lebanon: Remittances Inflows and Outflows* (2015) 'International Money Transfer Conferences' <http://imtconferences.com/lebanon-remittance-inflows-outflows/> at 1 December 2015.
Note 2: The Lebanese economy's striking dependency on remittances highlights also highlights the severity of the country's 'brain drain'.
[131] *About Lebanon* (2012) 'United Nations Development Program' <http://www.lb.undp.org/content/lebanon/en/home/countryinfo.html> at 5 November 2016.
[132] K Gebara, *Reconstruction Survey: the Political Economy of Corruption in Post-War Lebanon,* Lebanese Transparency Association (2007) 14.
[133] H Al-Harithy, *Lessons in Post-War Reconstruction: Case Studies from Lebanon in the Aftermath of the 2006 War* (2010) 2.
[134] Ibid.
[135] UNHCR and UNDP, *Impact of Humanitarian Aid on the Lebanese Economy*, (2015) 5.
[136] Embassy of Lebanon, above n 107.
[137] Ibid.

for 9.2 percent of GDP, an increase from approximately 4.5 percent in 1972.[138] In fact, between 2005 and 2010, the surge in demand for residential properties in Lebanon was so high that prices in some areas increased by up to LBP500 whereby GDP grew only 52 percent during the same period.[139] In parallel, the total number of construction permits rose by an average of 16.4 percent annually from 2005-2010.[140] While this triggered speculation of a housing bubble, it was hard to deny that Lebanon's real estate sector was becoming an example of successful post-conflict construction.[141]

Supported by exceptional growth between 2007-2010, Lebanon's strong real estate sector became a tangible reflection of the country's favourable investment climate.[142] Given its significant contributions to overall GDP (14 percent in 2013), real estate almost became a proxy for the country's overall economic, political, and security conditions.[143] Domestic political and security developments since 2011 slowed the pace of property market growth, widening further in 2012 as the domestic political stalemate and the regional turmoil did not come to an end. This was reflected by a 10.2 percent drop in the volume of real estate sales during that year. [144] Sales to foreigners slumped by 6.4 percent in 2014, reaching a six-year low. Noting that GCC citizens constitute a substantial stake of the demand for luxury apartments in Lebanon, their interest has dwindled following repeated warnings from their governments to avoid Lebanon due to the high degree of political uncertainty.[145]

Although the relationship between construction and cement is seemingly symbiotic, Lebanon's cement industry has at times displayed an even more positive growth trajectory than real estate. Cement was Lebanon's biggest single industrial export in 1980, making up 16 percent of the total.[146] In the 1990s, the industry was fuelled by domestic real estate demand and post-conflict reconstruction. The industry underwent a restructuring phase, when about USD600 million was channelled into investment to upgrade technology and raise capacity.[147] Even in 2011, when most other sectors began displaying a slowdown, the cement industry proved to be resilient.[148] Weakness has begun to show in 2014; according to the Central Bank of Lebanon, the number of cement deliveries dropped by 5.3 percent in 2014 to reach 5.52 million tons (Mt).[149]

Agriculture

Lebanon is known for a fertile and diverse topography that hosts a small, but critical, agricultural sector. In 1995, agriculture contributed approximately 12 percent to GDP, as opposed to 9.9 percent in 1972.[150] Importantly, the sector still significantly supports rural livelihoods.[151] Today, agriculture only contributes around 6 percent of the Lebanese economy but is estimated to employ around 25 percent of the country's population.[152] This said, there is a strong and palpable link between agriculture and poverty in Lebanon; agriculture has the highest rate of poverty with over 20

[138] Ibid.
[139] Ibid.
[140] *Lebanon Price History* (2015) 'Global Property Guide' <http://www.globalpropertyguide.com/Middle-East/Lebanon/Price-History> at 19 November 2015.
[141] Ibid.
[142] Bankmed, *Special Report: Analysis of Lebanon's Real Estate Sector (2015) 1.*
[143] Latest available figures.
[144] M Chami, *Real Estate Activity in 2014: Sluggish Performance amid Intensifying Challenges,* Blominvest Bank (2015) 1.
[145] Blominvest Bank, below n 148, 3.
[146] Lebanon's industrial sector will be explored in further detail in a subsequent section.
[147] Blominvest Bank, *The Lebanese Cement Industry: Strong Ground and Promising Prospects* (2012) 1.
[148] Ibid.
[149] Blomivest Bank, *2014: a Critical Year for the Cement Industry* (2015) 2.
[150] The embassy of Lebanon, above n 107.
[151] The World Bank, above n 109, 31.
[152] Ibid.

percent of heads of households engaged in this sector considered 'very poor'.[153] Investing in this sector's potential is thus a potential pathway for poverty alleviation.

Industrial production

The modest and declining contributions of Lebanon's industrial sector to overall GDP is reflective of the fact that that industrial policy has never been at the forefront of economic decision-making.[154] Lebanese industry did expand rapidly in the late 1960s and early 1970s, displaying a strong and promising beginning. By 1974, industry accounted for an estimated 20 percent of GDP, up from 13 percent in 1968; moreover industrial products amounted to 75 percent of total exports[155] and 130,000 jobs.[156] This growth was characterised by a proliferation of small industries fuelled by easy credit, a strong local currency, abundant and cheap supplies of skilled and unskilled labor, subsidised electric power, domestic trade protections and expanding markets abroad, particularly in the Gulf Arab countries.[157]

Despite some rebound after the end of the civil war, success was relatively short-lived. In 1997, Lebanon's industrial production was higher than the WANA average, but by 2009 this had fallen considerably.[158] Today the industrial sector in Lebanon plays only a marginal role, employing 12 percent of Lebanon's working population compared to the 39 percent employed in services and 27 percent employed in trade.[159] Within this broader trend, it is important to highlight that Lebanon's industrial sector underwent a qualitative shift in the years between 2000-2008, where industrial exports "increased and became more sophisticated".[160] Export sophistication increased 36 percent, expanding to include jewellery, machinery/electrical products, paper products, chemicals, and plastics/rubbers.[161] Given that the sector has consistently played a secondary role in Lebanon's national economy and policy-making domains, this 'success' should be attributed to the increase in external demand shocks, as opposed to improved productivity or sound policy.[162]

Outgoings and major drivers of spending

Energy

Seemingly lacking in all hydrocarbons**,** Lebanon serves as a prototype of the world's most energy-import-dependent economies. Meeting its domestic energy needs has been a long-lasting and crippling concern, leaving the country vulnerable to volatile prices. Lebanon currently imports 97 percent of the energy it uses, costing around 15 percent of annual GDP.[163] But this does not spare the country from electricity blackouts. Unreliability in power supply has forced 92 percent of households to link up to private generators, the provision of which has become a prosperous business with

[153] The World Bank, *Lebanon agriculture sector note: aligning public expenditures with comparative advantage* (2010), 1.
[154] S Atallah and I Srour, *Lebanon's Industrial Policy Must Focus on Developing Highly Sophisticated Exports,* The Lebanese Center for Policy Studies (2014) 1.
[155] *Lebanon's Economy: Industry* (1997) http://www.ghazi.de/industry.html at 1 December 2015.
[156] Ibid.
[157] J Rolland, *Lebanon: Current Issues and Background* (2003) 117.
[158] The World Bank, above n 109, 38.
[159] Ibid.
[160] S Atallah and I Srour above n 155, 1.
[161] Ibid, 5.
[162] Ibid, 8.
[163] Note 1: *Energy Imports (% of energy use)* (2015) 'The Word Bank Indicators' <http://data.worldbank.org/indicator/EG.IMP.CONS.ZS> at 10 December 2015.
Note 2: Bankmed Market and Economic Research Division, *Oil and Gas in Lebanon* (2014) 5.

revenues estimated at USD1.7 billion or 3.7 percent of GDP in 2014.[164] On the other hand, businesses are severely impacted by electricity shortages: 91 percent of firms own or share a power generator.[165]

In response, Lebanon's energy sector has been undergoing a shift, particularly enabled by the government sanctioning offshore oil and gas explorations in 2010. Massive oil and gas deposits were recently discovered,[166] potentially tipping the energy balance in the country's favor and providing hope that its financial troubles will be rectified once it becomes a net exporter. Lebanon's offshore hydrocarbon potential was furthered with the passing a new petroleum policy in 2010 and the launching of an offshore licensing round in February 2013.[167] Despite such potential, transforming itself from an energy-dependent to an energy-exporting economy has proved a tedious process paved with risks and challenges. The country's energy potential has also fallen victim to political impasse, for more than two years companies have been unable to submit their bids and compete for the exploration of specific areas because the government has failed to ratify two pieces of crucial legislation.[168]

Imported goods and military spending

Besides energy imports, which account for the lion's share of Lebanon's import bill, various other imported goods contribute to a negative trade balance. In 2013, Lebanon imported around USD22.1 billion of goods;[169] mainly cars, electrical equipment, metals and food and beverages, through Italy, China, France and the United States. A final, but significant, part of Lebanon's imports and spending are defense-related; latest data shows that Lebanon spent around USD1.6 billion on military capabilities in 2012 (4.1 percent of GDP).[170]

Main challenges and characteristics of the Lebanese economy

Indebtedness and 'electric' deficiencies

Following the civil war, Lebanon rebuilt much of its war-torn physical and financial infrastructure by borrowing, mostly from domestic banks, ultimately burdening the government with large debts. This need to borrow in order to finance post-war reconstruction and deliver public goods has carried through to present times. By the end of 2014, debt had risen consecutively to reach 145.7 percent of GDP (USD66.6 billion), compared to 143.1 percent of GDP at end-2013, and 133.5 percent of GDP at end-2012.[171] This unsustainable debt level can be attributed to the cost of financing significantly exceeding the GDP growth rate. The stock of outstanding debt remains mostly internal; at the end of the 2014, 75.5 percent of gross public debt was held by commercial banks and the central bank, Banque du Liban (BdL).[172] Fiscal transfers to Lebanon's publicly-owned Electricité du Liban (EDL) are a core issue. Accruing interest on debt and transfers to EdL amounted to 40 percent of Lebanon's gross public debt, and transfers (made possible through borrowing) now account for over half of the fiscal deficit.[173] A look at Lebanon's debt-to-GDP provides insight into the severity of EDL's negative impact. According to a World Bank report, resolving the country's electricity problems would have kept the

[164] The World Bank, above n 109, 30.
[165] Ibid.
[166] The government has not announced the size of the discovered reserves, but were described as 'considerable'.
[167] Bankmed, above n 142, 6.
[168] C Torbey, 'Political impasse stops Lebanon exploiting oil resources', *BBC News (Beirut)* 24 February 2014.
[169] Lebanon Imports (2015) 'Trading Economics', <http://www.tradingeconomics.com/lebanon/imports> 15 November 2015.
[170] Note 1: Lebanese Military Budget (2012) 'Military Budget' <http://militarybudget.org/lebanon/> at 5 December 2015.
Note 2: More recent figures were not disclosed.
[171] The World Bank above n 109, 31.
[172] Ibid.
[173] Ibid.

debt-to-GDP ratio at an acceptable level, comparable to middle and high-income economies like Jordan (87.75 percent), Hungary (79.23 percent) and Croatia (59.78 percent).[174] Ultimately, the increasing debt-to-GDP ratio and recurring fiscal deficits have compromised investor confidence in Lebanon.[175] Thus besides their direct financial cost, the opportunity costs of unsustainable debt has meant that investment in public works and infrastructure have been foregone.[176]

Unemployment and consequent brain drain

Lebanon's inability to generate sufficient jobs has acute socio-demographic implications. Lebanon's main economic drivers (real estate, construction and tourism) are sectors that are either not labor intensive, or attract lower skilled and cheaper foreign labor. Growth observed thus does not translate into employment for educated Lebanese nationals.[177] During the 2005–2009 period, Lebanon created only 3,800 jobs per year (one for every six new entrants to the labor market), while some 22,000 new Lebanese entrants are expected each year until 2019 (excluding Syrian refugees).[178] Such structural labor market weakness is transforming the labour market's fabric; educated Lebanese seek employment in countries with a demand for high skilled labor, creating a large diaspora; meanwhile, non-Lebanese dominate the unskilled labor market, pricing out nationals.[179] A further consequence is 'brain drain'. Between 2011–2013 the number of Lebanese leaving the country reached 174,704 people with an annual average of 58,234; youth aged 20-44 constituted 82.6 percents of these migrants. A households' livelihood survey in 2007 found that 46.3 percent of these migrants were university graduates.[180]

High degree of monopolisation

Despite Lebanon's designation as a 'free economy', monopolistic structures pervade the economy. A report issued by the Lebanese Ministry of Economy and Trade in 2014 reveals that around 40 percent of markets are either monopolised or semi-monopolised.[181] This is especially the case in the banking sector, where despite the high number of banks, the top three banks hold 80 percent of the country's deposits and loans.[182] Lebanon's manufacturing sector has also fallen victim to monopolisation as a result of weak policy and an unfavorable legal and regulatory environment.[183] Monopolisation is a clear sign of sub-optimal economic performance because it means that firms are shielded from competition and have little incentive to innovate in a sustainable manner, depriving the economy of further growth and job creation.

The way forward

Growth in Lebanon is projected to accelerate towards four percent in 2016.[184] This acceleration conspicuously hinges upon a significant improvement in the country's security and political situation, as well as how it chooses to handle the ramifications of the Syrian crisis. If the Lebanese economic experience has revealed anything, it is that economic growth is very much contingent upon political resilience. The fluctuations in the business cycle have been a function of domestic

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[174] M Chami, *Any hope for Lebanese to Enjoy 24 Hours of Electricity Every Again?, Blominvest Bank* (2015) 3.
[175] The World Bank, above n 109, 17.
[176] F Abou-Mosleh, 'World Bank delegation pushing for new economic strategy for Lebanon', *Al-Akhbar English* (Lebanon), 20 January 2015.
[177] The World Bank, above n 109, 12.
[178] The World Bank above n 109, 8.
[179] The World Bank, above n 109, 9.
[180] *Further data on the continuous Lebanese youth and brain drain* (2014) 'World Economic Empowerment Portal' < http://www.weeportal-lb.org/news/further-data-continuous-lebanese-youth-and-brain-drain> at 5 December 2015.
[181] F Abou-Mosleh, above n 177.
[182] J Abboud, 'Economic and Social Effects of Lebanese Monopolies and Cartels', *Economic Updates* (Lebanon) 22 February 2014.
[183] S Atallah and I Srour, above n 155, 2.
[184] The World Bank, above n 114, 16.

and regional (in)stability. Lebanon thus needs to move out of sectors that are sensitive to political shocks like real estate, services and tourism, and towards more resilient sectors like agriculture, manufacturing, infrastructure construction and energy. Besides their resilience, the growth of these sectors is needed to provide sustainable and long-term employment for its educated youth.

Lebanon's comparative advantage in agricultural and its potential role in poverty alleviation is difficult to overlook. According to a recent World Bank report, the major challenge is that agricultural production and expenditure are not aligned with comparative advantages within this sector.[185] Lebanon is relatively more competitive in fruits and vegetables than in cereals and livestock,[186] and needs to direct expenditure to reflect this. Moreover, it needs to ensure that public expenditure in the sector is aligned with the sub-sectors that reduce its exposure to market volatility and exacerbate its water scarcity and food insecurity. Meaningful investment in the sector is also a means of reducing agricultural workers' high levels of poverty.

The industrial sector needs to be prioritised and placed at the forefront of the country's economic development agenda.[187] Despite experiencing intermittent booms, Lebanon's industrial sector has a "long history of missed opportunities for development".[188] On closer examination, these have been more a result of positive external shocks than sound industrial policies.[189] The sector has long operated under an environment of stringent regulatory and structural bottlenecks, monopolisation, overvalued currency and electricity blackouts. Lebanon's modest 'industrial policy' consists of subsidised industrial financing schemes and a few trade agreements with the EU and Arab countries. [190] Passing adequate and inclusive legislation to help manufacturers export more and attract newcomers to the industry is of paramount importance. The private sector, especially small and medium enterprises (SMEs), are the backbone of the Lebanese industrial sector, yet their needs are not catered to in domestic policy-making and they are largely excluded from the economic development process.[191] A regulatory framework that facilitates a larger, more diversified, and more sophisticated export-base is required

Finally, Lebanon needs to avoid obvious hindrances to growth. While political instability and security threats are a difficult legacy from which to retreat, what is even more detrimental to attracting value-added investments is the government's inability to move forward with needed legislation and structural reforms. As stated by Reinoud Leendersin, "Lebanon has not suffered from any shortage of plans to overhaul state's institutions drastically; yet very few survived the process of political decision-making".[192] Decades later, a politically sterile environment remains the reality. Be it management reforms to the publically-owned electricity center, licenses for extracting Lebanon's newly discovered oil and gas reserves, or laws to encourage PPP's, reforms have fallen victim to political impasse. The only way forward is for Lebanon to overcome these self-imposed, artificial barriers to growth and development.

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[185] The World Bank, above n 114, 16.
[186] Ibid.
[187] S Atallah and I Srour, above 155, 2.
[188] Ibid.
[189] Ibid.
[190] Ibid.
[191] Ibid.
[192] R Leenders, above n 111, 236.

3: Jordan's Economy: an overview

Jordan is an upper-middle income economy with a population of 6.5 million and a per-capita GDP of USD5,214 as of 2013.[193] Jordan's economy is among the smallest in the Middle East, meaning that it has to rely on limited sources of income. Inadequate supplies of water, oil, and other natural resources mean that the country has traditionally relied on foreign aid, public debt, remittances and — more recently — foreign direct investment to support its finances and generate productive economic activity. This reliance on what is known as 'external rents', has led some economists to argue that Jordan's economy is more rent-oriented than growth-oriented. Resource scarcity, and consequent dependence on imports, also means that the economy is highly shaped by exogenous events.

In response, under the patronage of HRH King Hussein, the government commenced vigorous liberalisation reforms aimed at overhauling the economy in the early 1990s, many of which continue today. Such efforts started with a series of structural adjustments to open up strategic sectors to private investors and move away from Jordan's rentierist legacy. Like many of its Arab counterparts, the government was traditionally a central source of employment, welfare, and subsidies on basic consumer goods. However, the oil recession and massive budget deficit that ensued in the late 1980s provided the impetus to significantly cut back social spending and subsidies on consumer goods, and state-owned enterprises were opened up to private ownership. Jordan's economic reforms created previously unattainable business opportunities in the country, which marked a serious intent to leap away from the rentier model and into a productive, more economically viable future. Such moves have placed Jordan at the forefront of many regional indicators including human capital, market-friendly policies, and innovation. These strengths are an important aspect of Jordan's development-friendly ethos that reflects a push towards a knowledge-based economy. However, a combination of factors including repeated cycles of economic slowdown, high poverty rates, and a bloated public sector have left Jordan's economic liberalisation project incomplete. Economic realities such as a chronic dependency on foreign aid and remittances, vulnerability to external shocks, a large informal economy and staggering public debt have necessitated state interference, complicating efforts to withdraw from its role as a main driver of economic outcomes.

Today, Jordan's principal economic challenge is leveraging adequate economic activity to cover spending in the context of the country's weak natural resources, small size and proximity to neighbours in conflict. The difficulty is that Jordan's primary sources of economic activity are either economically problematic (rents), in decline (tourism) or inadequate (taxation), whereas there is little mobility in spending patterns because they are driven by factors (natural endowments and neighbourhood) largely outside of its control. These dynamics are explored in greater detail below.

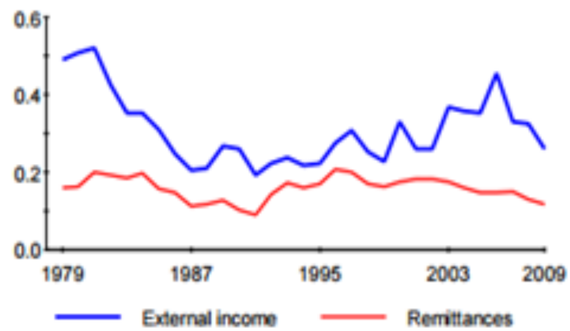
Insufficient drivers of economic activity

1.1 Remittances and Aid: Foreign aid and remittances, especially from Gulf States, are among the most significant contributors to Jordan's economy. Remittances averaged JOD465.64 million from 2000-2014 and rose to JOD578.80 million by the fourth quarter of 2014,[194] accounting for 15-20 percent of GDP (figure 1).[195] Jordan is also one of the world's top aid recipients on a per capita basis.[196] In 2014, Jordan received JOD1.2 billion worth of foreign aid, accounting for 9-10 percent of GDP.[197] Jordan's traditional and most significant aid donors (both in the form of grants and soft loans) are the United States, Gulf States, European Union, IMF and the World Bank. Both historically and today, Jordan's relationship with members of the Gulf Cooperation Council (GCC) has resulted in extensive aid flows.[198] This

[193] Department of Statistics, *Jordan in Figures,* (2013) 3.
[194] Jordan's Central Bank, *Statistical Database* (2014) <http://statisticaldb.cbj.gov.jo/index? action=level7&lang=en> at 22 April 2015.
[195] K Mohaddes and M Raissi, *Oil Prices, External Income, and Growth: Lessons from Jordan,* IMF Working Paper, 2011.
[196] R Callaway and E Mathews, *Strategic US Foreign Assistance: The Battle Between Human Rights and National Security* (2008) 145.
[197] O Obeidat, 'Jordan Receives JD 1.2 billion foreign aid in 11 months', *The Jordan Times,* (Amman) 8 December 2014.
[198] For example, during the years between 1967-1986, GCC aid flows came to represent 82.5 percent of the total aid received by Jordan; F Khatib, 'Foreign aid and economic development in Jordan: an empirical investigation,' in R Wilson (ed), *Politics and the Economy in Jordan* (1991) 65.

relationship became more prominent in the aftermath of the Arab Spring. In 2012, when Jordan was at a point of financial 'distress' due to the fuel crisis and the sudden and massive influx of Syrian refugees, the GCC intervened with a USD5 billion aid package. The aim of this grant, as well as the aid provided to Jordan in general, has been to spur economic activity, ease fiscal pressures, and finance infrastructure and development projects. It is critical to highlight that remittances and aid operate in the same way as 'rents'; they cause local currency appreciations, making other exports uncompetitive (as the money earned is worth less in terms of local currency).[199] This retards the growth of labour intensive exports that otherwise have the potential to grow rapidly and further technological progress.[200]

Figure 1: Jordan's External Income and Remittances in relation to GDP[201]



1.2 Tourism: Tourism, along with remittances are the highest contributors to Jordan's economy. Accounting for 13 percent of GDP in 2013, tourism is instrumental to attracting investments and generating hard currency revenues.[202] In 2014, tourism directly employed 42,000 Jordanians and a further 130,000 indirectly.[203] While recreational tourism suffered significant decline in the wake of the Arab Spring with the number of inbound tourists falling by almost a quarter in one year, medical tourism has become increasingly significant.[204] This sector generates over USD1 billion in revenues annually and the number of foreign patients seeking treatment in the Kingdom stands at over 240,000 per year. In 2010, Jordan ranked first in the region and fifth globally as a medical tourism destination.[205]

1.3 Foreign Direct Investment: The negative impact of rents is somewhat offset by increasing FDIs, which represented 5.3 percent of GDP at the end of 2013. Besides supporting the balance sheet, they facilitate technology and skills transfer, create employment opportunities and finance development projects. Jordan's top investors are Kuwait, Saudi Arabia, non-resident Jordanians, Syria, France, the United Kingdom and the United States.

1.4 Taxation: Tax system deficiency is among the major challenges facing the Jordanian economy. International benchmarks suggest that collected tax revenues should account for at least 8 percent of GDP; Jordan's have never

[199] P Collier, *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It* (2007), 39-40.
[200] Ibid 121, 162.
[201] K Mohaddes and M Raissi, above n 196, 6.
[202] Jordan is targeting US$ 3.5 billion worth of tourism revenues in 2015; The Jordan Times, 'Kingdom Eyeing JD3.5 billion in Tourism Revenues this Year', *The Jordan Times* (Amman), 5 May 2015.
[203] Jordan Inbound Tour Operators Association, *Visit Jordan; Land of Treasures* (2011) JITOA <http://www.jitoa.org/application/uploads/assets/file_1296722012_1538.pdf> at 1 May 2015.
[204] The Arab Spring was linked to a 17 percent decline in tourist numbers in 2011, and further drop of 7 percent in 2012; World Bank, *Moderate Economic Activity with Significant Downside Risk*, Jordan Economic Monitor (2013) 7.
[205] K Melkawi, 'Jordan Remains Medical Tourism Hub Despite Regional Unrest', The Jordan Times (Amman) 18 March 2012.

exceeded 4 percent.[206] This deficiency stems from weak tax collection and enforcement mechanisms. It is estimated that around JOD1 billion worth of government revenue is foregone due to tax evasion.[207] Evasion has prompted Jordan to impose higher consumer taxes including a 16 percent general sales tax on a wide range of items including basic commodities and services, a 'special state tax' of 50 percent on mobile and telecommunications services and 23 percent and 46 percent on 90-Octan gasoline and 95-Octan gasoline respectively.[208] High tax rates lower sales and elevate prices, leading to higher living costs. Moreover, because such taxes are mildly regressive, vulnerable groups living in persistent or transient poverty are particularly affected.

Over-reliance on volatile imports

Jordan's financial resources are strained, not only because it has limited sources of income, but because of a large list of imported items that appear on its balance sheet. The country's weak natural resources base (principally a lack of oil and water) necessitates high spending on energy and food imports, and chronic regional instability makes Jordan a high military spender.[209]

In 2011, Jordan's primary energy consumption stood at 7.46 tonnes of oil equivalent (toe), 7 million toe of which (97 percent) was imported.[210] Similarly, Jordan imports around 87 percent of its food requirements; in 2012, the Kingdom's food import bill stood at JOD 2.2 billion.[211] Energy consumption and food imports thus account for 20 percent and 17.5 percent of GDP respectively.[212]

Such heavy reliance on food and energy imports has several negative economic impacts. Principally, volatility in commodities prices distorts public investment,[213] inhibits proper fiscal planning and renders the economy vulnerable to external shocks. It also drives prices upwards. In some cases, these costs are passed on to consumers — on average Jordanians spend 41 percent of their income on food. In other cases, the government absorbs the cost through subsidisation. At around 8 percent of GDP, subsidies have been identified as a principal cause of Jordan's high and persistent budget deficit.[214] Subsidies also drive overconsumption and are broadly ineffective: subsidy benefits 'leak' to rich households whereby the wealthy benefit more from subsidies than the poor.[215] Jordan has now halted all fuel subsidies, electricity subsidies are set to be eliminated by 2017 and the only significant food commodity supported by the State today is flour for bread.[216] In terms of non-food products, Jordan provides subsidies only for water and cooking gas cylinders.

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[206] A Awad, 'Jordan's Economy in 2015: Challenges and Opportunities', *Phenix Center for Economic and Informatics Studies* (2015).
[207] Ibid.
[208] Ibid.
[209] Military spending accounts for approximately 4.65 percent of GDP, significantly higher than the global average of 2 percent; The World Factbook, *Country Comparison: Military Expenditures* <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2034rank.html> at 5 May 2015.
[210] Oxford Business Group, *Into the limelight: Reducing Energy Dependence by Tapping into Oil Shale Reserves* (2013) <http://www.oxfordbusinessgroup.com/overview/limelight-reducing-energy-dependence-tapping-oil-shale-reserves> at 10 May 2015.
[211] The Jordan Times, 'Jordan Imports 87 percent of its Food', *The Jordan Times*, (Amman) 8 July 2013.
[212] Ministry of Energy and Mineral Resources, *National Strategic Plan for Dealing with NEPCO's Losses* (2013) <http://www.memr.gov.jo> at 5 May 2015.
[213] P Collier, above n 200, 40.
[214] International Monetary Fund, *Costly Mideast Subsidies Need Better Targeting* (2012) IMF Survey Online <http://www.imf.org/external/pubs/ft/survey/so/2012/car051412b.htm> at 19 August 2015.
[215] C Sdralevich et al, *Subsidy Reform in the Middle East and North Africa: Recent Progress and Challenges Ahead*, Report of the International Monetary Fund (2014) 14.
[216] Ministry of Energy and Mineral Resources, above n 20; The Jordan Times, 'Cost of bread estimated at 290 million', *The Jordan Times*, (Amman) 7 March 2013.

Macroeconomic implications

3.1 Budget deficit: Jordan's inability to generate sufficient value-added economic activity to cover its local spending and imports has resulted a 'twin deficit' composed of a long-running budget deficit and consequent public debt — the country's most frequently cited and politicised economic indicator. Having widened over the last seven years, the budget deficit is projected to stand at JOD688 million for 2015.[217] An accumulating public debt is dangerous to the economy because it means that the state often has to direct its financial resources towards closing the deficit, usually at high interest rates, creating a drag on growth.[218]

3.2 Volatile growth: The GDP annual growth rate, reported by the Central Bank, averaged 4.86 percent between 1994-2014.[219] As shown in Figure 2, Jordan consistently outperforms other (non-oil producing) WANA economies.[220] The problem is that Jordan's growth is volatile and vulnerable to external shocks. Table 1 and Figure 2 highlight the dip in economic performance around the time of the Arab Spring and Syria refugee crisis, and the fall in real growth from a high of 10.58 percent in the first quarter of 2007 to 5 percent in the first quarter of 2008, eventually reaching a 3 percent low in 2009, coinciding with the global financial crisis. This elaborates a core structural weakness in the Jordanian economy: economic events are largely driven by external capital flows and events as opposed to internal economic activity.

Table 1: Jordan's real GDP growth rates (2005-2015)[221]

Period/Year	Real growth rate (in percent)
2005-2007	8.24 (period average)
2008-2010	4.96 (period average)
2011	2.6
2012	2.7
2013	2.8
2014	3
2015	3.4 (projected)
2016	3.6 (projected)

Figure 2: Jordan's economic growth in relation to MENA[222]

[217] 'Cabinet endorses draft 2015 budget with JOD 688m deficit', The Jordan Times, (Amman) 1 November 2014

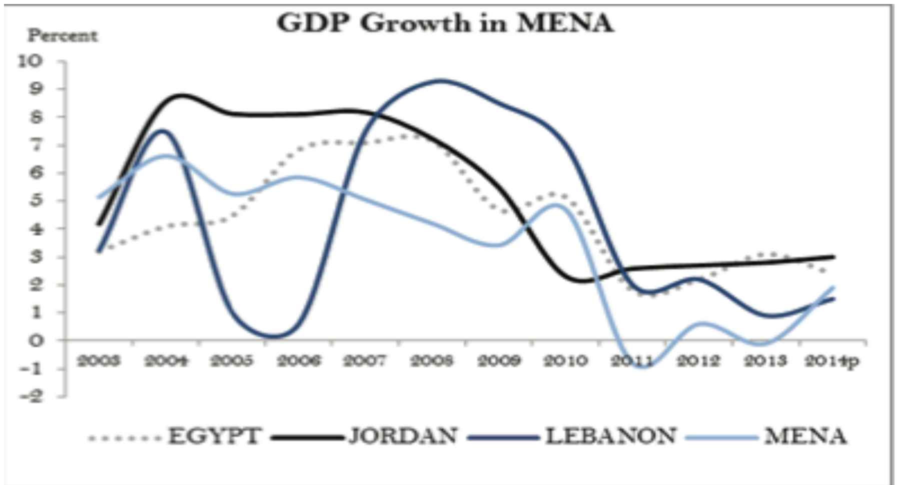
[218] Further borrowing has been a common mechanism used to 'close' the deficit leading to a public debt that stood at around US$32.6 billon (90.6 percent) at the end of 2014 compared to US$29.1 billion (86.7 percent) at the end of 2013, surpassing the legal 60 percent mark. This has meant that Jordan's broader public sector has continued to register deficits. Instances when the deficit has relatively eased have been attributable to a reduced energy bill or a surge in grants from members of the Gulf Cooperation Council (GCC); Obeidat, above n 6, 3.

[219] Trading Economics (2015) < http://www.tradingeconomics.com/jordan/gdp-growth-annual> at 17 April 2015.

[220] World Bank, *Jordan Economic Monitor: Steady and Moderate Growth Continues,* (2014) 1.

[221] Figures were compiled from K Al-Wazani, *The Socio-Economic Implications of Syrian Refugees in Jordan*, (2014), 19 as well as announcements made by Jordan's central bank and the World Bank.

[222] World Bank Global Economic Prospects, June 2014.



3.3. Unemployment: The Jordanian economy does not generate sufficient internal productive capacity to keep all those able and willing to work employed. By the end of 2014, unemployment stood at around 11.4 percent, reaching 9.2 percent among men and 22 percent among women.[223] Jordan also experiences a low labour force participation rate at 32.4 percent in 2013 (50 percent for males and 14 percent for females) resulting in a large intellectual capital loss.[224] This has been attributed to a mismatch between education and labour market needs and cultural stigma surrounding certain vocational and male-dominated professions. High unemployment has resulted into two distinct trends. First, the state has shouldered the burden by acting as a major job provider, further draining its limited financing and inflating the public sector; over 60 percent of Jordan's formal employment is in the public sector.[225] Second, widespread unemployment has created a fertile environment for the growth of informal employment, with the informal economy representing 44 percent of total economic activity in 2010.[226]

The country's unemployed are mostly youth and women; in 2010, unemployment affected over 22 percent of young men and 45 percent of young women.[227] Youth unemployment is particularly pronounced in the southern parts of the Kingdom: Tafileh, Karak, Maan and Aqaba.[228] The problem also appears to disproportionately affect the educated; over half of unemployed Jordanians in their early 20s have completed at least secondary education. High post-secondary education rates have translated into a shortage in vocational and technical training participation, where enrolment stands at around 8-10 percent, leaving a shortage in low-skilled labour.

Jordan's economy: the way forward

Jordan's economic shortcomings are well documented. Its small size, weak natural resource base and neighbourhood all complicate steady economic growth and full employment, which today are driving increases in poverty[229] and

[223] 'Unemployment Rate Drops to 11.4% in Third Quarter', *The Jordan Times,* (Amman) 1 November 2014; Note however that these figures might be artificially high as pushed up by informal economy and those who choose to be unemployed
[224] N Mryyan, *Demographics, Labor Force Participation and Unemployment in Jordan*, Economic Research Forum (2012), 4.
[225] O Karasapan, 'Jordan's Syrian Refugees', *Brookings* (2015) <http://www.brookings.edu/blogs/future-development/posts/2015/02/25-syrian-refugees-jordan-karasapan> at 7 April 2015.
[226] United Nations Development Program, *The Panoramic Study of the Informal Economy in Jordan* (2012), 4.
[227] A Abuqudairi, 'Youth Unemployment Remains a Major Challenge for Jordan', The Jordan Times (Amman) 22 April 2015.
[228] Ibid.
[229] According to a recent World Bank study, 18.6 percent of Jordan's population live below the poverty line at least one quarter of the year, experiencing what is known as 'transient poverty' while 6.3 percent live in permanent poverty: N Mryyan, *Demographics, Labor Force Participation and Unemployment in Jordan*, Economic Research Forum (2012), 4. Based on an "actual food pattern" calculation, Jordan's poverty line is set at JOD 468 per capita per year, or JOD 39 per month. An actual food pattern calculation is based on an amount of spending one requires to achieve a certain level of calories intake: United Nations Economic and Social Council for Western Asia (ESCWA), *Measurement and Analysis of Poverty in Jordan* (2014), 8.Transient poverty, as opposed to persistent or chronic poverty, is temporary in the sense that those affected are impoverished for at least one quarter of the year, despite being officially considered as non-poor because their annual per capita consumption exceeds the annual

inequality.[230] The more difficult task lies in viewing the economy through a positive lens that can identify where avenues for growth lie and the means to pursue it.

Jordan's potential might be best likened to Singapore — also a small state with no natural resources, but one that has made the leap to become a highly prosperous, technology-driven innovation leader. Jordan's first step has been steady and high levels of investment in education.[231] Structural reforms buttressed the development of a high-quality, comprehensive, and accessible education sector and the country is now identified as having "one of the most advanced and sophisticated educational systems in the Middle East."[232] Today, Jordan's human capital endowment consists of a young and educated workforce, where more than 70 percent of the population under the age of 30[233] and 89.9 percent of women aged 15 and above are educated.[234]

This modern human resource base, coupled with investor-friendly policies, in addition to relative stability and a functioning government and administration, seem to have provided Jordan with the beginnings of an economic competitive edge. The 2011 Global Innovation Index (GII) ranked Jordan 41st worldwide (out of 125 countries) and 4th among the regional countries covered by the index. Its place in the chart is particularly noteworthy because it is more than 25 positions ahead of its closest competitor in the region and income group, Tunisia, which came 66th. Although Jordan ranked only eighth in the region on innovation inputs, it was third in terms of output. Jordan's strengths come from its creative output base, with a strong dynamism at the level of residents' trademark registrations (where it is placed first in the region) and a relatively high level of exports of creative goods.[235] Information and Communication Technology (ICT)-based industries such as business process outsourcing and call centres are also areas in which Jordan has a comparative advantage due to the widespread use of English and history of links with foreign investors.[236]

The challenge has been to match Jordan's young and educated workforce to the needs of the economy. At present there are insufficient jobs at the level that educated workers aspire to hold; it is well established that more than 100,000 jobs need to be created annually to accommodate newcomers to the market.[237] Moreover, despite Jordan's research and development infrastructure and scientific research production being relatively high, the competencies available in the Jordanian economy do not link closely enough to the needs of the labour market. In some cases companies still need to reach to the international market to find managers with the required skill sets and experience.

Another ramification of the skill-job incongruity has been a net outflow of talent. A World Bank survey found that 13,000 young Jordanians studying abroad (mostly in the United Kingdom or the United States) do not plan to repatriate after

poverty line on average, as opposed to those experiencing persistent poverty: Obeidat, Omar. 'Third of Jordan's population lives below poverty line at some point of one year', *The Jordan Times* (Amman), 2 July 2014.

230 As at 2013, Jordan's Gini coefficient (which measures and assesses income distribution) stood at 36 percent.(United Nations Relief and Works Agency, Jordan at a Glance (2015) < http://www.unrwa.org/where-we-work/jordan> at 7 May 2015.) The Gini coefficient is the most commonly used measure of income inequality, measures and assesses income distribution in a population. The closer the coefficient is to 1 (or 100 percent), the more pronounced economic inequality. Across the globe the Gini Coefficient is commonly found in the range of 0.3 to 0.5 for per capita expenditures. It has been suggested, however, that the Gini coefficient may understate income inequality in Jordan due to a failure to fully capture the wealthiest households in surveys: UNDP above n 2, 40. Besides its grave social consequences, economic inequality is also problematic because it is proven to have a negative effect on economic growth: Organization for Economic and Social Development, 'Inequality hurts economic growth, finds OECD research' (Press Release, 12 September 2014) < http://www.oecd.org/newsroom/inequality-hurts-economic-growth.htm> at 8 May 2015.

231 Ibid.

232 D Roy and W Ireland, 'Educational Policy and Human Resource Development in Jordan' *Middle Eastern Studies,* 28(1) (1992) 178.

233 International Labour Organization, *Jordan's country profile*, <http://www.ilo.org/beirut/countries/ jordan/lang--en/index.htm> at 15 March, 2015.

234 R Husseini 'Amost 90% of women over 15 educated', *The Jordan Times,* (Amman) 4 March, 2015.

235 INSEAD, *The Global Innovation Index 2011: Accelerating Growth and Development* (2011) 55.

236 World Bank, above n 28, 27.

237 K Melkawi, 'Young Jordanians look Abroad for Better Jobs, Higher Pay,' *The Jordan Times* (Amman) 12 August, 2013.

completing their studies.[238] In the same survey, only 5 percent of Jordanian academics abroad intended to return given the low availability of good job opportunities and poor salary competitiveness on the part of Jordanian universities.[239]

This combination of an outflow of the country's educated, poor labor force participation and the inflow of low-skilled labour, constitute a serious setback for advancing a knowledge-based and technology-driven economy. In short, there are too many educated people, and insufficient jobs to employ them. At the same time, the absence of a labor force willing to undertake low and semi-skilled jobs has led to a reliance on imported foreign labor. According to the Ministry of Labour, by the end of 2014, there were nearly 325,000 migrant workers with labour permits[240] or 19 percent of Jordan's 1.7 million total workforce.[241]

Jordan's dilemma has been described by some economists as a manifestation of the 'middle-income trap'. This term was coined by Michael Spence to describe economies — usually latecomers to development — that "grow to middle-income levels [then] slow down, and […] even stop growing."[242] Like Jordan, they are unable to compete with low-income countries in terms of providing low-wage labour for producing labour-intensive products, but have not developed the capabilities to compete with advanced economies in terms of exporting technological know-how and knowledge-based goods and services.

The way forward for such economies, Jordan included, is taking the "high road to economic development [that] involves a process of structural change where production shifts increasingly towards activities with greater value added and knowledge-intensity".[243] Jordan must move away from services (which currently account for over 70 percent of GDP and more than 75 percent of jobs)[244] and towards activities that generate value-added economic activity. At the same time it needs to navigate a positive shift in the economic landscape by attracting large-scale capital investments. Jordan needs to identify the sectors and projects in which this developmental potential lies and direct factors of production toward it.

One sector that holds long-term developmental potential, and currently suffers from underinvestment, is manufacturing. Establishing and operating a productive, sustainable industrial base has been long hailed for creating jobs, transferring developmental know-how, expanding a state's export base, and offering an invitation into the competitive global economy.

As discussed above, Jordan already enjoys many of the comparative advantages needed to attract foreign capital investment, including in manufacturing. The country has also taken deliberate steps to open up this sector. Jordan's Investment Promotion Law (IPL), passed in 1995, was specifically designed to attract investors to 13 'vital' sectors, including agriculture, education, pharmaceuticals, and tourism. Incentives are provided to reduce the asset costs incurred by investors, while also supporting sector growth through cross industry links and clustering.[245] The Kingdom's national investment promotion agency, the Jordan Investment Board (JIB), offers a 'one-stop-shop' that enables investors to carry out all licensing and registration services under one roof and in an expedited manner.

A critical part of Jordan's investment promotion framework has been the allocation of public land to create Qualified Industrial Zones, Development Areas, Free Zones, and the Aqaba Special Economic Zone. Again, the aim is to attract foreign investment, increase employment, advance high-value economies like manufacturing, and facilitate the transfer of technology and skills. A further aim is to more equitably distribute economic activity; around 80 percent of Jordan's

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[238] A Awad, above n 207, 23.
[239] Ibid 24.
[240] Global Detention Project, *Jordan Detention Profile (2015)* <http://www.globaldetentionproject.org/ countries/middle-east/jordan/introduction.html ction.html> at 23 August 2015.
[241] World Bank, *Labor Force* (2014) <http://data.worldbank.org/indicator/SL.TLF.TOTL.IN> at 23 August 2015.
[242] S Michael, The Next Convergence: The Future of Economic Growth in a Multispeed World (2012), 100.
[243] United Nations Economic and Social Council for Western Asia (ESCWA), *Measurement and Analysis of Poverty in Jordan* (2014), 25.
[244] United Nations Development Program. *Jordan Poverty Reduction Strategy,* Final Report (2013), 31.
[245] 'Investment Promotion Law', *Jordan Investment Board (2013)* <http://www.jib.jo/AboutJIB/InvestmentPromotionLaw/tabid/207/language/en-US/Default.aspx> at March 10 2015.

economic activity is concentrated in Amman despite it housing only 40 percent of population, creating skewed opportunities and living standards.[246] Special laws and regulations are applied in these zones, including exemptions (alleviating customs and taxes) and incentives relating to capital ownership and facilities (see further Table 2).[247] The laws also offer equal treatment to both Jordanian and non-Jordanian investors, thus allowing foreign investors to own any project in full or part, or to engage in any economic activity in the Kingdom, with the exception of some trade and contracting services which require a Jordanian partner.

Table 2: Exemptions provided by Jordan's Development Areas Law.

Under the Development Areas Law		
Income Tax	5%	On all taxable income from activities within the Area
Sales Tax	0%	On goods sold into (or within) the Development Area for use in economic Activities
Import Duties	0%	On all materials, instruments, machines, etc to be used in establishing, constructing and equipping an enterprise in the Area
Social Services Tax	0%	On all income accrued within the Area or outside the Kingdom
Dividends Tax	0%	On all income accrued within the Area or outside the Kingdom

Source: The Jordan Investment Board's webpage:
http://www.jordaninvestment.com/BusinessandInvestment/WheretoInvest/tabid/263/language/en-US/Default.aspx

Despite these serious attempts to open up Jordan as a manufacturing hub, the gains anticipated have not come to fruition. While the Aqaba Special Economic Zone has enjoyed fast and steady growth, the other industrial parks — particularly in the north of the country — operate well below capacity. There are several explanations for this weak foreign capital investment, including the conflicts in neighbouring Syria and Iraq, Jordan's small coastal access, and lack of access to fresh water. Another reason is the absence of a large, willing and low-cost labor force.[248] As explained above, Jordan's education investments have resulted in a workforce that is not inclined to engage in low and semi-skilled labor. Even if it was, Jordanian labour costs may be too high to make manufacturing sufficiently competitive to attract investment.

At this point, it is important to highlight the enormity of the challenge faced. To develop a manufacturing hub, Jordan must be able to compete with Asian economies, which enjoy stability, plentiful natural resources, coastal access and, most importantly, a very large, appropriately skilled and low-cost workforce. On top of this, in the globalised market, manufacturing clusters geographically (a process called spatial economies of scale in manufacturing, or economies of agglomeration). Once businesses are established, there is a range of economic incentives for other businesses locate proximately. This process leads to large manufacturing 'clusters', such as the Pearl River Delta in Guangdong province, China.

> … if other firms are producing manufactures in the same location, that tends to lower the cost for your firm. For example, with lots of firms doing the same thing, there will be a pool of workers with the skills that your firm needs.

[246] B Al-Zu'bi, 'Investment Mapping and SMEs attraction' *Jordan Investment Board* (2013), 4.
[247] 'Free Zones', *Jordan Investment Board* 2015 at <http://www.jib.jo/BusinessandInvestment/WheretoInvest/FreeZones/tabid/270/language/en-US/Default.aspx?SkinSrc=%5BL%5DSkins/jiben/printableSkin&ContainerSrc=%5BG%5DContainers/_default/No%20Container> at 20 April 2015.
[248] The northern industrial parks have also suffered as a result of the remoteness of site locations, high costs of production (such as expensive electricity bills) and red tape concerning the legal aspects of investment.

> And there will be plenty of firms producing the services and inputs that you need to function efficiently. Try moving to someplace where there are no other firms, and these costs are going to be much higher even if the raw labour is much cheaper.[249]

The flipside is that establishing a new manufacturing cluster is very difficult. The cost on investors to enter a new geographic space are extremely high; these costs relate to risk, establishing new market access, workforce and access to business chain support. Jordan needs to offer investors something more or something different. However, if such markets can be tapped into, the possibilities are enormous:

> in order to break into global markets for manufactures, it is necessary to get over a threshold of cost-competitiveness. If only a country can get over the threshold, it enjoys virtually infinite possibilities of expansion: if the first firm is profitable, so are its imitators. This expansion creates jobs, especially for youth.[250]

Jordan thus finds itself at a cross-road. Its aspiration to become a tech-led innovation hub is logical given its asset base. But its heavy investment in education, coupled with other factors beyond its control, has blocked another potential opportunity to break free of the middle income trap. There is also some degree of policies operating at cross-purposes that further complicates the rise of a manufacturing sector. Reducing unemployment is at the top of the government's policy agenda. This is understandable – high unemployment drives reduced living standards, civic discontent and imposes a huge cost in terms of national productivity potential. One of the aims of the National Employment Strategy[251] is to reduce unemployment by replacing migrant workers with Jordanians in key sectors. This does not bode well for the manufacturing sector as it cuts off the main labour stream currently suitable to feed this market. The transformation in norms and values needed for Jordanians to be receptive to such employment, and the development of a pool of workers with vocational expertise, will take time and be complicated. Even then, it is unlikely that Jordanians would accept the wage levels needed to make manufacturing sufficiently competitive to break into the international market; living costs are simply too high. This dilemma will be revisited in later chapters, where a set of policy recommendations for how Jordan might solve these multi-faceted challenges will be presented.

[249] P Collier, *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It* (2007), 82.
[250] Ibid, 83.
[251] The MoP and the Ministry of Agriculture (MoA) jointly launched in 2011 the National Employment Strategy (NES) with the aim of setting practical strategies for the development of Jordanian human resources to eventually create jobs for nationals.

4: Kurdish Region of Iraq Economy: an overview

The autonomous Kurdistan Region of Iraq (KRI) has always stood out as an exceptional case in Iraq proper, both on the political and economic levels. Despite decades of sanctions, wars and embargoes, the Kurdistan region managed to accomplish exceptional economic performance relative to both Iraq and the WANA region as a whole. After the lifting of the 'double sanctions'[252] and the end of Saddam Hussain's rule in 2003, Kurdistan's growth flourished, its main competitive edge being peace and stability which it effectively marketed to facilitate significant foreign investment. At that time, the immediate tasks faced by the Kurdish government were extensive infrastructure rehabilitation, adopting a functional political and economic model, and integrating large numbers of internally displaced persons.

In many ways, Kurdish economic performance managed to exceed expectations. Its economy came to be known as 'macro-stable liberal' after experiencing a post-2003 boom perhaps comparable to that Turkey. Its economic growth rates were in excess of 10 percent in the years between 2004-2012, stabilising at around 8 percent from 2012 onwards.[253] Moreover, with a total GDP of around USD23.6 billion (as of 2013), Kurdistan's GDP per capita of USD765 outshone Iraq's of USD4,485, in relative terms. By 2014, approximately 55 percent of all investments in Iraq were taking place in the Kurdistan region.[254]

However, much like its WANA counterparts, at the heart of Kurdistan's performance lies a striking dependency on oil and gas as a major source of income, and a crippling vulnerability to exogenous shocks, instability spillovers and disagreements over sharing oil rents with the central government in Baghdad. Starting in 2015, the region has been experiencing a widespread recession in conjunction with the rise of Daesh, falling oil prices, and an influx of Syrian refugees and internally displaced persons. The economy has contracted five percent, with poverty rates more than doubling from 3.5 to 8.1 percentage points in one year.[255] Another major deficiency the region faces is that more than 1 million people of a total population of more than 7 million live on precarious government salaries which have recently gone unpaid for months, leaving the country vulnerable to a political, in addition to an economic, crisis.[256] In addition, the implementation of investment projects has been put on hold, and many contractors have gone unpaid. The construction sector has been particularly affected, with small companies reporting bankruptcy, placing downward pressure on growth.[257]

Economic and political spectators are ready to conclude that country's tourism, investment and neo-liberal ambitions have been wiped away by instability, falling oil prices and acrimonious relations with the central government that became particularly magnified in the context of dwindling oil profits. Beyond Daesh,[258] the more realistic verdict on

[252] The Kurdistan region was long subjected to the overall sanctions imposed on overall Iraq by the international community after the 1990 Gulf War, in addition to sanction imposed on it specifically by the regime.
[253] 'Determined to Grow: Economy' (2013) Invest in Group <http://investingroup.org/review/236/determined-to-grow-economy-kurdistan/> at 20 December 2015.
[254] Ibid.
[255] The World Bank,' The Kurdistan Region of Iraq Needs an Estimated US$1.4 billion this Year to Stabilize the Economy' (Press Release, 12 February 2015) < http://www.worldbank.org/en/news/press-
[256] M Bozarslan, 'Iraqi Kurdistan's brewing crisis,' *Al-Monitor* (Istanbul) 20 October 2015.
[257] The World Bank, above n 256.
[258] The threat the region as a whole is facing from Daesh is in many ways an 'outlier' that is beyond the scope of this paper and must be treated separately from Kurdistan's livelihood programing and economic coping mechanisms *vis-à-vis* refugees and IDP's.

Kurdistan's economic performance is that its economic success is being fundamentally tested. So far, whether Kurdistan has truly managed to build itself a resilient economy in an oasis of instability is questionable.

Main Incomings

Oil and gas

Oil and gas rents are the cornerstone of the Kurdish economy, with many speculating that the future of the economy will continue to depend on the industry's prospects. Although it undoubtedly constitutes the lion's share of the region's GDP (estimated at 80 percent), it is difficult to obtain specific percentages precisely because of the opaque nature of Kurdistan's independent oil sales that bypass Baghdad and lie at the heart of their political impasse. In theory and under the constitution, the Kurdish Regional Government (KRG) is required to share its own oil production, before being subsequently reimbursed with 17 percent of the total nationwide budget, set so far (and as of 2015) at USD105 billion.[259] This roughly corresponds to USD12 billion a year, or 80 percent of the KRG's total revenues.[260] Over the past year, this sum has been repeatedly held by the Central Government mainly because of a political gridlock. The amount that was transferred between February 2014 and February 2015 was a dismal USD1.1 billion.[261] The precarious relationship between the two sides has been reported by Kurdistan as a main motivation for seeking its own oil income stream, instigating it to bypass Baghdad and independently strike deals with major oil companies and neighboring states. Those deals were signed on the backdrop of an independent Oil Law passed in 2007, enabling it to sign about 50 contracts to explore and develop its energy reserves.[262]

Kurdistan holds approximately a third of Iraq's total oil reserves, or about 45 billion barrels.[263] Its current production reportedly stands at a third of Iraq's total, but over the past year in particularly, direct export deals were made with global oil companies like Exxon, Chevron and Gazprom, as well as building separate export pipelines that go directly to Turkey.[264] It is estimated that in 2014 alone, Kurdistan conducted around USD1.5 billion worth of independent oil sales to foreign markets.[265] Kurdistan rarely reveals exact figures, but, in an unprecedented move, the Kurdistan Regional Government announced that it has exported nearly 18 million barrels of oil in May 2015 alone, amounting to more than half a million barrels of oil a day.[266] Today, Kurdistan is exporting every seventh barrel Iraq exports, reaching as many as ten countries.[267] Kurdistan's relentless drive for energy independence signifies the crucial role that unabated oil rents play in the burgeoning economy.

Investments (foreign and local)

The year 2003 marked a new dawn for Iraqi Kurdistan as it entered a new economic and political phase. Much of the boom and progress it enjoyed in the decade that followed can be attributed to its ability to attract foreign investment. The country's Investment Law of 2006 remains one of the solid legal frameworks for attracting foreign capital, providing

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[259] E Butler, 'Iraqi Kurdistan's battle with Baghdad over oil revenues', *BBC News* (Erbil) 10 April 2015.
[260] Ibid.
[261] Note 1: Kulaksiz, Sibel, *Iraq - Assessing the economic and social impact of the Syrian conflict and ISIS* World Bank Group (2015), 5.
Note 2: The two sides eventually struck a deal, albeit a fragile one.
[262] *Iraq Economy Profile 2014* (2014) Index Mundi <http://www.indexmundi.com/iraq/economy_profile.html> at 11 December 2015.
[263] *Worldfolio: Kurdistan's economic growth driven by more than oil* (2015) Embassy of Kurdistan in the United States < http://www.krg.us/worldfolio-kurdistans-economic-growth-driven-by-more-than-oil/> at 12 December 2015.
[264] Ibid.
[265] World Bank Group, above n 262, 53.
[266] 'Record oil exports for Kurdish administration in Iraq', *Al Bawaba News,* 7 June 2015.
[267] Ibid.

a range of incentives to foreign investments in terms of full ownership and profit repatriation and streamlining the licensing process necessary to expedite investments in infrastructure.[268] The Law has been credited as "one of the most important factors in the rapid economic growth achieved over the last decade".[269] Since its passing, a total of 594 licenses were issued with a total capital worth USD30.5 billion. The Investment Law is regarded as integral to promoting the growth of the region's private sector, the cooperation of local firms with international companies and catching the attention of foreign operators**.**

By 2014, Kurdistan had earned the label of being the 'Dubai of Iraq' due to its ability to attract record levels of foreign direct investment. As of 2014, approximately 55 percent of all investment in Iraq was taking place in the Kurdistan region. According to reports by the KRI's Ministry of Trade and Industry, during the first quarter of 2013, more projects were underway in Kurdistan than were completed in all of 2012. Additionally, official figures indicate that there are currently 15,000 local companies and 2,300 foreign companies from 78 countries registered in the Kurdish region.[270] Top FDI flows originate from the United Arab Emirates and Turkey. On the oil and gas front, 40 companies interested in the oil and gas sector of Kurdistan have committed USD10 billion of worth of capital for the region's energy sector.[271]

Kurdish dreams of being a magnet for foreign investment are coming under serious threat due to the escalation of military operations and Daesh's takeover of the areas to the south and west of the region. The rapid deterioration of security conditions hit investment confidence in the region hard, which translated into dropping shares and staff evacuations by foreign companies.[272] The World Bank commented in its most recent report on Kurdistan's economic conditions that "the combination of the ISIS crisis and the budget freeze has had a chilling effect on all investment, which has declined by two-thirds so far in 2014".[273] Particularly striking is the decline in the share of foreign investment between 2013-2014 from more than 40 percent to 5 percent as a consequence of the uncertain political and economic climate. For example, Erbil Steel, which produced 18,000 tons of steel bars every month, evacuated its 600 foreign workers in June and closed its facility. Another example is the cement sector, which stopped supplying the southern market for several months. One investor put on hold its plans to bring Starbucks to Erbil. This is in stark contrast to the year 2013, which witnessed a doubling total value of about USD12.4 billion, of which more than 40 percent was foreign or joint ventures — national investment is less than one-half and foreign investment less than one-tenth of the levels in the preceding year.[274] However, multiple Kurdish officials continue to emphasise that the rights and assets of foreign investors will continue to be protected by the Investment Law and Pashmerga forces.[275]

Tourism

Tourism can be seen as a newcomer to the Kurdish economy, one that began booming after a relatively stable environment was secured and monumental investments in the hospitality sector were made. Investment has flooded into the tourism sector since 2006 and a total number of 40 licensed projects have been dedicated to the sector, mainly to handle greater demand for new hotels and other services for foreign and national vacationers.[276] The city of Erbil, which is one of the most ancient cities in the world, was at the forefront of the ongoing gentrification of the northern

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[268] *Kurdistan Region Investment Law* (2006) Kurdistan Regional Cabinet <http://cabinet.gov.krd/p/p.aspx?l=12&s=020000&r=315&p=293> at 10 December 2015.
[269] Ibid.
[270] 'Determined to Grow: Economy' (2013) Invest in Group <http://investingroup.org/review/236/determined-to-grow-economy-kurdistan/> at 20 December 2015.
[271] Ibid.
[272] N Al-Hassoun, 'IS advance threatens foreign investment in Kurdistan', *Al-Monitor* (Erbil) 27 August 2014.
[273] World Bank Group, above n 262, 41.
[274] Ibid.
[275] Al-Monitor, above n 257.
[276] *Tourism* (2014) Kurdistan Board of Investment <http://www.kurdistaninvestment.org/tourism.html> at 20 December 2015.

Iraq tourism market.[277] Before the outbreak of the current crisis, tourism was at the forefront of KRI investment, and a serious candidate for driving diversification away from oil and gas dependency. By 2013, hotel occupancy rates stood at 75 percent and around 3 million tourists visited KRI in that year alone;[278] tourism contributing 19.3 percent to overall economy activity, making it a larger contributor than agriculture.[279]

While 2014 was dubbed tourism's takeoff year (the region was named the 2014 Arab Capital of Tourism),[280] Daesh's June attacks had an immediate impact. Even though the region was spared most of the violence that hit the rest of Iraq, the inflows of tourists were substituted by an inflow of refugees.[281]Tourist inflows, which had increased by 33 percent in 2013 to nearly 3 million, declined to fewer than 800,000 in the first six months of 2014.[282]

Agriculture

At times of relative stability, the Kurdistan region was known to be "the bread basket of Iraq" for its fertile terrain and harvesting a variety of grains and vegetables, positively contributing to Iraq's overall security. However, like the rest of the economy, the agricultural sector of the KRI saw limited growth in the past two decades.[283] The prolonged violence also took its toll on the demographics of the region, where a large proportion of the rural population was displaced to urban areas. With limited physical infrastructure and a reduced population, farming in these areas declined significantly.[284] The Oil-for-Food Program, through its supply of artificially priced foreign foodstuffs, coupled with the internal sanctions imposed by Baghdad during the Saddam era — were harmful to the region's agricultural sector.[285] In 2003, approximately 35 percent of the population relied on agriculture as their source of livelihood. However, by 2012, that percentage had dropped to 9 percent. Today, agriculture contributes 10 percent of KRI's total GDP, with 9 percent of the population continuing to rely on farming as their principal livelihood.[286] Decades of conflict impacted many agricultural areas, with formerly fertile areas now inaccessible or unproductive, exacerbating poor government policies, sanctions and more than 20 years of isolation.[287] This said, the sector's contribution to the national economy is significant, coming after the oil sector and tourism.[288] Moreover, if instability is overcome, quality standards are raised and knowledge transfers are facilitated, it has the potential to aid in poverty reduction and economic stability, and it a means of diversification.

Industry

While the industrial and manufacturing sector is reported to contribute around 9.4 percent of Kurdistan's GDP,[289] it is considered small and underdeveloped.[290] The region has long faced "internal and external hurdles" that have impeded industrial capacity development.[291] Besides war and instability, weaknesses stem from common factors including

[277] Ibid.
[278] The World Bank Group, above n 262, 42.
[279] Embassy of Kurdistan in the United States, above n 264.
[280] 'Ten Reasons Irbil is the place to be' *AlBawaba News* 30 January 2014.
[281] AlBawaba News, above 280.
[282] The World Bank Group, above n 262, 22.
[283] *Restoring the Bread Basket: Agriculture* (2013) Invest in Group <http://investingroup.org/review/240/restoring-the-bread-basket-agriculture-kurdistan/>
[284] Ibid.
[285] Ibid.
[286] R Abdulla, 'More than 90 percent of Kurdistan's food is imported', Rudaw (Kurdistan) 27 November 2015.
[287] Ibid.
[288] USAID, Kurdistan Region Economic Development Assessment (2008) 93.
[289] *Investment Factsheet Kurdistan Region: Iraq* (2013) Kurdistan Regional Government <http://www.iraq-jccme.jp/pdf/arc/04_krg_Investment_factsheet_en.pdf>
[290] USAID, above n 288, 93.
[291] Ibid.

industrial policy, shortages in relevant technologies, and managerial and technical impediments.[292] Along with the rest of Iraq, large-scale manufacturing is virtually non-existent.[293]

Petroleum refinement is the most developed modern industry in Kurdistan, followed by mining.[294] Lighter industries, such as construction materials, sugar and textiles, have more relevance to the local economy.[295] Beyond these light industries, Kurdistan has a long way to go in order to satisfy its needs for modern industrial commodities and manufactured goods locally, largely explaining the region's large import bill.

Main Outgoings

Food and other imports

By 2013, KRI's total imports stood at an estimated USD20.8 billion.[296] This figure constitutes about one-third of overall Iraqi imports, a particularly high figures given that the region has only about one-tenth of Iraq's overall GDP and one-seventh of its total population.[297] The majority of goods and services in the Kurdistan Region (and Iraq proper) are imported and taxation is only about 7 percent of government income.[298] Most goods are consumed within the region, and rarely ever re-exported as value-added products.[299] Kurdistan's import dependency is particularly pronounced in the food sector; more the 90 percent of food consumed is imported, according to the Ministry of Agriculture.[300]

Public services (and salaries)

Kurdistan displays symptoms common to almost all its oil-dependent WANA counterparts; hydrocarbon reliance as a primary source of income and driver of economic activity has crippled the private sector and other meaningful sectors such as agriculture and industry. Although there has been a surge in the number of private companies operating in the KRI over the last decades, public sector employment remains the main source of jobs (accounting for about half of all employment; the sector employs 1.3 million people in a region of around 5 million). Private sector employment pay is higher on average and productivity levels are also higher. However, the numbers of employees are fewer than those employed by the state and government policy has not encouraged private sector expansion.[301] While the unemployment rate has reduced considerably in the last 20 years, productivity has not increased.[302] 51.4 percent of employment in the KRI can be characterised as being in the formal sector; the vast majority of working women are in the formal sector, and almost all in the public sector.[303] The consequences of the KRI's bloated public sector on its balance sheet are grave; it

[292] Ibid, 98.
[293] Ibid, 6.
[294] Invest in Group, above 284.
[295] The World Bank Group, above n 262, 29.
[296] Ibid.
[297] World bank report, above n 262, 44.
[298] S Zuwal, 'Bloated public sector in Iraqi Kurdistan needs to be reined in', *E Kurd Online* 23 February 2011.
[299] *Trade and Industry* (2014) Kurdistan Board of Investment <http://www.kurdistaninvestment.org/trade_industry.html> at 20 December 2016.
[300] R Abdulla, above n 287.
[301] S Zuwal, above n 299.
[302] Ibid.
[303] Rand Corporation, Capacity Building at the Kurdistan Region Statistics Office Through Data Collection (2014).

needs roughly USD1 billion per month to break even, of which USD700 million is poured into public sector salaries.[304] This is the main motivator behind Kurdistan's ongoing quest for ramping up separate oil sales and seeking economic, as well as overall political, independence.

Other Main Characteristics of the Kurdish economy

Poverty and unemployment

Today, and particularly in the newly emerging context of refugee flows and military operations against Daesh, Iraq has been grappling with unprecedented poverty. A recent joint study conducted by the World Bank, the Kurdish Ministry of Planning and the local Office of Statistics released in August 2015, reports that poverty levels in the KRI have risen dramatically from 3.5 percent at the start of 2013 to 12 percent in 2013.[305]Unemployment rates have also risen steadily since 2013, from 6.3 percent to 12 percent in 2015.[306] Although this compares favorably[307] to the rest of the WANA region, low labor participation rates have been a recurrent issue. As at 2013, only 38 percent of adults aged 15 and older participated in the KRI's labour force, with female participation being strikingly low at about 6 percent participation.[308] Youth unemployment (ages 15–24) is 17.6 percent, significantly higher than for the entire labor force. However, as with unemployment overall, KRI's youth unemployment is among the lowest in the region. But, at the same time, the female youth unemployment rate is very high, at 48.9 percent, compared to 12.8 percent for young men.[309]

Sensitive to external shocks and vulnerability

The fundamental weakness that lies at the heart of the KRI's economic challenges is a lack of resilience and crippling vulnerability to events beyond its control. When the main source of economic activity is oil, and the other sectors at the center of Kurdish policymaking are investment and tourism[310], it is unsurprising that any sign of instability has a devastating effect on economic performance. Although it is easy to blame the spread of Daesh on declining tourism, the reality is that the 'Daesh effect' occurred in conjunction with an ongoing KRG budget crisis, faltering oil prices and unsustainably high public sector employment. These latter effects perhaps could have been avoided through sound policy-making. The World Bank reports that in less than a year Kurdistan's Ministry of Natural resources borrowed about USD1.5 billion from the domestic private sector, and another USD1.5 billion from international companies and suppliers by selling future oil output. The Ministry therefore managed to inject around USD5 billion, corresponding to 41 percent of the budgetary resources that were not transferred from the central government, preventing a total collapse of the economy.[311] Had this support not materialised, economic growth would have been negative. Although KRG's debt stock is still low, because they are accumulating deficits at such a high rate, a 12 percent GDP jump in debt in less than a year is a source of concern.[312] Kurdistan's embedded dependency on foreign capital and the central government for its budget makes it hard to decipher whether its astounding economic progress is a result of genuine improvements

[304] I Coles, 'Kurds protest in north Iraq as discontent grows with government', *Reuters* 7 October 2015.
[305] N Ali, 'Refugees, war push poverty in Kurdistan to unprecedented levels' *Rudaw* (Dohuk) < http://rudaw.net/english/kurdistan/250920152> at 25 September 2015.
[306] Ibid.
[307] It is important to keep in mind that Kurdistan's relatively low unemployment rates past have been buttressed by an inflated public sector.
[308] Rand Corporation, above n 304.
[309] Ibid.
[310] These two sectors rely on foreign capital and visitors, hence especially sensitive to external shocks.
[311] Ibid.
[312] The World Bank Group above n 262, 22.

undertaken by the government in the past decade, or merely a function of a relatively favorable security environment (compared to the rest of Iraq) and large cash transfers from the central government. It is therefore of critical importance to Kurdistan to invest in sectors that promote resilience and do not leave its economic fate dependent upon local and regional events.

The way forward

The recent events that led to the ongoing budget (and financial) crisis in Kurdistan have been undoubtedly exacerbated by local and regional turmoil. However, the main challenge faced is that, at the first sign of domestic instability, the region's economy could not cope.[313] Kurdistan is equipped with a plethora of factors of production, including energy, capital and labour that give it a competitive advantage over neighbouring economies. However, its inability to insulate itself from instability has manifested in a neglect of sectors where it can maximise its factors of production and instead orient itself towards sectors that rely on the foreign flows of capital, people-centered FDI's and tourism. By doing so, the KRI has put all its 'eggs in a basket' that is only reliable in an environment that is free of from any threats (whether perceived or actual) of instability. In the WANA region, where instability has become the norm, the most governments can do is adopt policies that help their economies become more resilient to conflict, rather than bet on the absence of conflict and instability.

Investing in diversification and expanding the private sector

The KRI needs to invest heavily in its labor market and abandon its oil-centric approach to development. The region has to build its policies based on recognition that oil resources alone cannot guarantee economic growth, and that its current budget can no longer support the salaries and expenditures associated with a large public sector. Oil rents have gone far in enabling Kurdistan to enjoy a higher standard living, but their ability to shield the labour market from unemployment has run its course. Kurdistan must now invest in providing a framework for the private sector to thrive and incentivise its labour force to shift towards it. An economic plan that takes advantage of the region's resource endowments, besides oil, is where the potential for future resilience lies.

Agricultural potential

Given its vast and fertile terrain, coupled with "10,000 years' [experience] in the field of agriculture", Kurdistan's most ironic economic shortcoming is that most of its food products are imported from Turkey and Iran.[314] Kurdistan has all the necessary ingredients in terms of fertile soil, underground water wells, climate and a large and diverse labour force, to become food self sufficient. A KRG's Ministry of Planning (MOP) and UNDP joint report noted that the region boasts a combined 1.5 million hectares of irrigated lands, a diversified population of livestock, and strong environmental and natural conditions that have allowed for the development of a variety of agricultural products.[315] Its import dependency is largely the result of a history of embargos, wars and chemical attacks that changed Kurdistan and the rest of Iraq from a producer to a consumer. Most recently, however, import dependency has been driven by neglect insofar as most resources were allocated towards other industries like oil and tourism. In 2013, Kurdistan was allocating less than 2

[313] B Ali, 'Kurdistan's economy and its shortfalls', 3 December 2015.
[314] D Barwari, 'Kurdistan's Economy: Its potential and its challenges', *Kurdish Herald* (2009).
[315] Invest in Group, above n 284.

percent of its budget towards agriculture; Kurdish potato production was about half of what is produced in comparable circumstances, and fruit harvests were no more than one-tenth.[316]

Kurdistan's need for food products is estimated to be increasing exponentially due to a project population growth and refugee and IDP inflows.[317] It is therefore important for Kurdistan to acknowledge the potential of the sector in advancing food security, livelihoods, and poverty reduction. It is also important to keep in mind that the sector is not only a means of employing low-skilled labor, but has also to advance a knowledge sector. In the past, the Kurdish farmers could not compete with their Iranian, Turkish and Syrian counterparts due to a knowledge deficit in irrigation tactics, pesticide use and overall methods of harvesting.[318] Hence, the inflow of Syrian refugees might be viewed as a means of closing this deficit by allowing a transfer of agricultural knowledge and know-how. Another knowledge-related issue that Kurdistan needs to address is adopting modern and effective quality standards. An open border and lack of a regulatory structure providing for basic, uniformly enforced quality standards have made the region an ideal market for products (including food) of an often substandard and contaminated nature. Fundamental to the region regaining a domestic or international market share is thus basic quality and safety standards for its agricultural products.[319]

Industrial and manufacturing potential

As discussed previously, the Kurdistan region has worked hard to promote itself as a regional investment magnet. However, despite its relative successes in attracting foreign and local capital, very little of those investments have focused on sophisticated manufacturing that advances its export capacity and value-added economic activity. Essential requirements for industrial capacity development are lacking, such as a coherent trade and industrial policy, relevant technologies, transparent government policies and a business-oriented legal framework.[320] However, Kurdistan is endowed with labor, capital, and energy, giving it a solid basis for advancing economic resilience.

[316] J Neurink, 'Agriculture in Kurdistan: A Long Way to Grow', *Rudaw* 25 June 2013.
[317] R Abdalla, above n 304
[318] J Neurink, above n 318.
[319] The World Bank Group, above n 262, 15.
[320] Kurdistan Board of Investment, above n 300.

5: Economic and Security Impacts of Hosting Syrian Refugees

As the previous chapters illustrate, there are significant differences between the economies of the countries neighbouring Syria where refugees have sought protection. Similarly, there are impacts of hosting Syrian refugees that are very much unique to the host states in question according to the differing economic and political contexts. At the same time there are some familiar trends across these cases. In particular, in the beginning of the crisis neighbouring countries generally approached the situation from the assumption that it would be over much sooner than has actually transpired. Refugees were thus accommodated under the guise of temporary protection, particularly in the early months and years of the crisis. Lebanon, like other neighbouring countries, initially operated a de facto open border policy for Syrian refugees; however, since January 2015, the government has implemented strict controls on the entry and duration of stay for Syrians.[321] Similarly, Turkey initially attempted to manage the refugee situation without assistance from the international community;[322] as the crisis escalated, it became clear that they would require external support. As the Syrian refugee crisis becomes more protracted, its effects on neighbouring countries pose both risks and opportunities. This chapter gives an overview of some of the main economic and security impacts that should to be taken into account when formulating better and more sustainable strategies.

Direct and Indirect Costs and Benefits of Hosting

The countries neighbouring Syria collectively host approximately four million Syrian refugees.[323] The crisis has cost host governments and the international community an unprecedented amount in direct monetary payments, food and non-food items, essential services and infrastructure depreciation. But the refugee crisis has raised other important externalities, or spillover effects, that are more difficult to quantify. The crisis has had a significant impact on the demographic makeup of host states, compounding existing pressures such as high unemployment, weak institutions and natural resource deficits, as well as modifying social norms and customs. Overcrowding is a serious problem in hospitals and schools, and the pressure on public resources such as water, electricity and waste management may have long-term implications for social welfare. Existential direct costs are relatively simple to articulate and calculate. What is more complex is the indirect costs; quantifying the increased pressure on public service provision and infrastructure, such as roads, telecommunications and sanitation.

As a result, the Syrian presence in host communities has often become synonymous with terms like overcrowding, stolen jobs, and unequal burden-sharing. Such statements are not necessarily misplaced; however, they almost certainly obscure the full reality of certain benefits as well as costs. Refugees contribute to local economies by bringing new skills and resources, as well as increasing production capacity and consumption demand. For example, much of the humanitarian assistance going to refugee camps in Turkey and into Syria itself is purchased from businesses within Turkey, and the rise in the number of organisations involved in managing the refugee situation has led to an increase in

[321] Amnesty International, *Pushed to the Edge: Syrian Refugees Face Increased Restrictions in Lebanon* (2015).
[322] K Kirişci and E Ferris, *Not Likely to Go Home: Syrian Refugees and the Challenges to Turkey—and the International Community*, Brookings Turkey Project Policy Paper No. 7, September (2015).
[323] UNHCR, *Syrian Regional Refugee Response,* Inter-agency Information Sharing Portal (2015) <http://data.unhcr.org/syrianrefugees/country.php?id=107> at 16 November 2015.

formal employment for Turkish citizens.[324] Further, many Syrian businesses have relocated to Turkey and it is estimated that by early 2015 approximately USD10 billion in Syrian capital had been transferred into the country, contributing to employment opportunities and increased output.[325] The impact of refugees on the labour market is very often a mix of costs and benefits (as explored in the next section) but in many cases the increased availability of cheap labour has at least been a positive factor for local businesses.[326] Similarly, while having many negative aspects, rising rents resulting from increased demand for housing and shelter also mean increased revenues for landowners in the host country. In Lebanon, it is estimated that Syrian refugees contribute an additional USD73.7 million to the Lebanese economy every month, just through rent and utilities.[327]

A rigorous quantification of the costs and benefits of the refugee influx for regional economies is beyond the scope of this research, but a typology of direct and indirect costs and benefits which sets out the broad range of social and economic impacts of hosting large numbers of refugees, appears in Annex 1. In the following sections, the most salient economic and security challenges extending from the Syria crisis are analysed as a platform from which to conceptualise the kinds of policy approaches that could yield beneficial results for both refugees and host states.

2.2 Risk Implications of the Status Quo

2.2.1 The Informal Economy and Informal Employment

Turkey

Turkey is a signatory to the 1951 Refugee Convention and 1967 Protocol and has more clearly defined national legislation for responding to refugee situations than its Arab neighbours. Its 'Law on Foreigners and International Protection' (LFIP) came into force in April 2014 and was followed in October by the 'Temporary Protection Directive' (TPD). The latter, in principle, guarantees a broad range of rights for Syrian refugees, from access to healthcare, to residency and obtaining work permits.[328] Despite this, in practice refugees' access to employment remains constrained and it is by no means any easier to obtain a work permit as a Syrian refugee in Turkey than it is in Jordan, Lebanon or elsewhere. The TPD, at the time of printing, has yet to be fully implemented and the more protracted the refugee situation becomes, the less support there is for affording refugees greater protection, particularly regarding access to formal employment opportunities.[329]

According to UNHCR, as of November 2015 there were just under 2.2 million Syrian refugees living in Turkey.[330] The population is densest in the southern (Gaziantep, Hatay, Adana and Osmaniye) and south-eastern (Sanliurfa, Adiyaman, Kahramanmaras, Kilis and Mardin) provinces, but other major cities, such as Istanbul, also host large numbers of Syrians. The concentration of refugees in these provinces combined with the general understanding that Turkey's Southeast Anatolia region was already disadvantaged in terms of employment and economic growth, might suggest that the outpouring of refugees from northern Syria has increased the scale of socio-economic hardships in these communities. So far, however, there is an absence of comprehensive assessment of the impacts of the refugee influx to make this

[324] X Del Carpio and M Wagner, *The Impact of Syrian Refugees on the Turkish Labor Market*, World Bank Policy Research Working Paper 7402, August (2015).
[325] K Kirişci and E Ferris, above n 324.
[326] REACH, *Food Security and Livelihoods Assessment of Lebanese Host Communities*, Assessment Report, June (2015).
[327] Norwegian Refugee Council, *A Precarious Existence; The Shelter Situation of Refugees from Syria in Neighbouring Countries* (2014), pp. 6.
[328] Amnesty International, *Struggling to Survive; Refugees from Syria in Turkey*, November 2014.
[329] D Afanasieva, *Turkey will not give Syrian refugees right to work – labour minister* (2015), Reuters <http: //uk.reuters.com/article/2015/08/07/uk-turkey-syria-refugees-workers-id> at 1 November 2015.
[330] UNHCR, *Inter-agency Information Sharing Portal* < http://data.unhcr.org/syrianrefugees/country. php?id=224> at 4 November 2015.

assertion conclusively. The evidence base is, for the most part, limited to anecdotal and sample-based information, and this has obstructed the development of more effective policies.[331]

This paucity of data means that only a general representation of the impact of refugees on local labour markets in Turkey is possible. However, some familiar and predictable themes are discernible, such as changes in the rate of unemployment related to large increases in the labour supply.[332] According to the Central Bank of Turkey and the Turkish Disaster and Emergency Management Presidency (AFAD), the presence of Syrian refugees in the south of the country has had a negative impact on the employment prospects of local Turkish citizens. A study from January 2015 compared changes in local labour market dynamics between southern cities with significant numbers of refugees and cities elsewhere in the country not hosting large numbers of refugees. It claims that Syrian refugees have replaced locals who were working informally.[333] This is supported by a previous survey from AFAD, which found that three-quarters of Syrians not residing in camps had searched for a job since arriving in Turkey.[334] Anecdotal evidence complements these general data to suggest that the refugee influx has led to some crowding-out of local Turkish labourers.[335] Interestingly, there has been no significant impact on Turkish workers' wages in these provinces, in stark contrast with Jordan and Lebanon, as outlined below.[336]

Lebanon

Prior to the outbreak of conflict in Syria, Lebanon already suffered from high levels of unemployment and a large informal economy characterised by a lack of compliance with legislation on working conditions and minimum wages. In 2010 approximately 11 percent of the labour force was unemployed, with particularly high rates for women (18 percent) and young people aged 15-24 (34 percent).[337] Historically, the economy has not been able to create enough jobs to keep up with new Lebanese entrants to the labour market, let alone large numbers of refugees.[338] Moreover, where jobs have been created, these have predominantly been low- and semi-skilled, leading to increased levels of unemployment among Lebanese citizens with better education and technical training. In addition to high unemployment, informal wage

[331] ORSAM, *Effects of the Syrian Refugees on Turkey*, Report No. 195, January (2015).
[332]In Turkey's southeastern region, including the five provinces bordering Syria, unemployment reached a high of 14.5 percent in 2013; the national unemployment rate, by comparison, was 9.8 percent (see respectively: S Cagaptay, *The Impact of Syria's Refugees on Southern Turkey*, Policy Focus 130, Report of the Washington Institute for Near East Policy (2014), pp. 11 and Turkish Statistical Institute, *Household Labour Force, August 2013* <http://www.turkstat.gov.tr/PreHaberBultenleri.do?id=13628>). In some cases there is reason to believe that the refugee influx may have led to an increase in local unemployment rates; for example, in the city of Mardin, in southeastern Anatolia, the unemployment rate was 12.3 percent in 2011 but had increased to 20.6 percent by 2013 (see S Idiz, *Attacks on Syrians in Turkey increasing* (2015) Al Monitor <http://www.al-monitor.com/pulse/originals/2015/05/turkey-attack-on-syrians-in-country-on-the-rise.html#ixzz3qzh0wj4x> at 16 November 2015). However, in other cases, provinces in the south and southeast of the country had consistently higher rates of unemployment than other regions pre-dating the Syrian refugee crisis, meaning no clear causal link can be inferred. For example, in 2011, the provinces of Gaziantep and Kilis already measured an unemployment rate of 14.4 percent. By contrast the rate of unemployment in Sanliurfa and Diyarbakir in 2011 was much lower at 8.4 percent (see U Balaban, *The Regional Performance of the Manufacturing Industries in Turkey* < https://secondary cities.files.wordpress.com/2014/10/regional-performance-of-manufacturing-industries-secondary-cities2.pdf>). Furthermore, very often Syrian refugees are competing for jobs in the informal economy; hence, those nationals who they are competing with for jobs are less likely to have been included in official unemployment statistics in the first place, rendering the use of such statistics inherently problematic.
[333] E Ceritoglu et al, *The Impact of Syrian Refugees on Natives' Labor Market Outcomes in Turkey: Evidence from a Quasi-Experimental Design,* IZA DP No. 9348 (2015); it should be noted that the report provides evidence for the changes in the local labour market and then proceeds to attribute these changes to the presence of Syrian refugees. It does not, however, provide any evidence that proves causality between these changes and the arrival of refugees. Given that the study was conducted by the Turkish Central Bank, the evidence cannot be taken as either objective or conclusive.
[334] AFAD, *Syrian Refugees in Turkey, 2013*, Field Survey Results (2013).
[335] K Kirişci, *Syrian Refugees and Turkey's Challenges: Going Beyond Hospitality*, Brookings, May (2014).
[336] E Ceritoglu et al, above n 335.
[337] World Bank, *Republic of Lebanon; Good Jobs Needed*, Report No. 76008-LB (2012) pp. 17.
[338] It is estimated that over the next ten years an average of 23,000 new jobs will be required every year to meet the demand from new entrants to the labour market (the Lebanese economy generated on average 3,400 new jobs per year between 2004 and 2007); Ibid.

employment was a significant feature of the labour force in 2010, as well as high levels of informal self-employment in low-skilled occupations.[339]

These pre-existing challenges have been exacerbated by the presence of over a million Syrian refugees. The Ministry of Labour suggests that there has been a 23 percent rise in the unemployment rate as a result of Syrian refugees arriving in Lebanon, which roughly aligns with the World Bank figure of 13 percent overall unemployment for 2013.[340] More and better data is needed to accurately assess the impact of Syrian refugees on unemployment in Lebanon, but it is clear that the income-generating activities undertaken by Syrians are leading to expansion in the informal economy.[341] Most Syrian refugees in employment are working as informal labourers: 92 percent of those in some form of occupation are working without a contract and 72 percent are hired on an hourly, daily, weekly or seasonal basis.[342] Figures from 2013 suggest that the service, agricultural and construction sectors, and to a lesser extent wholesale and retail trade, are the main areas of work (although this may have been subject to change in the interim period).[343] The vast majority of jobs being done by Syrian refugees in Lebanon are therefore unskilled or semi-skilled and, for the most part, are closely correlated with the type of work that they were doing in Syria prior to the conflict.

As witnessed in other host states, Syrians are often prepared to work longer hours and for lower wages than citizens of the host state. This can lead to a variety of negative socio-economic impacts on both sides, such as exploitation of refugees' labour and falling wages for local communities. In Lebanon, the most salient impacts reported by local Lebanese communities are decreases in overall income during the past two years, with the main explanatory factors being an increase in the cost of materials required for income generation and fewer job opportunities.[344] The former is less likely to be directly related to the refugee situation in Lebanon and more likely to be the result of wider political and economic instability in the region, particularly the fact that many production inputs traditionally came from Syria along supply routes that either do not exist anymore or have been significantly interrupted.[345] However, it is more likely that the latter reason is directly related to the drastic increases in the labour supply in Lebanon. In Bekaa, for instance, 56 percent of Lebanese households have seen significant decreases in income over the past two years.[346] The Bekaa Valley is one of Lebanon's most important agricultural regions and a location where many Syrian refugees have settled and found work as informal labourers.[347] In addition, while the amount of job opportunities has broadly remained the same, there is some evidence of decreases in wages for Lebanese workers, which suggests downward pressure resulting from refugees' acceptance of lower pay. Focus group discussions conducted by REACH in the past year suggest that these

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[339] World Bank, above n 326, pp. 2.
[340] ACTED, *Labour Market Assessment in Beirut and Mount Lebanon*, Report of the Appraisal, Monitoring and Evaluation Unit, 22 January 2014; World Bank, *MENA Quarterly Economic Brief*, Issue 2, January 2014 <http://www.worldbank.org/content/dam/Worldbank/document/MNA/QEBissue2January2014FINAL.pdf> at 3 November 2015.
[341] Not only is there a paucity of data on the changes in rates of unemployment since 2013, there is also a lack of evidence to support direct causality on the part of the influx of Syrian refugees. Such a significant increase in the supply of labour has undoubtedly impacted unemployment rates, but other factors, including severe contractions in cross-border trade, also need to be accounted for.
[342] ILO, *Assessment of the Impact of Syrian Refugees in Lebanon and Their Employment Profile* (2014), pp. 29.
[343] Ibid.
[344] REACH, *Food Security and Livelihoods Assessment of Lebanese Host Communities,* Assessment Report (2015), pp. 16-18; ILO, above n 344, pp. 36.
[345] FAO, *Plan of Action for Resilient Livelihoods; Addressing the Impact of the Syria Crisis & Food Security Response and Stabilization of Rural Livelihoods* (2014).
[346] REACH, above n 346, pp. 18.
[347] The Lebanese government's policy of avoiding the establishment of formal refugee camps (contrary to the other main host countries for Syrian refugees) has meant that many refugees are living in informal settlements in rural areas. Combined with the government's official ban on work permits for refugees and the high levels of prior experience in non-industrial agriculture and other low-skilled occupations, Syrian refugees are highly present in the agricultural sector in the Bekaa.

factors are driving a 'rural exodus' of Lebanese citizens as many look to relocate to the country's urban centres (and where possible abroad) in search of more or better work.[348]

Jordan

It is almost impossible to provide an accurate quantification of the size of the informal economy in Jordan. In 2010, Jordan's informal economy was estimated to constitute 20-25 percent of total economic activity in the country. [349] What can be discerned with greater certainty is that the informal economy in Jordan is growing; moreover, there is a direct connection between this growth and the current approach to refugee working rights at the policy level. Jordan is not party to the 1951 Refugee Convention and its 1998 Memorandum of Understanding with UNHCR, while highlighting the need for refugees to be able to work, does not include provisions for the protection of formal working rights. The implication is that "only about 10 percent of employed Syrians have obtained formal work permits, and practically all Syrian refugees working outside camps do not have work permits and are as such employed in the informal economy and outside the bounds of Jordanian labour law."[350] This situation is likely to be further exacerbated as the onset of international donor fatigue becomes more pronounced and refugees have no alternative but to resort to informal income-generating activities.

Syrians working in Jordan prior to the onset of the conflict were mainly engaged in construction, wholesale and retail trade, manufacturing, agriculture, forestry and fishing, and transportation and storage. Employment of Jordanian workers in these sectors in 2011 was low, with approximately 7 percent working in construction and 2 percent in agriculture, forestry and fishing, for example. Most Jordanians were employed in public administration and defence. This is supported by survey evidence that shows higher levels of unemployment among Jordanian youth, who are able to afford to wait until the right type of position (in public administration or defence) arises.[351] Today, the distribution of employment of Jordanian nationals across the same industries is almost exactly the same as in early 2011. For Syrians living outside of camps, however, employment in the construction sector has risen significantly and now represents the principal location of employment for this demographic.

Employment of Syrian refugees has also increased in other areas, such as accommodation and food services. Such increased economic activity has prompted accusations that Syrians are filling positions that would otherwise have gone to Jordanian nationals. A recent report conducted by the ILO and Fafo suggests that there may be some truth to this:

> [T]he share of total Syrian refugee workers in the construction industry has increased quite substantially, indicating that Jordanians might have been crowded out of this industry by Syrians to some extent. Similar signs of out-crowing can be found in the wholesale and retail trade industry […].[352]

On the other hand, it is important to recognise that other factors, for example reduced cross-border trade owing to the difficulties around former trade routes through Syria, have also impacted the labour market in complex ways. Causality, therefore, cannot be attributed to refugees without further research.

Kurdish Region of Iraq (KRI)

The dynamics of displacement in Iraq are more complex than in other host states neighbouring Syria. In large part this is because of the continuing presence of the so-called Islamic State organisation (hereafter Daesh). Since Daesh militants took control of large areas of western Iraq in 2014, the number of internally displaced persons (IDPs) in the country has

[348] REACH, above n 346, pp. 17.
[349] UNDP, *The Panoramic Study of the Informal Economy in Jordan* (2013), <http://www.jo.undp.org/ content/dam/jordan/docs/Governance> at 18 November 2014.
[350] S Stave and S Hillesund, *Impact of Syrian refugees on the Jordanian labour market,* International Labour Organisation & FAFO (2015).
[351] Ibid, pp. 53.
[352] Ibid, pp. 6.

increased and exacerbated what was already an extremely challenging situation. Although the Syrian refugee crisis and the crisis of IDPs in Iraq cannot be separated, the latter falls outside the scope of this paper. The purpose of the current analysis is to compare and contrast the impacts of *Syrian* refugees on host countries neighbouring Syria with a view to developing more sustainable livelihoods interventions according to the needs of the host state economy alongside the needs of refugees.

The vast majority of Syrian refugees in Iraq are currently residing in the KRI. As of September 2015 there were 239,119 Syrian refugees registered with UNHCR, with the majority being located in Erbil Governorate, followed by Duhok and Sulaymaniyah.[353] Iraq is not a signatory of the 1951 Refugee Convention and this is compounded by bureaucracy at the governorate level in the KRI. Each governorate has a separate framework for managing the arrival of refugees, meaning that registration and ensuring the issuance of residency permits can be a difficult process (and just as in other host states if refugees do not possess residency permits they cannot seek legal employment). Dohuk, for example, has taken a more liberal approach, issuing residency permits to refugees in camps and urban settings. By contrast, Erbil and Sulaymaniyah were limiting residency permits to refugees in camps in order to remove the incentive for refugees to live in urban locations.[354] Since mid-2014, UNHCR has made good progress in encouraging the three governorates to follow a common policy regarding refugees' residency. Despite this, there are still severe challenges to refugees' livelihoods posed by the state of local labour markets in the governorates.

One of the most prominent challenges is increased competition for access to employment opportunities. Low-skilled work and manual labour constitutes the majority (69 percent) of work being done by Syrian refugees in the KRI, with much of this taking place informally.[355] Agricultural wage labour is the most popular occupation, with 38 percent of households having at least one family member generating income this way. This is followed by construction and other types of manual labour, where 24 percent of households have a family member involved in this type of work. Of the households that reported difficulties in accessing employment opportunities, increases in competition were most salient in those districts with large numbers of IDPs.[356] Hence, unlike in other host states neighbouring Syria, refugee households are just one source of increased competition alongside internally displaced persons and both groups compete with host community groups for employment. This factor is particularly prominent among low-skilled households, which are often more likely to suffer from increased competition because many refugees and IDPs are similarly low-skilled and prepared to compromise on pay, hours and working conditions.[357]

2.2.2 Increased Cost of Living

Turkey

There is a paucity of up-to-date, reliable information when it comes to the impact of Syrian refugees on the cost of living in different areas of Turkey. One of the most prominent cited sources is an AFAD field study conducted in 2013;[358] but in the two years since this report was first published the scale of the refugee situation in Turkey has increased significantly and hence more recent information is needed. However, independent research to fill this information gap has not been

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[353] UNHCR, *Inter-Agency Operational Update – Syrian Refugees in Iraq*, September 2015 <http://www. uniraq.org/index.php?lang=en> at 8 November 2015.
[354] L Yoshikawa, *Syrians in Iraq: Refugee response within a major humanitarian and political crisis*, ENN <http://www.ennonline.net/fex/48/syrians> at 9 November 2015.
[355] REACH, *Multi-Sector Needs Assessment of Syrian Refugees Residing in Host Communities; Iraq*, Assessment Report, April (2015).
[356] Severe increases in competition for employment were registered in Amedi, Dahuk, Sumel, Zakho and Shekhan, Akre and Bardarash, where, collectively, 60% of all IDP households reside; REACH above n 3, pp. 16.
[357] World Bank, *The Kurdistan Region of Iraq; Assessing the Economic and Social Impact of the Syrian Conflict and Isis* (2015).
[358] See AFAD, *Syrian Refugees in Turkey, 2013*, Field Survey Results (2013).

forthcoming, perhaps due to new restrictions on conducting field work on refugees in the country without permission from government ministries.[359] It is possible to draw some general conclusions about changes in the cost of living since 2011 and the implications for Syrian refugees and local Turkish citizens; although the impacts in this area are, at best, mixed.

As with the other regional host states, the influx of Syrian refugees into Turkey has caused demand for housing to increase, in some cities sharply, in a short space of time. This in turn has led to an increase in rent prices. Turkey had been experiencing a housing supply crisis for some time before the onset of the war in Syria and so the arrival of large numbers of refugees served to exacerbate existing difficulties.[360] For example, as well as a gap in the quantity of appropriate urban housing available, there is also no option of social housing in Turkey.[361] This leaves both local Turks and Syrian refugees at the mercy of private landlords who often take advantage of the opportunity to charge higher rents. Similarly, data suggest that there was an increase in food prices between 2012-2013 as a result of the increased number of refugees arriving in the country.[362] Increases in food prices were also recorded in a number of provinces, particularly in the south, by the Center for Middle Eastern Strategic Studies (ORSAM).[363] Anecdotal evidence suggests that prices for other commodities, such as fuel, have also been increased in parts of the country as a result of the presence of Syrian refugees.[364]

Increases in prices such as those described above are often explained by the basic dynamics of supply and demand: the increase in the local population with the arrival of refugees creates an increase in the level of aggregate demand for goods and services, thereby leading to an increase in prices. However, a more recent report, conducted by Turkey's Central Bank, suggests that the influx of Syrian refugees may actually have led to a decrease in the price of a range of goods and services. Balkan and Tumen find that decreases in the Consumer Price Index (CPI) between 2012 and 2014 can be directly linked to the arrival of Syrian refugees. They posit that because refugees are willing to accept lower wages than local citizens, this creates a labour cost advantage in the sectors where refugees are employed, which in turn drives down the cost of goods and services in those sectors. They record an average decrease in the CPI of 2.5 percent for the period measured.[365] This complicates the conventional narrative that increases in population naturally lead to increases in prices and further research is needed here.

Lebanon

Lebanon's crisis in affordable housing pre-dates the Syrian conflict but the presence of over a million refugees has put additional strain on the country's housing market.[366] The demand for housing has not been met with supply and Lebanese government policy strictly forbids establishing formal camps for Syrian refugees. As a result, many Syrians are resorting to informal arrangements such as tented settlements on private land in rural areas and living in unfinished or sub-standard buildings.[367]

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[359] B Kayaoglu, *Turkey restricts academic research on Syrian* refugees (2015) Al Monitor <http://www.al-monitor.com/pulse/originals/2015/05/turkey-syria-government-restricts-academic-research.html> at 1 December 2015.
[360] International Crisis Group, *The Rising Costs of Turkey's Syrian Quagmire*, Europe Report No. 230 (2014).
[361] Amnesty International, *Struggling to Survive; Refugees from Syria in Turkey*, November 2014.
[362] Y Emre Akgündüz, M van den Berg and Wolter Hassink, *The Impact of Refugee Crises on Host Labor Markets: The Case of the Syrian Refugee Crisis in Turkey*, IZA DP No. 8841 (2015).
[363] See ORSAM, *The Economic Effects Of Syrian Refugees On Turkey: A Synthetic Modelling*, ORSAM Report No: 196 (2015), pp. 19-20; it should be noted, however, that ORSAM's biggest sponsor is the Turkish foreign ministry and hence its research may not be as reliable as that of independent researchers.
[364] International Crisis Group, above n 362, pp. 8.
[365] B Balkan and S Tumen, *Immigration and Prices: Quasi-Experimental Evidence from Syrian Refugees in Turkey*, Report of the Central Bank of the Republic of Turkey (2015).
[366] UNHCR, *Housing, Land and Property Issues in Lebanon; Implications of the Syrian Refugee Crisis* (2015).
[367] Norwegian Refugee Council, *A Precarious Existence; The Shelter Situation of Refugees from Syria in Neighbouring Countries* (2014).

Where apartments and other rented accommodation have been available and affordable, the increased demand has led to price increases and in some cases evictions of tenants (refugees and Lebanese) who can no longer afford the rent.[368] The Lebanese Consumer Price Index (CPI) indicates relatively stable inflation since the beginning of the Syrian conflict, which would seem to contradict reports of increased rents and other living costs. However, the CPI does not reflect local trends at the district level and the International Monetary Fund acknowledges that while "[o]verall inflation has been broadly in line with regional peers […] *higher food and rent inflation* might particularly affect the refugees and Lebanese poor."[369]

Jordan

Alongside intensified competition for jobs, increases in living costs has been identified as one of the most prominent changes in the northern governorates of Jordan since the onset of the Syrian crisis.[370] By some measures, parts of Jordan are now almost as expensive in terms of living costs as the city of Toronto.[371] In particular, there is a significant shortfall in available housing units; the Norwegian Refugee Council estimates that 90,000 new housing units are required to adequately accommodate Syrian refugees outside of camps and that 78 percent of unmet shelter demand is located in the Irbid, Mafraq and Amman governorates.[372] This shortage has led to competition for affordable housing between vulnerable Syrians and Jordanians; the price of rented accommodation has increased by up to 200 percent in areas hosting large numbers of refugees.[373] According to a REACH survey, 95 percent of Syrian and 87 percent of Jordanian households agreed or strongly agreed that rises in housing costs had led to discontent in their community.[374]

Kurdish Region of Iraq

As mentioned earlier, the KRI is notably a more complex case than other host states neighbouring Syria for the principal reasons of its quasi-independence from the rest of Iraq and the ongoing crisis of internal displacement resulting from the takeover of large areas of Iraq by the so-called Islamic State organisation. This has had myriad knock-on effects for the KRI, making it even more difficult to establish any causal link between increases in the cost of living and the presence of Syrian refugees. For example, in 2014 the price of fuel in the KRI increased to 900 Iraqi Dinars per litre for gasoline and 950 Iraqi Dinars per litre for diesel, almost double what it had been the previous year.[375] However, while this may have been due in part to increased demand from both Syrian refugees and internally displaced Iraqis, it may also be due to the cutting off of supply lines as a result of continuing conflict in Iraq and the resulting contraction of fiscal reserves. The government of KRI was obliged to obtain fuel from refineries in the south of Iraq, which inevitably led to price increases because of the associated transport and electricity costs.[376]

The causes of increased costs for housing are less ambiguous than the factors affecting the price of fuel and other commodities as outlined above. In Dohuk Governorate, average rent prices in April 2014 had increased by approximately 20 percent since the previous year; in Erbil Governorate the increase was approximately 15 percent.[377] However, it remains impossible to analyse the respective impacts of Syrian refugees and internally displaced Iraqis on rent prices in any greater detail without further in-depth research. Similarly, the World Bank measured an increase in food prices of

[368] UNHCR, above n
[369] International Monetary Fund, *Lebanon; Selected Issues*, IMF Country Report No. 14/238 (2014), pp. 5, emphasis added.
[370] REACH, above n 357.
[371] D Carrion, *Syrian Refugees in Jordan: Confronting Difficult Truths*, Chatham House Research Paper (2015).
[372] Norwegian Refugee Council, *In Search of a Home: Access to Adequate Housing in Jordan* (2015).
[373] MOPIC, below n 419, 20.
[374] REACH, above n 357, 5.
[375] World Bank, *The Kurdistan Region of Iraq; Assessing the Economic and Social Impact of the Syrian Conflict and Isis* (2015).
[376] Ibid,
[377] REACH, *Multi-Sector Needs Assessment of Syrian Refugees Residing in Host Communities*, Iraq Assessment Report (2015).

4.6 percent between 2013 and 2014 in Erbil Governorate and slightly lower increases for Dohuk and Sulaymaniyah governorates over the same period.[378] As with the housing situation, this can be explained by the demands of a larger population but it is impossible to distinguish between the refugee and IDP populations regarding these effects.

2.2.3 Social Cohesion

Turkey

In Turkey, there is some evidence that increased socio-economic hardship related to large numbers of refugees is causing a strain on inter-community relations in the most acutely affected provinces, particularly in the south of the country.[379] For example, public demonstrations against Syrian refugees took place in Gaziantep in the summer of 2014. These were most notable for quickly devolving into violence and attacks against Syrians in the city, which resulted in significant interventions from police and security services.[380] Similar incidents of violence and public demonstrations have taken place elsewhere in the country, in cities as spread out as Sanliurfa in the south, Istanbul in the north and Izmir in the west of the country; such incidents are reported to have increased in 2015.[381] As well as competition for employment driving violence against Syrians, there have also been attacks on Syrian-owned businesses, fuelled by some locals' resentment that the businesses are not properly registered and do not pay tax.[382]

Ethnic and sectarian differences are also a source of tension in parts of Turkey. In Hatay, for example, the city's population is highly heterogeneous, composed of Turks, Kurds, Circassians, Armenians, Arab Christians, Sunni Arabs and Alawite Arabs. The majority of Syrian refugees in Turkey are Arab Sunni Muslims who tend to support the ruling Justice and Development Party's (AKP) anti-Assad stance. By contrast, Turkey's Arab Alawites, who constitute the largest Arab minority in the southern border region, for the most part continue to support the Assad regime in Syria out of fear of persecution: "[t]hey consider Turkey's support for the Syrian opposition to be a sectarian choice aimed at empowering the Syrian Sunni majority."[383] Although this has stopped short of explicit displays of sectarian conflict, the arrival of so many Sunni Syrian refugees coupled with the AKP's shifting of Turkish politics away from secularism and towards a Sunni Islamic influence has left Arab Alawites feeling more isolated and vulnerable.[384]

Although Turkish public opinion has been generally welcoming to Syrian refugees, and the above incidents certainly constitute the exception rather than the norm, there is a risk that negative perceptions may increase and give way to more popular discontent over the long term. A 2014 survey that covered 20 provinces of Turkey showed that 64 percent of respondents believe that Turkey is ethically obligated to assist Syrian refugees. However, the survey also revealed that over 70 percent of respondents thought that refugees were causing serious harm to the economy and more than 62 percent believed that they were undermining social order and causing a rise in crime.[385] The report warned that in the context of such perceptions there is a risk of xenophobic and anti-Syrian sentiment gaining more traction over the long term. Further, the increasing polarisation of domestic politics in Turkey, outlined above and

[378] World Bank, above n 377, pp. 35.
[379] ORSAM, *Effects of the Syrian Refugees on Turkey*, Report No. 195, January (2015).
[380] R Kuthahyali, *Syrian refugees under attack in Turkey*, Al Monitor <http://www.al-monitor.com/pulse/originals/2014/08/kutahyali-syrian-refugees-under-attack-turkey-gaziantep.html> at 30 November 2015.
[381] S Idiz, *Attacks on Syrians in Turkey increasing* (2015) Al Monitor <http://www.al-monitor.com/pulse/originals/2015/05/turkey-attack-on-syrians-in-country-on-the-rise.html#ixzz3qzh0wj4x> at 16 November 2015.
[382] Today's Zaman, *Masked men attack shops run by Syrian refugees in southern* Turkey, (2014) <http://www.todayszaman.com/anasayfa_masked-men-attack-shops-run-by-syrian-refugees-in-southern-turkey_353052.html> at 30 December 2015.
[383] S Ahmadoun, *Turkey's Policy toward Syrian Refugees; Domestic Repercussions and the Need for International Support*, Stiftung Wissenschaft und Politik Comments (2014), pp. 3.
[384] The government's response to the Gezi Park demonstrations in May 2013 had a particularly negative effect, since several of the protestors killed in the protests were Alawites; http://www.al-monitor.com/pulse/originals/2014/02/turkey-alawite-identity-syria-arab-war.html
[385] M Erdoğan, *The Syrians in Turkey: Social Acceptance and Integration* (2014) Hacettepe University Migration and Politics Research Centre <http://www.hugo.hacettepe.edu.tr/HUGO-RAPOR-TurkiyedekiSuriyeliler.pdf> at 9 November 2015.

reflected clearly in public perceptions of refugees, could compound a spread of anti-Syrian feeling.[386] AKP supporters tend to be more in favour of Syrian refugees, whereas Republican People's Party supporters tend to take a stricter approach to refugees, for example. While these perceptions often have more to do with policies and political affiliation than objective feelings towards refugees, there is the risk that they could feed into tangible opposition in local areas.[387]

Lebanon

In Lebanon, even more than in Turkey, the broader domestic political context must be taken into account when assessing social cohesion. Sectarian tensions in the country have been palpable since the assassination of former Prime Minister Rafik Hariri in 2005, and it is through this lens that threats to social cohesion ought to be approached. Ever since the assassination, which many attribute to Hezbollah acting at the behest of the Syrian government, domestic politics have broadly been divided into two opposing camps: the March 14 Alliance and the March 8 Alliance. The former is mainly composed of Lebanese Sunnis who oppose the Syrian regime and its influence in Lebanon, while the latter is mainly Lebanese Shi'a who are loyal to the regime of Bashar al-Assad. A number of Christian parties are divided between the two coalitions and the March 8 alliance maintains some Druze representation. The vast majority of registered Syrian refugees in Lebanon are Sunni Muslims and this has significantly affected the demographic makeup of the country, causing alarm in some non-Sunni regions. For instance, this demographic shift has already led to calls for arming respective confessional communities on grounds of self-defence — something that could precipitate further instability in the medium- and long-term.[388]

That said, socio-economic pressures directly related to the refugee crisis continue to be one of the main dividing forces on inter-community relations and often coalesce with the pre-existing confessional-political factors outlined above.[389] Lack of employment opportunities is compounded by regular power outages and water shortages in Lebanon, which are often attributed directly to the present of refugees placing an added burden on already weak infrastructure and over-stretched resources.[390] Occasionally tensions have given way to threats, such as posters warning Syrians to leave the area, and violent attacks against refugees.[391] In a 2014 survey, representatives from 272 villages and neighbourhoods around the country cited incidents of tension and/or violence in their communities, including protests, physical intimidation or violence (armed and unarmed), verbal harassment and youth unrest; a significant amount of these incidents involved Syrians. A major risk is that inter-community tensions prompted by increased socio-economic pressures will escalate and play into existing confessional and political grievances, thereby exacerbating an already challenging situation.[392]

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[386] J Tolay, 'Deconstructing Turkish Public Attitudes towards Refugees: Empowering Rights over Politicization and Self-gratification' in I Bal and M Demirtepe (eds), *USAK Yearbook of Politics and International Relations*, vol. 6 (2014).

[387] For example, Tolay points out that "[m]any un-founded or ill-founded rumours circulated widely on Turkish social media claiming that the Turkish government was providing more relief to Syrian refugees than to the displaced from the Van earthquake of October 2011; that the subsidies given to Syrian refugees were more than twice the minimum wage in Turkey; that Syrian refugees had committed a very high level of vandalism and assaults; and – the more common and persistent of claims – that Syrian refugees were given easy access to Turkish citizenship and resettled strategically on Turkish territory so as to impact future elections in favour of the AKP"; Tolay, above n , pp. 15.

[388] L Khatib, *Repercussions of the Syrian Refugee Crisis for Lebanon* (2014) Carnegie Middle East Center < http://carnegie-mec.org/publications/?fa=57442> at 10 November 2015.

[389] Search for Common Ground, *Dialogue and Local Response Mechanisms to Conflict Between Host Communities and Syrian Refugees in Lebanon,* Conflict Scan (2014); ORSAM, *The Situation of Syrian Refugees in the Neighbouring Countries: Findings, Conclusions and Recommendations*, ORSAM Report No. 189, April (2014).

[390] CARE International, *Inter-Community Relations: A Study of the Impact of the Syrian Refugee Influx on the Lebanese Host Community and its Repercussions on the Social Cohesion Context* <http://www.care.org /sites/default/files/documents/Social%20Cohesion%20Study_CIL.pdf> at 10 November 2015.

[391] K Watkins and S Zyck, *Living on hope, hoping for education; The failed response to the Syrian refugee crisis*, Overseas Development Institute Report (2014).

[392] Here it is important to note that neither political nor sectarian differences are identified as the main causes of tension and subsequent conflict; however, according to focus groups, these factors are the most likely to exacerbate conflict once it has broken out (see Search for Common Ground, above n 48, pp. 22).

There is no central government policy to regulate how municipalities deal with the refugee situation, leading to disparate responses, some stricter than others. In Anout, Daraya and Myriata, curfews have been implemented that restrict Syrians' movements. According to REACH, such limits on interaction between refugees and host communities as a result of imposed curfews may serve to undermine social cohesion.[393] It is clear that investment in enterprises that will create jobs for local Lebanese alongside Syrian refugees are urgently needed. This must be coupled with more interaction between refugees and host communities — something that municipalities could address comparatively quickly by such measures as abolishing curfews for refugees and outreach programmes between communities.

Jordan

The potential for increased competition over resources (broadly defined) to undermine refugee-host community relations is a risk associated with all large scale, protracted displacement situations.[394] The geography of Syrian displacement means that host communities in Jordan's northern governorates, particularly in Mafraq and Irbid, have been disproportionately affected by the presence of large numbers of refugees. Many municipalities in these governorates were struggling to provide basic services such as solid waste management and water and sanitation services prior to the onset of the Syrian crisis. The arrival of refugees has exacerbated these challenges: in some cases the number of Syrian refugees now living in the municipality is equal to the number of Jordanian residents.[395] Further, the north of Jordan is characterised by a prevalence of 'high' and 'severe' levels of vulnerability among refugee households.[396] This, in combination with the fact that many locals are also living in vulnerable circumstances, has put host-refugee relations under considerable strain.

There have been no significant instances of violence or social unrest between the two groups, and this is testament to both communities' stoicism and generosity. There is, however, evidence of tensions and on occasion this has led to isolated incidents; for example, street protests and tire burnings by Jordanians in Mafraq.[397]

Kurdish Region of Iraq

The majority of Syrian refugees in the KRI are Syrian Kurds, making local integration easier and smoother than in other host states. The absence of a language barrier between refugees and local Kurdish communities and the existence of cross-border and family ties that pre-date the current crisis have certainly mitigated some of the difficulties of displacement, compared with parts of southern Turkey, for instance.[398] Syrian Kurds have found employment and been able to set up businesses in the KRI, and although there is evidence of increases in the cost of living, the likelihood of serious threats to social cohesion developing is less than in Turkey or Lebanon.

On the other hand, there are notable discrepancies between the current situation of Syrian refugees in the KRI and the situation of IDPs in the region, which could conceivably result in tensions emerging between such groups. Roughly half

[393] REACH, *Informing Targeted Host Community Programming in Lebanon; Preliminary Analysis for Sector Planning* (2014), pp. 31.
[394] G Loescher et al (eds.), *Protracted Refugee Situations; Political, Human Rights and Security Implications* (2008); J Milner, *Refugees, the State and the Politics of Asylum in Africa* (2009).
[395] UNDP, *Municipal Needs Assessment Report* (2014).
[396] UNHCR, *Vulnerability Assessment Framework; Baseline Survey* (2015), 15.
[397] MercyCorps, *Analysis of Host Community-Refugee Tensions in Mafraq, Jordan* (October 2012). In Jordan, there have been cases of media outlets, such as morning radio chat shows, promulgating hate speech about Syrian refugees in Jordan; Amman Net, Arabic language-only website, see: http://ammannet.net/sy/; see also A Su, *The Mighty Pen* (2014), Columbia Journalism Review <http://www.cjr.org/feature/the_mighty_pen.php> at 16 August 2015. It has also been suggested that the exaggeration of information presented on such forums has precipitated the outbreak of small scale violence in the past.
[398] A Sood and L Seferis, Syrians contributing to Kurdish economic growth' (2014), *Forced Migration Review*, issue 47.

of the total number of Iraqi IDPs are in the KRI, many of whom were displaced during the rise of Daesh in 2014, in addition to those who remain displaced as a result of sectarian violence between 2006 and 2008.[399] The overlapping layers of displacement present acute challenges not only for the displaced themselves but also for the various humanitarian agencies attempting to respond to the situation. At present there continue to be arbitrary distinctions made between Syrian refugees and Iraqi IDPs, with more funding and assistance typically available for the former despite the often identical needs of the two groups.[400] For example, in the Domiz refugee camp in Dohuk, a maternity unit that was opened with the support of Médecins Sans Frontières was only open to Syrian refugees and not to Iraqi IDPs in the same area.[401] There continues to be a range of refugee- and IDP-exclusive services running in parallel in the region and the differences in aid (both real and perceived) is reported as a factor driving tensions between the groups.[402]

2.3 Violent Extremism in the Context of the Syrian Crisis

There is an emerging body of literature highlighting the risk that terrorist organisations may seek to exploit (particularly protracted) refugee situations.[403] The rise of violent extremist groups, such as Daesh and Jabhat al-Nusra, amidst the turmoil in Syria and Western Iraq is generating fears of radicalisation in neighbouring states, both among nationals and displaced populations. Such organisations often have access to significant resources that they can mobilise to gain the trust and support of vulnerable communities. In Lebanon, Jabhat al-Nusra provided aid and support to refugees in response to shortfalls in international aid, which resulted in increased interaction between refugees and extremists, and an increase in radicalisation amongst the former.[404] In August 2014, there was a battle between the Lebanese Armed Forces (LAF) and Jabhat al-Nusra, also supported by Daesh fighters. During the battle several hundred refugees were mobilised and fought against the LAF alongside Jabhat al-Nusra.[405]

It is clear that one of the principal ways Daesh has been able to recruit so heavily and quickly is because it can afford to pay generous salaries.[406] While there is no inherent link between poverty and radicalisation, it is important to acknowledge that destitution can be a factor in certain contexts.[407] Limited socio-economic opportunities, combined

[399] L Redvers, *Refugee or IDP – does it really matter?* (2014) IRIN News < http://www.irinnews.org/report/ 100835/analysis-refugee-or-idp-does-it-really-matter> at 11 November 2015.
[400] E Ferris and M Teff, *The overlooked humanitarian crisis in Iraq: The need to address disparities* (2015) Brookings < http://www.brookings.edu/blogs/markaz/posts/2015/04/28-iraq-displaced-refugee-humanitarian-islamic-state-violence> at 11 November 2015.
[401] L Redvers, above n 401.
[402] REACH, *Multi-Cluster Needs Assessment of Internally Displaced Persons Outside of Camps*; *Kurdistan Region of Iraq Assessment Report* (2015).
[403] P Kagwanja and M Juma, 'Somali refugees: Protracted exile and shifting security frontiers' in G Loescher et al (eds), *Protracted Refugee Situations; Political, Human Rights and Security Implications* (2008), 214; D Milton, M Spence and M Findley, 'Radicalism of the Hopeless: Refugee Flows and Transnational Terrorism' (2013), *International Interactions: Empirical and Theoretical Research in International Relations*, 39 (5), 621-645.
[404] M Abou Zeid et al, *Youth Marginalisation and Radicalisation Amid the Syrian Crisis* (2015), audio recording <http://carnegie-mec.org/2015/03/19/youth-radicalization-and-security/i58g> at 2 August 2015.
[405] M Abou Zeid, *A Time Bomb in Lebanon: The Syrian Refugee Crisis* (2014), Carnegie Endowment for International Peace <http://carnegieendowment.org/syriaincrisis/?fa=56857> at 5 August 2015.
[406] In 2014, Daesh was forecasted to be mobilising up to US$ 6 million per day from oil sales, other criminal enterprise (including the sale of artefacts) and private donations. 'Jihadis with money to burn; inside the Isis financial empire', *Newsweek*, 14 November 2014, vol. 162 (46); the Economist, *Where Islamic State gets its money* (2015), <http://www.economist.com /blogs/economist-explains/2015/01/economist-explains> at 10 August 2015.
[407] D Sterman, 'Don't Dismiss Poverty's Role in Terrorism Yet', *Time*, 4 February 2015; D Milton, M Spence and M Findley, 'Radicalism of the Hopeless: Refugee Flows and Transnational Terrorism' (2013), *International Interactions: Empirical and Theoretical Research in International Relations*, 39 (5), 621-645.

with trauma, personal and community grievances and isolationism are established push factors, all of which can be discerned to varying degrees within Syrian refugee communities.[408]

Conclusion

All four countries demonstrate, to varying degrees, symptoms of a catch-22 situation, wherein governments and/or publics are opposed to opening up more opportunities for refugees; yet, by omitting to act to this end, refugees are forced to engage in informal employment with negative consequences for themselves, local communities, businesses and the state. It is clear that new strategies are required that address not only the strengths and weaknesses of individual economies, but that also draw upon the educational and vocational strengths of refugees.

[408] Letter from the Permanent Representative of Jordan to the United Nations to the Secretary General of the United Nations Security Council, 27 March 2015<http://www.refworld.org/docid/552b706c4. html> At 1 June 2015; K Shaheen, 'Food aid cuts 'making refugees targets for Isis recruitment'', *The Guardian,* (London) 13 August 2015.

6: Forging New Strategies in Protracted Host Situations

The year 2014 saw the number of asylum-seekers, refugees and internally displaced persons exceed 50 million globally — more than at any point since the end of the Second World War.[409] The international refugee regime (the norms and institutions that have evolved to coordinate international responses to refugee crises) is arguably not equipped to deal with the scale and complexity of such displacement. This regime was established in the wake of the Second World War as states grappled to address mass displacement in Europe. Likewise, the UN refugee agency was created with a temporary and short-term mandate "to address the situation of a particular group of people at a particular juncture of history."[410] While UNHCR will no doubt continue to exist for the foreseeable future, it is increasingly recognised that certain norms and practices will need to evolve to address displacement in the world today.

The framework for addressing refugee crises can largely be seen as a partnership whereby "[d]onors write cheques to support humanitarian relief and host countries of first asylum are expected to provide the territory on the refugees are hosted."[411] In practice, however, the lack of binding rules on burden sharing to balance the peremptory norm of *non-refoulement* means that this model is inadequate, particularly in protracted situations.[412]

> In the case of asylum, the refugee regime sets out a strong normative and legal framework, underpinned by the principle of *non-refoulement*, whereby states must refrain from sending a refugee back to a state in which he or she faces a well-founded fear of persecution. In contrast, in the case of burden-sharing, the regime provides a very weak normative and legal framework, setting out few clear norms, rules, principles, or decision-making procedures. [413]

The situation might be best understood as host states providing a global public good.[414] Like other public goods, some states are able to 'free ride' on the provision of refugee protection by host countries, but are not be compelled to adequately share the associated burdens. Today, this is manifesting in a "north-south impasse"[415], whereby wealthy developed states (predominantly in the so-called 'global north') are inclined to scale-back aid once the urgency of an emergency situation has worn off. Host states (in the so-called 'global south') are left to struggle on alone as the crisis becomes more entrenched.

Broadening the Protection-Centric Policy Framework

Today, more than half of refugees globally live in protracted refugee situations.[416] In the WANA region, the Afghan, Iraqi and Palestinian refugee crises in particular remain without durable solutions, posing long-term challenges for host

[409] UNHCR, *Global forced displacement tops 50 million for first time in post-World War II era* (2014), News Stories <http://www.unhcr.org/53a155bc6.html> at 16 August 2015.
[410] G Loescher, A Betts and J Milner, *UNHCR: The Politics and Practice of Refugee Protection* (2013), 133.
[411] P Collier and A Betts, 'Rethinking Refugees: Syrian Refugees as an Opportunity for Development and Security', *International Affairs*, forthcoming autumn 2015.
[412] G Loescher et al (eds.) *Protracted Refugee Situations; Political, Human Rights and Security Implications* (2008).
[413] A Betts, *Forced Migration and Global Politics* (2009), 87.
[414] A Suhrke, 'Burden-Sharing During Refugee Emergencies: The Logic of Collective Action Versus National Action' (1998), *Journal of Refugee Studies*, 11 (4), 396-415.
[415] A Betts and G Loescher (eds), *Refugees in International Relations* (2011), 61.
[416] P Collier and A Betts above n 413; G Loescher et al above n 414.

states, donors, the wider region, but particularly for the displaced themselves. It is looking increasingly likely that the Syrian refugee crisis will also develop into a protracted refugee situation as the five-year anniversary approaches. The prevalence of protracted refugee situations is testing the resolve of international donors and host states around the world, as well as the capacity of humanitarian agencies to respond effectively. Funding shortfalls are increasingly common. In Jordan, for instance, the government's Jordan Response Plan (JRP) has received approximately 34 percent of its required funding,[417] while UNHCR is also experiencing a notable shortfall with USD2,225,023,529, or 52 percent, of its total appeal for the Syria crisis having been received in 2015.[418]

It is clear that new ways of conceptualising refugee management need to be devised that respond to the priorities of host states, the international community and refugees. Host states in the region need more and better options to encourage them to keep their borders open. Phrased another way, if refugees are unable to return home, and the international community is unwilling to host them in large numbers or finance the cost of hosting (at least over the long-term), then states must be offered solutions that work for or are, at minimum, not contrary to their national interests. This implores a transition towards approaches that look more closely at host state needs and priorities in the first instance, and that create space to craft responsive solutions.

These interests tend to include: maintaining security, offsetting the cost of refugee hosting borne by the government and other sectors, and ensuring that existing economic challenges are not exacerbated. Moreover, if the starting point is host state interest, refugee management must be approached through a lens of temporary protection followed by eventual repatriation. For example, Jordan and Lebanon's economic and demographic profiles mean that the long-term integration of Syrian refugees is not a policy option, save in exceptional circumstances. From a practical standpoint, this is also the most likely scenario. Statistically, conflicts in middle-income countries (like pre-war Syria) do not last much longer than a decade and the Syrian conflict is now in its fifth year.[419] The evidence indicates that a minority of refugees locally integrate, and even fewer are resettled; the vast majority return. Between 1998-2008, for every one resettled refugee, fourteen repatriated. This is also consistent with the aspirations of the displaced; data indicates that refugees overwhelmingly preference returning to Syria when security conditions improve.[420]

There might even be scenarios under which a large refugee population can contribute to national interests. It is often taken for granted that refugees are, by definition, dependent on the host state and international humanitarian aid, which in turn drives the perception of them as a burden. The debate over the phenomenon of dependency and whether refugees constitute a burden or a boon is not new.[421] But political discourse in host states is typically inclined towards the burden narrative. As a result, policies that restrict refugees' freedom of movement and freedom to seek employment, based on fears for national security and stability, is the norm rather than the exception. In the WANA region in particular, the Palestinian experience has led to considerable social stigma and sensitivity concerning the label of 'refugee'. But this relationship of dependency between refugees and their host state and donors is not necessarily accurate or inevitable. While all require protection, and some do need comprehensive material and other forms of support, refugee communities also bring with them a diversity of education, wealth, skills and expertise and entrepreneurship, which is often neglected under traditional responses to refugee crises.[422] The question thus becomes: how might host states raise policies to mitigate the negative impacts associated with refugee hosting, whilst simultaneously supporting their long-term security and economic policy goals? One clear option is to view refugees as a

[417] MOPIC, *Jordan Response Plan 2015 Funding Update* (2015).
[418] UNHCR, *Syria Regional Refugee Response; Inter-agency Information Sharing Portal* < http://data. unhcr.org/syrianrefugees/regional.php> at 21 December 2015.
[419] P Collier, 'If you really want to help refugees, look beyond the Mediterranean', *The Spectator,* (London) 8 August 2015.
[420] R Al Jazairi, 'Transitional Justice in Syria: The Role and Contribution of Syrian Refugees and Displaced Persons', *Middle East Law and Governance*, forthcoming 2015.
[421] G Kibreab, 'The Myth of Dependency among Camp Refugees in Somalia 1979-1989', *Journal of Refugee Studies,* (1993), vol. 6 (4), pp. 321-349; R Zetter, 'Are Refugees an economic burden or benefit?' (2012), *Forced Migration Review*, Issue 41.
[422] Betts et al, *Refugee Economies; Rethinking Popular Assumptions,* Report of the Humanitarian Innovation Project (2014).

structural economic opportunity; to harness their skills and expertise as an asset for private sector growth, with a view to creating both a self-sufficient population and effecting macroeconomic policy goals.

Towards New Opportunities

Turkey

In Chapter 1, it was explained that Turkey can and should increase its productivity in the manufacturing and agricultural sectors. In order to do this, it could take a more nuanced approach to the ongoing Syrian refugee situation to both increase its investment potential and mitigate the risks, as outlined in the previous chapter, of an increasingly protracted refugee situation.

Turkey has ambitious targets to grow its manufacturing sector considerably by 2023; for example, it aims to increase its exports of electronic devices and components to USD14.9 billion over the next seven years.[423] In order to do this, it will need to attract significant Foreign Direct Investment (FDI). One of the ways that Turkey will be able to do this is through the promotion of preferable commercial arrangements, including Organised Industrial Zones (OIZs). These zones often attract investors because of their associated infrastructure, facilities and concessions, such as tax exemptions on land leasing.[424] Another crucial factor for potential investors is the cost of labour. If it were to take a more proactive approach to the Syrian refugee situation, Turkey could simultaneously attract greater FDI and help refugees to provide for themselves by allowing them work permits for specific projects within the OIZs. Currently, Syrian refugees are prohibited from working legally in Turkey, which at first glance may seem like the only appropriate policy measure given the sheer number that have arrived. However, an approach that afforded a quota of work permits for refugees could, under the right circumstances, play a role in encouraging increased investment in Turkey, pushing the country closer to achieving its 2023 output targets.

Alongside manufacturing, Turkey's has ambitious goals to expand its agricultural industry by 2023. Domestic and regional food demand is forecasted to continue growing at a rate of 6 percent up to the year 2017, meaning that Turkey must continue increasing its productivity.[425] One of the best ways of increasing crop production is to expand cultivation areas and yield per unit area.[426] To do this it is necessary to have larger farms that are amenable to big agribusiness; however, in Turkey agriculture is still characterised by "mostly small family-owned farms."[427] In part this can be explained by successive governments' emphasis on urbanisation initiatives, which has also led to a gap in the available labour force for increased agricultural production.[428] But Turkey is becoming increasingly attractive to foreign countries for its available arable land, which, combined with the pool of affordable labour represented by the Syrian refugee population, could help it maximise its output in the agricultural sector. According to the Oxford Business Group, as of 2012 approximately 4 million hectares of Turkey's total arable land remained unused, making it particularly attractive to Gulf countries like Qatar, Saudi Arabia and UAE, whose own food security is increasingly under threat.[429]

Lebanon

[423] Investment Support and Promotion Agency of Turkey, *The Manufacturing Industry in Turkey*, Report produced by Deloitte.
[424] There are a total of 263 OIZs in Turkey, of which 148 are currently operational; Ibid.
[425] Investment Support and Promotion Agency of Turkey, *Food and Agriculture in Turkey*, http://www.invest.gov.tr/enUS/infocenter/publications/Documents/FOOD.AND.AGRICULTURE.INDUSTRY.pdf
[426] M E Tuğay, 'The way of increasing of agricultural production in Turkey'
[427] Oxford Business Group http://www.oxfordbusinessgroup.com/news/turkey%E2%80%99s-agribusiness-attracts-new-investors
[428] Ibid.
[429] Oxford Business Group, *The Report; Turkey 2012*; unlike most other products, agricultural produce is not covered in the customs union between the EU and Turkey and the EU is unlikely to make concessions on its Common Agricultural Policy. However, EU and IFI funding could be directed to support agricultural expansion projects with a view to negotiating access to formal employment for Syrian refugees under specific quotas within the agricultural sector. The Southeast of the country is extremely fertile for expansion and this is also an area where many refugees are located.

At the beginning of this paper it was outlined that there is scope for further expanding Lebanon's agricultural sector. Since the late 1990s, employment in this sector has slowed down: its share of net job creation in the Lebanese economy decreased by 2 percent between 2004 and 2009, being overshadowed by trade, services and construction.[430] In its 2015-2019 strategic plan, the Lebanese Ministry of Agriculture states that it aims to increase the country's production of milk and dairy products to 40 percent of total domestic consumption, and to convert 25,000 hectares of land into irrigated agricultural land by 2019.[431] The agriculture sector, however, is one of the least attractive for investors and job-seekers alike — particularly educated young people.[432] The Ministry of Agriculture and the Ministry of Labour might thus consider in further detail the advantages associated with including refugees in agricultural expansion projects in the country.

The huge and sudden increase in the labour supply in Lebanon, brought about by the arrival of Syrian refugees, is already driving down wages for local Lebanese, particularly in the agricultural sector. Accordingly, any effort to increase agricultural production with a view to expanding livelihoods opportunities for local Lebanese citizens and Syrian refugees alike will also need to support the government's goal of opening up more export markets and compensating for the loss of former trade routes into and via Syria. As well as feasibility studies for the expansion of agricultural production on available arable land, detailed domestic and international market demand analysis need to be carried out. Fruits and vegetables as well as the milk and dairy sub-sectors are likely to be most amenable to increased production utilising refugee and rural Lebanese labour, but it will be imperative to assess the marketability of increased levels of production before expansion projects can begin. Producers would also need to be provided with support to increase export options, including by opening up sea and air routes to markets outside Lebanon.

As with agriculture, employment has moved away from the manufacturing sector in Lebanon, with its share of net job creation falling by 8 percent between 2004 and 2009.[433] Notwithstanding periods of occasional boom, the manufacturing sector has always been at best a modest contributor to GDP and in recent years its output has been in decline.[434] While this might seem like a disincentive to further investment in the sector, share of GDP does not tell the whole story. Importantly, the sophistication of Lebanon's exports increased by 36 percent between 2000 and 2008 and:[435] "*what* a country produces matters more than how much *value* it extracts from its products." Consequently there are areas of the Lebanese manufacturing industry that are well-positioned for expansion under the right conditions; examples include plastics, metals, machinery, rubber products, chemicals, glass, electrical items and products for the transport sector.[436] Exports in these areas have done well even with very limited government intervention to support them or any comprehensive industrial policy to address market failures.

Lebanon can and should expand its manufacturing sector in certain areas; in order to do this more support is needed to incentivise investment. One way the country could do this is to link the scope for increased manufacturing to the current refugee crisis. Alongside government subsidies for strategically targeted areas of industrial exports, Lebanon requires an independent body to "address coordination failures that impede investments in new activities/products" and identify and asses the viability of investment opportunities in high value added activities.[437] Such an independent body could be

[430] D Robalino and H Sayed, *Republic of Lebanon Good Jobs Needed*, World Bank Report No. 76008-LB (2012), pp. 15.
[431] Ministry of Agriculture, *Ministry of Agriculture Strategy 2015-2019* (2014) <http://www.agriculture.gov.lb/Arabic/NewsEvents/Documents/MoA%20Strategy%202015-19%20-%20English-for%20printing.pdf> at 1 December 2015.
[432] H A Jaoude, *Labour Market and Employment Policy in Lebanon*, Report Commissioned by the European Training Foundation (2015).
[433] D Robalino and H Sayed, above n 432.
[434] Manufacturing as a proportion of GDP decreased from 12.5 percent in 1997 to 7.5 percent in 2009; S Atallah and I Srour, *Lebanon's Industrial Policy Must Focus on Developing Highly Sophisticated Exports*, Policy Brief of the Lebanese Center for Policy Studies (2014), pp. 2.
[435] S Atallah and I Srour, above n 155, 3.
[436] C Hidalgo cited in S Atallah and I Srour, above n 155, 3.
[437] D Robalino and H Sayed, above n 432, 46.

tasked with drawing up plans for initiatives in which refugees would be employed alongside Lebanese citizens at pre-established ratios. As part of a broader 'deal', donors could then be encouraged to provide fund projects that would contribute to the country's resilience vis-à-vis the refugee situation, whilst simultaneously making the country more attractive to investors. For example, projects to upgrade Lebanon's infrastructure, such as its electricity grid, would yield significant benefits by reducing blackouts and bringing down a key input cost in the manufacturing sector. This type of project could be complemented by concessions or subsidies to spur investment in areas of manufacturing that have been proven to show promise, on the understanding that refugees would constitute a proportion of the workforce.

Jordan

In Chapter 1, it was explained that Jordan's economic strategy has been to invest in a strong education sector geared towards becoming a hub for technology-driven innovation. Having become caught in what is known as the 'middle income trap', economists have proffered the establishment of large-scale manufacturing. Significant progress has been made; economic and industrial zones have been established throughout the country, complemented by investment-friendly policies and a clear legislative and regulatory framework. There are still, however, obstacles to overcoming the entry barriers to global trade markets. Jordan must compete, for example, with Asia, which enjoys stability, market access (through its coastlines), plentiful natural resources and a large, low-cost labour force. Jordan cannot do much to improve its geographic market access (although this is becoming less important in the globalised economy), the stability of its neighbours, or its natural resource base. It needs something more or something different to generate the conditions to establish a manufacturing cluster. But Jordan does have two important assets. First, the country represents a beacon of stability in a very unfriendly neighbourhood. The strategic importance of this, both to the region and the West, cannot be understated. There are great incentives in play to promote Jordan's stability, including investing in its economic potential. Second, Jordan, like other host states, is providing a global public good in terms of refugee hosting. No country wants to see refugees suffering; donor governments do not, however, want to have refugees on their soil in large numbers.

From a humanitarian perspective and in terms of global stability, this state of affairs is highly disconcerting. But it does bode well for Jordan breaking into and establishing a manufacturing cluster. As discussed, a principal reason attributed to the under-utilisation of some of Jordan's development areas is the lack of complementarity between the labour force required and local labour market dynamics. The refugee population concentrated in the northern governorate of Mafraq constitutes an immediately available, affordable and appropriate skilled set of workers. UNHCR registration data indicates at least 21,208 Syrian refugee builders and the ILO has identified that around 25 percent of refugees residing outside of camps are working in the Jordanian construction industry.[438] Within the Syrian refugee community there is also a range of transferable skillsets that could be attractive to light manufacturing and related industries, including electronics, mechanics, mechanised construction, handicrafts and carpentry.

Would this overcome the issues of neighbourhood, natural resources and market access for businesses to invest in Jordan? The answer is possibly yes, if it was perceived as a sufficiently good profit opportunity. Returning to the idea of Jordan providing a global public good by hosting refugees, there may be a strong market for the sale of 'safe' products — products that are manufactured by refugees, therefore providing them with a livelihood while they are sheltering from conflict. Effective marketing would capitalise on consumers' complex feelings towards refugees — their desire to assist, but at the same time not wanting to host them at the same rates as countries like Jordan.

[438] S Stave and S Hillesund, above n 352, pp.53; while the employment of Syrians in the manufacturing sector has displaced Jordanians (up to 30% of Jordanians in the sector according to the ILO) there has been less displacement in, for example, the manufacturing sector where migrant workers predominately work. Identifying the sectors where Syrian involvement leads to minimal Jordanian labour displacement, like manufacturing, is crucial to mitigating the negative impacts of informal employment.

Investing in Jordan may also be seen as a profit opportunity to companies looking to position themselves prior to a reconstruction boom in a post-conflict Syria, or for companies forced to leave Syria and that wish to resume operations.

- Manufacturing companies that identify a marketing opportunity in goods produced using ‘safe’ Syrian refugee and host community labour. Such opportunity is most likely to resonate with companies with active Corporate Social Responsibility programming (such as IKEA, UNIQLO, Benneton, and French Bel Group) and with markets in European countries where public dissatisfaction towards government refugee containment policies is rising (annex 2).
- Energy, manufacturing and pharmaceutical companies forced to leave Syria that might view re-establishing in a similar but stable operating environment as strategically attractive (annex 2).
- Reconstruction industries seeking to secure a foothold in a post-conflict Syria. This particularly relates to semi-refined and refined raw materials industry, but may extend to research and development; the scale of Syria’s reconstructive needs coupled with water and energy scarcity will call for new technologies.

Kurdish Region of Iraq

Despite enjoying a significant amount of fertile land, the KRI continues to rely on agricultural imports to an unsustainable degree. As outlined earlier, this was historically because of trade embargoes and internal instability, but more recently is due to the KRG’s general neglect of the agricultural sector compared with others such as tourism and oil and gas. However, the Ministry of Agriculture and Water Resources (MOAWR) has now set long-term goals for domestic food security, to be achieved by becoming self-sufficient in agricultural produce. MOAWR has also committed to turning the KRI into “a major producer and exporter of wheat, vegetables, fruit, meat, dairy, and poultry” to the WANA region.[439] The KRI is therefore poised for a significant expansion of its current levels of agricultural production, but it will need to make progress in a number of different areas before this becomes a reality; in this process, there is undoubtedly potential for refugees and IDPs to play a positive role in achieving the MOAWR’s goals.

On the one hand the KRG maintains a policy of incentivising small-scale farming in rural areas, but often it simply is not in the locals’ economic interests because most of what they would produce could not compete with the prices of imported foodstuffs. There are serious bureaucratic, infrastructural and human resource hurdles to overcome in order for this policy to begin to take effect. The KRG could seek assistance from international donors to kick-start small-scale production by implementing a legal framework that would allow for refugees and IDPs to be involved in cultivating arable land. In the process, the KRG could gain much-needed support for upgrading/building the necessary infrastructure, such as hospitals and schools, in rural areas that would slow down the current trends of rural-urban migration, whilst also providing livelihoods opportunities for refugees and IDPs and increasing KRI’s agricultural production.

The KRG also intends to expand its activities in the area of big agribusiness, as well as the small-scale production described above. However, the KRI currently suffers from “a more than 20-year gap in the knowledge of current agricultural technology and development.”[440] This is compounded by the fact that there is a serious lack of cooperation between the Ministry of Agriculture and Kurdish universities for research, development and innovation in the agricultural sector. In addition to acquisition of technology to scale-up production and make it more efficient, there is a need for comprehensive education programmes to update farmers’ skills and knowledge base. In the past, Kurdish

[439] Invest In Group, *Restoring the Bread Basket: Agriculture* <http://investingroup.org/review/240/restoring-the-bread-basket-agriculture-kurdistan/> at 29 December 2015.
[440] RTI International, *Kurdistan Region; Economic Development Assessment* (2008).

farmers could not compete with their Iranian, Turkish, and Syrian counterparts due to a knowledge deficit in irrigation, pesticide use, harvesting and other areas.[441] Hence, with appropriate planning, the inflow of Syrian refugees could represent one way of addressing this deficit through the transfer of agricultural skill sets.

Expanding the agricultural sector by including Syrian refugees and IDPs in new projects ought to be the priority since agriculture represents the area with greatest potential for increasing exports from the KRI; however, there are also other areas where mutual gains could be made for refugees/IDPs and the KRI's economy. For example, there is a lack of social housing in the KRI, meaning that refugees and local Kurdish alike can struggle to find affordable housing. Governorates could collaborate with international donors and private investors to develop projects for the construction of social housing that would employ both refugees and locals as well as addressing the shortage in affordable housing. Another example is to be found in the manufacturing sector. As mentioned in chapter 4, the KRI's manufacturing sector is small and underdeveloped but shows potential for expansion. It is critical that key infrastructure, such as water and electricity, be improved at potential sites for new manufacturing projects. The KRI could follow the example of Jordan and others by investing in economic zones where preferential terms of production and trade could help to incentivise investment. Trade in the KRI has vastly increased since 2003 and the labour cost advantages of offering employment to refugees and IDPs could allow firms to contribute to further growth.

The Changing Role of Aid

The sort of investment incentives described in the previous sections would need to be complemented by support from other stakeholders with vested interests. Donor governments need to address the humanitarian challenges posed by the Syrian refugee crisis and would generally prefer for this to be in the form of something more constructive and sustainable than emergency aid. As part of a renegotiated aid package, they might offer more attractive financial support and free trade or market access agreements for products manufactured using Syrian refugee labour, thereby further increasing the appeal of investing in these host states.[442] Europe, which is battling its own refugee crisis, is an obvious stakeholder in this regard. International financial institutions (IFIs), such as the World Bank and International Monetary Fund, could also play a role through loans to offset manufacturing development or subsidise plant establishment costs.

Accessing such loans and financial development assistance has long been problematic for states like Turkey and Jordan due to their upper- and middle-income statuses respectively. However, there is increasing recognition among donors of the importance of pursuing links between development support for peace-building and post-conflict peace maintenance. It is empirically well established that conflicts reoccur with alarming regularity; around 40 percent of countries relapse into conflict within the first decade of post-conflict peace.[443] Conflict economists have positively linked a lower risk of post-conflict relapse to sustained economic recovery in the years immediately following a cessation of hostilities.[444] Efforts to foster a post-conflict Syrian economy, including by supporting the establishment of industrial and manufacturing plants that could easily and quickly decant from neighbouring countries into Syria with a trained workforce of repatriating refugees, is thus likely to be seen by IFIs as strategic investment.[445]

[441] J Neurink, above n 318.
[442] P Collier, *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It* (2007), 58.
[443] P Collier, A Hoeffler and M Söderbom, 'Post-Conflict Risks' (2008), *Journal of Peace Research*, vol. 45 (4), pp. 461-478.
[444] Ibid.
[445] Such sectors include: construction, manufacturing, electricity and telecommunications. These connections are increasingly being understood by and reflected in the policies of institutions such as the World Bank and International Monetary Fund.

It is important to highlight what this would mean for host states in terms of broader manifestations of regional instability. Investing in the economic stability of a post-conflict Syria not only serves the interests of Syrians, it also reduces its neighbors' risk of future conflict. That the presence of a civil war in an adjacent country increases the probability of conflict outbreak domestically is well known: "conflicts cluster geographically, possibly suggesting a diffusion mechanism or a spatial contagion effect".[446] This 'neighborhood' impact may even be more acute in Arab states, because of their shared history, the multiplicity and intensity of transmission channels, and the regional dimension of contemporary events.[447] In constructive terms, this positive correlation between continuing instability in Syria and host state conflict vulnerability means that all states in the region have a vested interest in supporting economic stability in Syria.

While the economics of the situation may appear simple, there are still important questions that need to be answered, mainly of a political nature. First, how can such a strategy be reconciled with the imperative of creating jobs for citizens of the host state? In fact, by encouraging increased investment and regulating labour participation by way of pre-established ratios of refugees to host state citizens, these projects would create jobs for both Syrians and nationals, particularly workers in host communities. Moreover, it must also be recognised that many Syrian refugees are already operating in the informal labour market. Providing a means to transfer from the informal to the formal labour market responds to the externalities stemming from a large informal economy, increases worker safety by curtailing opportunities for exploitation, and creates revenues for the government by way of work permits and income tax. Humanitarian agencies might also find it more constructive and economic to offset the cost of work permits for refugees rather than provide food and non-food items. Livelihoods opportunities also provide dignity and autonomy, eliminating some of the criticisms associated with food vouchers and direct assistance.

A second question is whether such opportunities would increase the likelihood of Syrians remaining in-country indefinitely, or encourage more to seek refuge. As stated at the beginning of this chapter, any policy decision that supports the sheltering of refugees needs to be consistent with the host state's national interests, including the imperative of protection being seen as temporary. A critical element of the model proposed is that investment would come from so-called "footloose industry" (denoting industry where the costs of production remain unchanged regardless of location). Following a cessation in hostilities, such companies would have the opportunity to expand their operations to Syria, taking advantage of a new market and utilising an existing, trained repatriating worker population.[448] Existing plants, however, would remain in the host state(s) neighbouring Syria, having established itself as a safe and profitable business environment. A parallel logic might also be seen to be in play; if the priority is to see the eventual return of refugees to Syria, a principal way to contribute to this is by ensuring that refugees have the skills and expertise in key industries to support reconstruction, namely in building, manufacturing, electricity and ICT.

A final question is whether bestowing on refugees greater rights and autonomy creates a security risk. The tensions between refugees, host communities and the population more broadly, have been elaborated earlier in this paper. Would the issuance of working rights in the context of existing unemployment tip this fragile balance? It is difficult to answer this question definitively. However, it is clear that any move in support of refugee working rights would need to

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[446] Recent research suggests that these linkages may be broader than originally thought. The 'neighborhood effect' theory suggests that conflict events in one country have indirect but strong impacts on states that are, not only geographically linked, but culturally, ideologically or economically connected. Source: Y Chaitani and F Cantu , *Beyond governance and conflict: measuring the impact of the neighborhood effect in the Arab region,* Economic and Social Council for Western Asia (October 2014), < http://www.escwa.un.org/divisions/ecri_editor/Download. asp?table_name=ecri _documents&field_name=id&FileID=272> at 3 June 2015.

[447] Ibid; Examples include the Arab-Israeli and Iraq conflicts; the high incidence of conflict-driven displacement; policies of ultra-securitization; disproportionate incidences of terrorism and illegal arms trafficking, and international and regional power politics that translates into polarization and proxy wars.41% of all Arab countries have experienced at least one internal conflict in the past five years (2009-2013). This had led to a population displacement of unprecedented dimensions, with an equivalent of 2.1% of the population registered as refugees and another 2.9% as displaced inside their country of origin. In addition, the region suffers one of the worst rates of terrorist activities in the world.

[448] P Collier and A Betts, above n 413.

be accompanied by an extensive public sensitization campaign, clearly outlining the opportunities that would accrue to the national economy.

It is also important to reference the emerging literature examining potential linkages between refugees and extremist groups. Some of this derives from events in Lebanon, and some from theoretical (yet logical) connections between the economic opportunities provided by extremist groups vis-à-vis the financial strain and hopelessness felt by a refugee population that is unable to work and in the context of cutbacks in humanitarian assistance. Because of the strong and negative impact such associations can have on the protection space, any linkages must be made cautiously and based on strong evidence. But there is little doubt that the best protection against instability, and against extremism more broadly, lies in generating conditions to support opportunity and raise living standards and hope for all. The best strategy to achieve this might be by capitalising on the refugee labour force to attract needed investment.

Conclusion

This paper has proposed that the Syrian refugee population and refugees per se could be better conceptualised as embodying new opportunities, rather than hardships, for host states. It details some basic examples of how this might materialise: encouraging large-scale investment in manufacturing and agriculture and creating employment opportunities for both Syrian refugee and host country workers at pre-established ratios. This model has the potential to reduce hosting costs by increasing refugees' self-sufficiency in the context of severe shortfalls in international humanitarian assistance. Moreover, it would constitute an important step towards host states' longer-term economic resilience by promoting strategic investment in underdeveloped areas of the economy and by facilitating increased tax revenues.

These ideas are not entirely novel. For example, the use of 'zonal development' for the inclusion of refugees in states' economic development goals in ways that also promote their self-sufficiency has historical precedent.[449] Furthermore, it is important to note that taking account of the needs and interests of the host state is consistent with the spirit of the 1951 Convention. The Convention's preamble acknowledges this as follows:

> Considering that the grant of asylum may place unduly heavy burdens on certain countries, and that a satisfactory solution of a problem of which the United Nations has recognized the international scope and nature cannot therefore be achieved without international co-operation.[450]

Given that this type of approach is not without precedent, why have host states not acted faster? One key issue is how refugee management is approached and conceptualised. As outlined at the beginning of this chapter, there is currently an inadequate balancing of the obligations of host states against that of other stakeholders. The right to seek refuge and to be protected against refoulement is enshrined in international law, however reciprocal obligations to ease the burden this creates in host states are not. This becomes particularly problematic when a situation becomes protracted. Host states are well aware of these inequities, and are increasingly hesitant to adopt liberal approaches without greater assurance that they will not be left to foot the bill over the long-term.

In response, this paper has advocated a need to elaborate new ways of approaching refugee management. It suggests that, in the context of inadequate rules on burden-sharing, a more constructive place to start might be the needs and interests of host states, or at least a better balancing of protection with host state imperatives. This nuance is important. What has been seen in many refugee situations is that an over-emphasis on protection can quickly descend into an exercise of boxing ring-type posturing between the host state and humanitarian agencies. Where it is perceived that priorities are not being met, both sides fall back on the only tools they have: financial resources and appeals for the protection of rights on the part of donors and agencies, and closing borders and tightening restrictions on refugees on the part of hosts.

The idea that refugee actors should broaden the existing 'protection-centric' framework to include 'host state interests' is imbued with risk. Refugee protection, in its traditional top-down format, is vital and it is UNHCR's role to maintain this advocacy standpoint. But livelihoods and autonomy are also important and there need to be actors — within UNHCR or in other agencies — investigating, evaluating and proposing these options in a timely manner. This should not be construed as ruthless capitalisation on a vulnerable population. It should be understood as a necessary transition to

[449] Ibid.
[450] UNHCR, *Convention Relating to the Status of Refugees; Preamble* <http://www.unhcr.org/4d934f5f9 .pdf> at 22 December 2015.

more sustainable models for refugee hosting at a time when the frequency, depth and protracted nature of displacement means that traditional responses are no longer sufficient.

The question should be how to mitigate against and address associated risks. For instance, if the start point moves more towards state-interest, will this further dis-incentivise donor community assistance? What checks and balances need to be set in place to ensure refugee populations are not exploited, particularly in the context of gross inadequacies in the international regulatory framework concerning migrant workers? And how might the ethical implications of refugee hosting becoming an object of state interest be addressed? In short, strong safeguards need to be set in place to ensure that economic rationalism does not undermine humanitarian imperatives. But where such solutions do make sense and can work, support from international, humanitarian and governmental actors should be forthcoming.

In summary, this paper has proposed that if host states are expected to a provide global public goods by offering a protection space for displaced communities, then state interest should be part of the conversation from the beginning. When the imperative shifts to how donors can help host states continue to provide these global public goods, a wider range of options can evolve. The model outlined here is by no means the only alternative. The main 'take away' is that the three orthodox durable solutions for addressing mass displacement, local integration, third country resettlement and repatriation, are failing to meet the challenges posed by global displacement and that new modalities need to evolve. A further alternative is a broader paradigm shift towards a fourth solution of 'holding pattern' arrangement for refugees. Scenarios where refugees could have more autonomy to continue their lives and livelihoods, businesses could continue to operate and the labour force would retain their skill-set until a return scenario is possible. To conclude, refugees' skills and expertise represent opportunities that host states, humanitarian agencies and donors ignore to their detriment. Moreover, there are broader imperatives of security and stability in the post-conflict context that demand more inclusive planning in the management of refugee crises. Such planning will only be successful if bold and innovative new solutions are tried and tested to push the international refugee regime forward and out of its stalling traditional framework.

Annex 1: Typology of Direct and Indirect Costs and Benefits of Hosting Syrian Refugees

	Direct costs	Indirect costs	Direct benefits	Indirect benefits
Water and sanitation	Water provision, subsidy losses, sanitation services and waste collection.	Reserve depletion, pollution (water and soil), water quality deterioration, water reliability and availability, Less frequent waste removal.	Infrastructure, reuse and extension projects that would not otherwise have taken place, environmental planning studies/research.	
Energy	Energy provision, subsidy losses.	Reserve depletion, pollution, changes in energy quality, reliability and availability		
Security	Police, gendarme, prisons, courts, military, border security.	Cost of crime to individuals involved; community perceptions of security, stability, and trust in government; increased radicalisation, intra-community disputes, increased risk of terrorism (external and internal).	International support coping with threats, Improved relations with allies, improved intelligence sharing and training, new security assets.	
Education	Facility, teacher and administration costs	Decreased quality of education, number of children not in education	New curricula, teachers trained, new /improved schools	
Cash assistance	Provided by the government, international organsiations, religious charities and local NGOs.	Diversion of charity assistance that may have benefited Jordanians.		
Food and non-food items	Food and non-food item	Changes in price of food	Greater purchasing power	

	provision, food subsidy losses.	and services, availability and quality of food, food reserve depletion.	of Syrians	
Infrastructure (including housing and shelter)	New infrastructure (housing, roads, energy, water and sanitation, schools and other public facilities)	Change in price of rent and real estate, infrastructure depreciation (roads, energy, water and sanitation, schools and other public facilities).	Expansion in rental market, housing upgrades, new and improved pubic infrastructure	
Health	Health care provision in hospitals, clinics, ambulances, medication, vaccination programs.	New/recurrence of disease, psycho-social health/mental illness, availability of medicine, waiting time to receive health care, cost of health care, availability and cost of medicine.	Medical equipment, new/improved facilities, trained health workers, new mental health workers and psycho-social health programs.	
Employment	Increased social security payments for Jordanians displaced from labour market.	Downward pressure on wages, income tax losses due to operation of informal economy, costs of rise in informal economy	New jobs created, vocational training programs, new markets/businesses opened.	
Tourism		Estimated losses	International workers avail of touristic sites	
Social indicators		Transactional sex, child marriage, child labor, undocumented persons, children vulnerable to		

		statelessness, substance abuse, domestic violence, divorce, attitudes towards government on refugee policy, attitudes towards refugees, increased social and economic inequality, demographic changes (youth bulge), sense of dignity, sense of Arab affinity, sense of hope for the future, sense of national identity.		
Public and trade deficit	Foreign and public debt, trade deficit	Poverty rates, negative economic growth, GDP, inflation	Expanded consumer and tax base, GDP and overall economic activity, Syrian company investment, foreign direct investment, increased consumption of goods and services, increased capital inflows.	Expanded services and manufacturing sector, increased demand for work (source of government revenues), increased entrepreneurship

Annex 2: Major companies forced to leave Syria

Oil and Energy	Royal Dutch Shell	French Total	Eni (Italian Oil Company)	China National Petroleum Corporation (CNPC)	Schneider Electric	Areva (nuclear and renewable energy)	INA Group (Croatian oil and gas exploration enterprise)	Gulfsands petroleum (oil and gas exploration)
Technology	Sony Corporation	IRIDEX Corporation (lasers for retinal surgery)	Italy's Area SPA (drag-net surveillance)	France Qosmos SA (network intelligence)	Germany's Utimaco Safeware AG (cybersecurity solutions**)**			
Banking and Finance	Global Exchange (biggest currency exchange company in Syria, closed by Syrian authorities)	American Express Company						
Food and Retail	Bel Groupe (French Cheese Factory)	Kentucky Fried Chicken (KFC)	Benneton					
Construction	Lafarge Concrete (French, now in Jordan)	Rosch Company	Caterpillar	Veolia Environment SA (water supply and water management)	AECOM Technology Corporation			