

Prospects for Economic Integration in Levant

Nader HABIBI

Prof. Dr., Crown Center for Middle East Studies, Practice in Economics, Brandeis University

To cite this article: Habibi, Nader, "Prospects for Economic Integration in Levant", *Uluslararası İlişkiler*, Vol. 15, No. 60, 2018, pp. 59-73, DOI: [10.33458/uidergisi.525098](https://doi.org/10.33458/uidergisi.525098)

To link to this article: <https://dx.doi.org/10.33458/uidergisi.525098>

Submitted: 15 November 2017
Printed Version: 01 December 2018

Uluslararası İlişkiler Konseyi Derneği | International Relations Council of Turkey
Uluslararası İlişkiler – Journal of International Relations
E-mail : bilgi@uidergisi.com.tr

All rights of this paper are reserved by the *International Relations Council of Turkey*. With the exception of academic quotations, no part of this publication may be reproduced, redistributed, sold or transmitted in any form and by any means for public usage without a prior permission from the copyright holder. Any opinions and views expressed in this publication are the author(s)'s and do not reflect those of *the Council*, editors of the journal, and other authors.

Prospects for Economic Integration in Levant

Nader HABIBI

*The Henry J. Leir Professor of Practice in Economics Crown Center for Middle East Studies, Brandeis University
E-mail: nhabibi@brandeis.edu*

ABSTRACT

For many decades domestic political instability, anti-globalization economic ideologies and geopolitical turmoil prevented the Levant countries from developing closer economic relations. In an unexpected turn of events the AKP government in Turkey initiated proactive diplomacy aimed at the promotion of closer economic ties with Levant countries and these efforts led to a significant increase in trade and investment between the Levant countries between 2002-2010. This progress came to an end with the Arab Spring uprisings in 2011. These uprisings evolved into a violent sectarian war in Syria and caused considerable damage to Turkey's economic and diplomatic relations with Syria and Egypt. The level of sectarian violence has declined significantly in Syria and there is some potential that a political solution can be implemented. This outcome will have a positive effect on the region's prospects for restarting the economic cooperation that was suspended in 2011. The short-term prospects for a multi-lateral economic agreement are not high but an expansion of bilateral economic relations is more likely among the countries that enjoy more political and economic stability.

Keywords: Levant, Syria, Turkey, Economic Cooperation, Trade, and Civil War

Levant'ta Ekonomik Bütünleşme Beklentileri

ÖZET

Uzun yıllardan bu yana devam eden iç siyasi istikrarsızlıklar, küreselleşme karşıtı ideolojiler ve jeopolitik çalkantılar Levant ülkelerinin yakın ekonomik ilişkiler geliştirmelerinin önüne geçmiştir. Türkiye'de AK Parti hükümetlerinin iktidara gelişiyle birlikte Levant ülkeleriyle yakın ekonomik bağları teşvik eden proaktif bir diplomasi başlatılmış ve bu çabaların neticesinde 2002-2010 döneminde Levant ülkeleri arasında ticaret ve yatırım önemli ölçüde artmıştır. Bölgedeki ayaklanmalar Suriye'de yaşanan ağır mezhepsel çatışmayla evrilmiş ve Türkiye'nin Suriye ve Mısır'la olan ekonomik ve siyasi ilişkilerinde ağır bir zarara yol açmıştır. Mezhepsel çatışmanın boyutları Suriye'de önemli ölçüde azalması siyasi bir çözümün uygulanabilmesi yönünde bir ihtimali doğurmuştur. Bu yönde bir gelişme, bölgede 2011 yılında askıya alınan ekonomik işbirliğinin yeniden başlatılması ihtimaline önemli bir katkı sağlayacaktır. Taraflar arasında kısa vadede çok taraflı anlaşma ihtimalleri çok fazla olmamakla birlikte, siyasi ve ekonomik istikrara sahip ülkeler arasında ikili ekonomik ilişkilerin artması olasıdır.

Anahtar Kelimeler: Levant, Suriye, Türkiye, Ekonomik İşbirliği, Ticaret, İç Savaş.

Introduction

The shockwaves of the 2011 Arab Spring uprisings are still being felt in many countries in the Middle East. Nowhere have the consequences of these uprisings been more significant than in the Levant region, particularly in Syria and Iraq. While the uprisings, which began in Tunisia and spread quickly to many Arab countries, were contained by state power or, as was the case in several countries, political reform, in Syria, uprisings would morph into a bloody civil war. In that country the uprisings against the Bashar Al-Assad regime that began in late 2011, evolved into a multi-front sectarian civil war and a costly ethnic/sectarian conflict that has been fueled by proxy wars among regional powers and global superpowers alike for more than six years.

Prior to the 2011 uprisings, the six countries that constitute the Levant region (Egypt, Jordan, Lebanon, Iraq, Syria and Turkey) had made visible progress toward expansion of trade and economic cooperation. The volume of bilateral trade among these countries grew steadily between 2000 and 2011 as the entire region benefited from several positive developments. First, the high oil and gas revenues of the Middle Eastern oil producers had a positive effect on Egypt, Jordan and Lebanon, which receive large amounts of remittances from their workers in countries such as Saudi Arabia, the UAE, Kuwait and Qatar. Second, the export and market-oriented economic reforms in most Levant countries contributed to the growth of economic cooperation. The only exception was Iraq, which was adversely affected by the U.S. military invasion of 2003 and the turmoil that followed this invasion for several years. Third, the Justice and Development Party government, which has governed Turkey since 2002, actively promoted closer economic and diplomatic relations with its Middle Eastern neighbors.

Trade and economic cooperation among Levant countries, particularly Turkey, Syria, Lebanon, Jordan and Iraq has deep historical roots that stretch back to the Ottoman Empire. During the 16th to mid-19th centuries, when the entire region was part of the Ottoman Empire, the political barriers to trade were minimal. The local rulers that governed with the approval of the Ottoman Sultans facilitated the free flow of goods and people throughout the Levant region while only occasionally imposing restrictions on food exports during local shortages.¹ European colonization of the Levant and the artificial creation of Lebanon, Jordan, Syria and Iraq after the First World War created significant barriers against trade and economic cooperation in the region. The newly created Arabic speaking states were under the economic and trade domination of the United Kingdom and France until they eventually gained full independence following the Second World War. During the period of European colonial domination, intra-Levant economic relations remained depressed, as each country's economy was reoriented toward its European patron.²

On the other hand, after World War II Turkey primarily focused on strengthening its economic and diplomatic links to Europe and showed little interest in its Middle Eastern neighbors. In the meantime, the Levant nations were preoccupied with the Arab-Israeli conflict in the 1950s and 1960s. Political demands for unity were mainly focused on military and political unity and there were

1 Şevket Pamuk, "The Evolution of Factor Markets in the Ottoman Empire, 1500–1800", paper presented at *Global Economic History Network Workshop* on "The Rise, Organization and Institutional Framework of Factor Markets", 23–25 June 2005, p.10, <http://www.iisg.nl/hpw/papers/pamuk05.pdf>, (Accessed on 26 February 2018).

2 Eric Schewe, "Post-war Economies (Middle East)", *International Encyclopedia of the First World War*, 2017, https://encyclopedia.1914-1918-online.net/pdf/1914-1918-Online-post-war_economies_middle_east-2017-10-24.pdf, (Accessed on 2 November 2017).

several failed attempts for political integration by Syria and Egypt.³ Like the rest of the Arab world, the Arab countries of Levant were caught in the cold war alliances with the former Soviet Union and the United States, which left little opportunities for regional economic cooperation. As a NATO member and a strategic ally of the U.S. and Israel, Turkey was not a good candidate to invite the Arab countries of Levant into any regional economic cooperation initiatives in those decades. Furthermore, disputes over the flow of Euphrates and Tigris waters from Turkey into Syria also caused diplomatic tensions between the two countries from late the 1960s until the early 2000s.⁴

While war and political instability have led to a setback in prospects for stronger economic integration among Levant countries, there is still a sizable amount of formal and informal trade among them, which reflects the adaptability of both private enterprises and state actors in the face of conflicts and geopolitical uncertainties. The fragmentation of Syria into several warring sub-regions, for example, has created opportunities for neighboring countries to trade with the Syrian regions adjacent to their borders that have been governed by non-hostile factions.⁵ As a result of this adaptability and pragmatism, bilateral trade and investment relations among Levant countries will continue under a variety of scenarios regardless of the outcome of the current conflicts and proxy wars in the region. The net effect of violence and conflict is to keep trade levels below their full potential.

In this paper, I will examine the prospects for economic cooperation among the six countries that constitute the Levant region.⁶ The analysis will take into account the unique geopolitical environment of the Middle East, which imposes several political and security risks for investment and economic activity. I will also analyze the trade policy and economic structure of the Levant nations, which are relevant for the region's prospects for economic cooperation.

Progress before 2011

The period between 2002 and 2010 should be viewed as the golden era of economic cooperation in the Levant. In this eight-year interval, the countries of the Levant experienced an unprecedented growth in their investment and trade relations (see charts 2 and 3 below). Turkey was the primary driver of this remarkable economic integration initiative. Several political and economic reforms in Turkey encouraged the country to move in this direction. The most important factor was the reorientation of Turkey's economic development strategy from import-substitution to an export-oriented growth strategy, which began in 1980s.⁷ Under this new policy the Turkish government incentivized private industry to become more competitive and compete in global markets. The government also engaged in active trade diplomacy to expand Turkey's trade relations.

3 Adeed Dawisha, *Arab Nationalism in the Twentieth Century: from triumph to despair*, Oxfordshire, Princeton University Press, 2003.

4 Ayşegül Kibaroglu, "Turkey-Syria Water Relations: Institutional Developments and Political Confrontations in the Europhates and Tigris Region", Raymon Hinnebusch and Özlem Tür (Eds), *Turkey-Syria Relations: Between Enmity and Amity*, London, Routledge, 2016.

5 Laurence Lee, "Turkey-Syria Business Booms as Conflict continues", *Aljazeera*, 14 March 2016, <https://www.aljazeera.com/news/2016/03/turkey-syria-trade-booms-conflict-continues-160314150048463.html>, (Accessed on 18 February 2018).

6 Levant can include Israel. But, since economic interaction between Israel and many Levant countries is constraint, Israel is not included in this study.

7 Ziya Öniş and Steven B. Webb, "Political economy of policy reform in Turkey in the 1980s", *Policy Research Working Papers*, WPS 1059, Washington, DC, World Bank, 1992.

While this export-orientated transformation was underway, the country experienced a political transformation that was also favorable to Turkey-Middle East relations. The victory of the Justice and Development Party (AKP) in Turkey's 2002 parliamentary elections served as the main driving force for the promotion of Turkey's economic relations with the Levant. The moderate Islamist AKP showed a strong desire for an expansion of Turkey's economic and diplomatic relations with its Arab and Muslim neighbors.⁸

While the economic relations among the Arab countries of Levant (Egypt, Lebanon, Jordan, Syria and Iraq) were overshadowed by diplomatic tensions and the U.S. invasion of Iraq, Turkey pursued proactive bilateral trade diplomacy with each of these countries. Turkey offered a wide range of agricultural and processed food products to its Arab neighbors. At the same time, advances in Turkey's industrial and manufacturing technologies enabled it to offer a wide range of intermediate industrial products and engineering services.

Between 2002-2010, Turkey signed many economic agreements with Arab countries including several in Levant. The first of these trade and investment agreements was signed with Syria (2004), followed by Egypt (2005), Jordan (2009) and Lebanon (2010).⁹ They were part of a broader effort by the AKP government to expand its diplomatic and economic linkages to the Middle East. Closer ties with Muslim Middle Eastern countries were in line with the preferences of the more conservative supporters of the AKP in the Asian (Anatolian) regions of Turkey. While no agreement was signed with the Iraqi government, Turkey managed to expand its economic relations with both the Arab and the Kurdish regions of Iraq in this period as well. In these years, Iraq served as the largest market in the Levant for Turkish exports.¹⁰

Trade Complementarity among Levant Countries

In addition to the diplomatic efforts of Turkey, the trade complementarity of the Levant economies was also high enough to increase trade once policy barriers were reduced. When the export products of one country resemble the imports of a trading partner, they have a high propensity to trade with one another (for example an oil exporter and an oil importer). Using detailed bilateral trade data among nations, the United Nations Conference on Trade and Development (UNCTAD) generates an annual Trade Complementarity Index (TCI), which is useful for assessing the trade potential between nations.

8 Turkey made a similar effort to promote closer economic cooperation with Muslim countries in 1997, when the Welfare Party (WP - *Refah Partisi*) governed the country for a brief period before it was forced to move out by the military. For the efforts initiated by the WP Prime Minister Necmeddin Erbakan, see Ali Çarkoğlu *et al.*, *The Political Economy of Regional Cooperation in the Middle East*, London Routledge, 2005, p.207.

9 These agreements dealt with goods trade, but Levant countries have made little progress in service trade that includes tourism, and employment opportunities.

10 For example, Iraq's share in Turkey's total exports in 2006 and 2009 were 2.7% and 4.5% respectively. The comparable figures for Turkey's next largest partner in Levant (i.e., Syria,) were 0.62% and 1.2% respectively. See https://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/tur/show/all/2009/, (Accessed on 10 February 2018).

Table 1: Trade Complementarity among Levant Countries in 2001, 2010 and 2013

		Importer						
		Egypt	Iraq	Jordan	Lebanon	Syria	Turkey	
Exporter	Egypt		30%	40%	40%	30%	40%	
			40%	50%	40%	40%	40%	
			40%	50%	40%	40%	40%	
	Iraq		0%	10%	0%	0%	10%	
			0%	10%	0%	0%	10%	
			10%	10%	0%	0%	0%	
	Jordan		40%	30%		50%	40%	40%
			30%	40%		40%	30%	30%
			30%	40%		40%	30%	30%
	Lebanon		30%	30%	30%		30%	30%
			30%	40%	30%		30%	30%
			40%	40%	40%		40%	40%
	Syria		30%	10%	30%	20%		30%
			30%	40%	40%	40%		30%
			40%	50%	50%	50%		30%
	Turkey		40%	40%	40%	50%	40%	
			50%	60%	50%	50%	50%	
			50%	60%	50%	50%	50%	

Note: The top number for 2001, middle number for 2010, bottom number for 2013. For an explanation of how Trade Complementarity Index is calculated see: World Bank Group, 2014, "Over the Horizon: A New Levant", Report No. 86946-IQ. Source of Data: United Nations UNCTAD database.

The values of TCI index for Levant countries in 2001, 2010 and 2013 are reported in Table 1. The TCI index ranges from 0 (no complementarity) to 100 (full complementarity) and the figures in Table 1 are high enough to promote and sustain trade among Levant countries. All Levant countries with the exception of Iraq have TCI indexes in the 30% to 60% range in 2010 and 2013. Turkey stands out as an exporter with 50% or higher TCI values with all other Levant countries. The compatibility of Turkey's exports with the import structure of other Levant countries provided the country with a strong economic incentive to promote trade relations with the Levant.

Comparing the 2001 and 2010 scores, we observe that for many pairs of trade partners, the trade complementarity increased during this period. This increase shows that Levantine economies took advantage of trade opportunities with one another and directed a larger share of their export products toward other Levant countries. Furthermore, comparing the 2010 and 2013 values, we also observe that despite the uprising and civil war in Syria the trade complementarity of Levant countries has not diminished.

A World Bank 2014 report on the Levant economies demonstrated that the average TCI score of Levant countries in 2001 was comparable to the average TCI score of the six founding members of the European Economic Community (EEC) in 1957.¹¹ While the TCI scores in Table 1 differ from

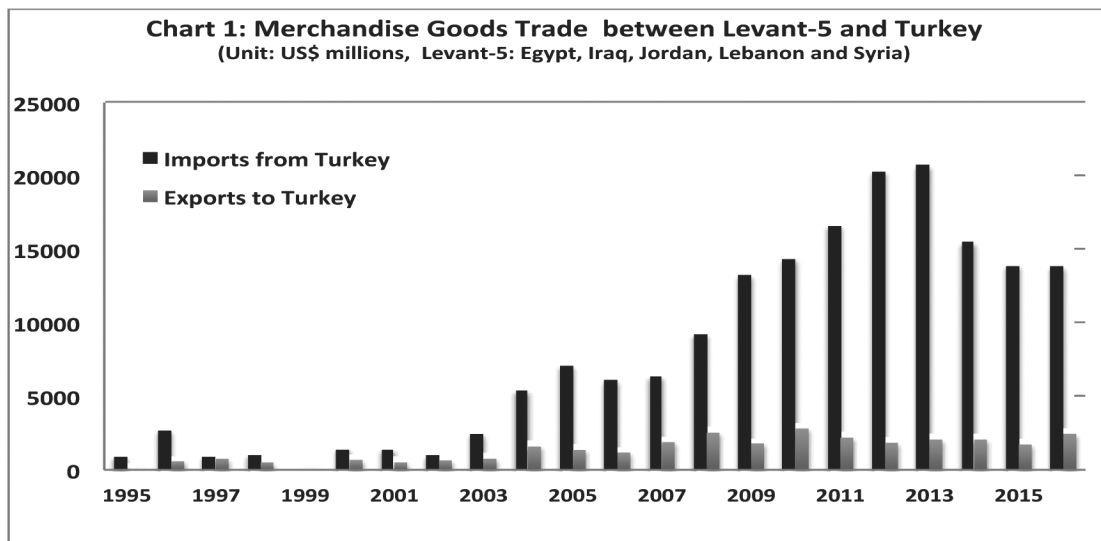
11 See World Bank Group, "Over the Horizon: A New Levant", Report No. 86946-IQ, 2014, p.xix <http://documents.worldbank.org/curated/en/594261468261275050/pdf/889500ESW0whit0x385254B00UO0900ACS.pdf>, (Accessed on 15 November 2017).

the 2014 World Bank Report and do not show that the Levant Economies had similar TCI scores in 2001 as EEC countries had in 1997, the average score of Levant countries in 2010 is close to the EEC average in 1957 of 51.¹² At the same time the Levant TCI scores show less trade compatibility than do the scores for European Union members and the Eastern European countries that joined the EU soon after the collapse of the former Soviet Union.¹³

The trade compatibility of Levant countries is rooted in the fact that they are at different stages of industrialization and that there exists a sufficient difference in their labor costs to give each one of them a comparative advantage in the production of specific categories of export products. For example, Syria and Iraq have low labor costs and produce low-tech and petrochemical based export products, while Jordan, Egypt and Turkey have reached a higher stage of industrialization and are exporting more advanced manufactured products. Lebanon and Turkey also enjoy a comparative advantage in agricultural products.

Trade Flows among Levant Countries

Before 2002, the volume of intra-Levant trade was very small. The Arab members not only did not trade much with Turkey, but they also had limited trade among themselves. After 2002 we observe an increase in bilateral trade among all Levant nations, with Turkey serving as the main trade engine for the region. As demonstrated in Chart 1, the volume of Turkish exports to Levant countries grew rapidly after 2002 and the upward trend continued until 2012.

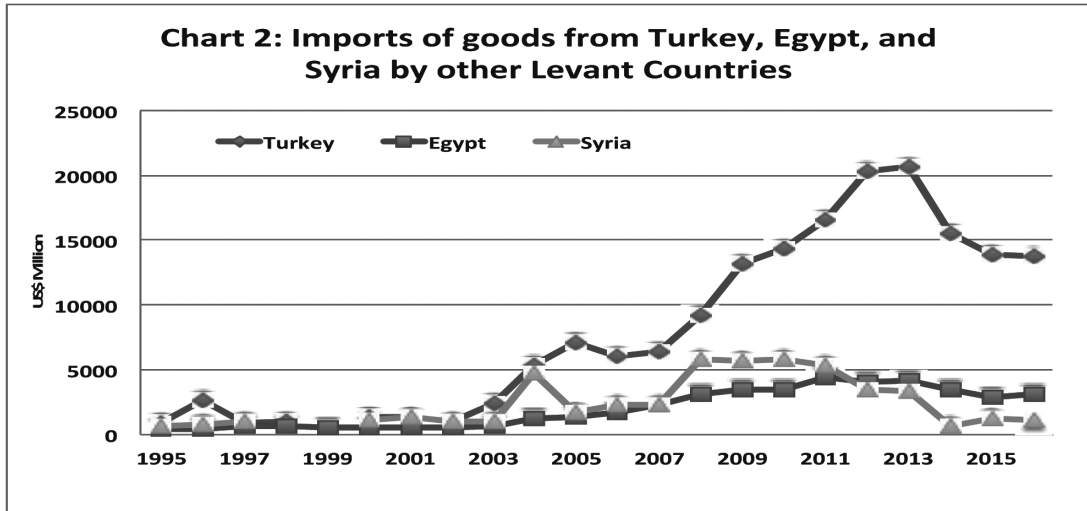


Source of data: The United Nations, UNCTAD database.

¹² The World Bank report authors used a different formula for calculation of TCI. The figures that appear in Table 1 come directly from the UNCTAD database.

¹³ The Eastern enlargement of the European Union in 2004 approved the admission of Bulgaria, Hungary, Poland, Czech Republic and Slovak Republic. The average TCI score for trade between these countries and existing EU members was 61. See World Bank Group, "Over the Horizon", p.xix.

In Chart 1, we also notice that Turkish imports from the Levant countries were much smaller than its exports. The low volume of Turkish imports, however, ignores the informal border trade that includes considerable quantities of unrecorded crude oil imports from northern Iraq and Syria.¹⁴

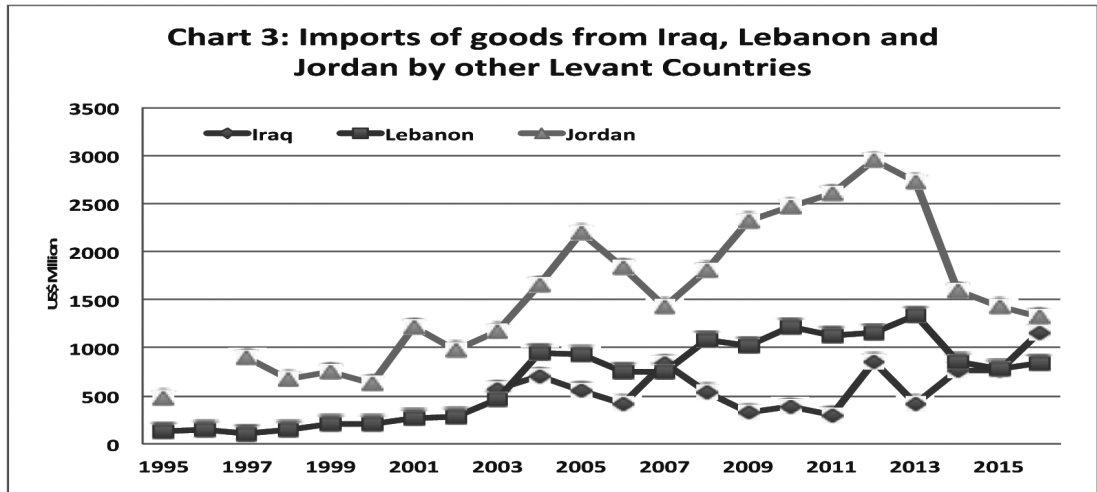


Source of data: The United Nations, UNCTAD database.

As demonstrated in Charts 2 and 3, all of the Levant countries with the exception of Iraq increased their imports of goods from other Levant countries between 2002 and 2010. Purchases of crude oil and oil products from Iraq dominated the imports of Turkey and Jordan, representing the main cause for the sharp increase in imports for these two countries during this period.¹⁵ These charts also show the decline in intra-Levant imports after 2012. After 2010, we observe a downtrend in intra-Levant imports from all Levant countries with the exception of Iraq. The decline is particularly significant in the value of imports from Syria. In 2016, the value of imports from Syria was less than 25% of 2010 levels for the Levant countries, with the sole exception being Lebanon. Even the comparable figure for Lebanon was 48%, evidence of a significant decline.

14 For an account of cross-border smuggling between Turkey and rebel-held areas of northern Syria see Basma Atassi, "Syria Smuggling 'Getting Out of Hand'", *Al Jazeera*, 23 April 2013, <http://www.aljazeera.com/indepth/features/2013/04/201342893919660254.html>, (Accessed on 13 November 2017).

15 "Neighbourly ties: Trade and investment between Jordan and Iraq are growing", Oxford Business Group, *The Report: Jordan 2012*, <https://oxfordbusinessgroup.com/analysis/neighbourly-ties-trade-and-investment-between-jordan-and-iraq-are-growing>, (Accessed on 26 February 2018).



Source of data: The United Nations, UNCTAD database.

During 2000 to 2010, the imports of Levant countries from other members not only increased in absolute value, but they also raised as a share of total imports, as demonstrated on Table 2. Not surprisingly the largest growth is reported for Turkey for which the Levant’s share of Turkey’s total imports rose from 2.6% in 2000 to 7.7% in 2010 and 8.6% in 2012.

	1995	2000	2005	2010	2012	2014	2015	2016
Egypt	3.2%	4.2%	6.1%	6.6%	5.8%	4.8%	4.5%	5.3%
Iraq			2.4%	0.9%	1.5%	1.4%	1.9%	3.0%
Jordan	13.0%	13.7%	21.0%	16.2%	14.3%	7.0%	7.0%	6.9%
Labanon	1.9%	3.3%	10.0%	6.8%	5.4%	4.1%	4.3%	4.6%
Syria	13.5%	28.4%	15.3%	33.2%	47.1%	10.6%	23.9%	25.9%
Turkey	2.5%	2.6%	6.1%	7.7%	8.6%	6.4%	6.7%	7.0%

Source of trade data: United Nations, UNCTAD data base. Ratios calculated by authur.

Intra-Levant trade makes up a much more significant share of Syria and Jordan’s total trade volume than it does for the other four Levant economies. As demonstrated in Table 2, imports from Levant partners accounted for 16.2% of total imports for Jordan and 32.2% for Syria in 2010. This share for the other four countries was under 8% and, in the other extreme, Iraq has consistently sourced the lowest share of its total merchandise imports from the Levant (under 3% in every year.) However, this low ratio can partly be explained by Iraq’s large volume of informal and undocumented trade with neighbors that do not appear in the country’s official trade statistics in the UNCTAD database.

The impact of Syria's civil war and ongoing geopolitical tensions on volume of trade among Levant countries are also visible in Table 2. We observe a downward trend after 2011 in the relative share of imports from the Levant for all of the region's countries other than Iraq. One visible consequence of these developments was the suspension of the Levant Quartet agreement that was signed in 2010.¹⁶ Had this agreement remained in effect it would have promoted a significant increase in the trade of both goods and services among member states. There were also plans to invite several more Arab states to join the quartet and create a large regional free trade agreement similar to the European Union.¹⁷

Arab Spring and the Decline of the Intra-Levant Economic Relations

The civil war in Syria and Turkey's response to the Arab Spring uprisings had an adverse effect on intra-Levant economic activities. Turkey benefited from remaining neutral during the Iran-Iraq war of 1980-1988 and was able to expand economic relations with both countries. Turkey's exports to both countries grew substantially during the war as Turkey was a key regional source of supplies for the warring countries¹⁸ However, Turkey did not maintain this neutrality after the Arab Spring uprisings. Instead of remaining neutral with respect to political shifts in Egypt during 2011-2014, President Erdoğan took side with President Mohammad Morsi who was forcefully removed from power by the Egyptian Army.¹⁹

Similarly, in Syria, Turkey sided with the multiple rebel forces that fought against Bashar Al-Assad's regime. This deviation from neutrality reduced the prospects for further promotion of intra-Levant trade. Turkish exports to Egypt enjoyed a sharp increase in 2012, in light of good diplomatic relations with the government of President Morsi, but settled at a lower level after he was removed from power. An even sharper decline was recorded in Turkey's exports to Syria after that country's civil war began in 2012.²⁰

The Civil War in Syria changed the nature of trade between Syria and its neighbors, particularly Turkey. Yet it did not eliminate trade altogether (See Chart 4). Turkey's exports of goods to Syria declined dramatically in 2012, but recovered in 2013 and 2014. Furthermore, the Turkish products were not consumed exclusively in rebel-controlled areas. Although most were sold in the opposition-held territories, some Turkish products found their way into Damascus and other cities that were under the control of the Al-Assad regime.²¹ The composition of Turkey's exports to Syria also changed

16 For a detailed analysis of Levant Quartet agreement see World Bank, *Over the horizon: A new Levant (English)*, Washington, D.C., World Bank Group, 2014, <http://documents.worldbank.org/curated/en/594261468261275050/Over-the-horizon-a-new-levant>, (Accessed on 12 October 2017).

17 Gökhan Kurtaran, "Mediterranean Quartet Taking Step toward Union, Says Syrian Minister", *Hürriyet Daily News*, 3 December 2010.

18 For a detailed account of Turkey's economic gains see Elliot Hentov, "The ostensible 'silent victor'? The long-term impact of Iran-Iraq war on Turkey", Nigel Ashton and Bryan Gibson (Eds.), *The Iran-Iraq War: New International Perspectives*, New York, Routledge, 2013.

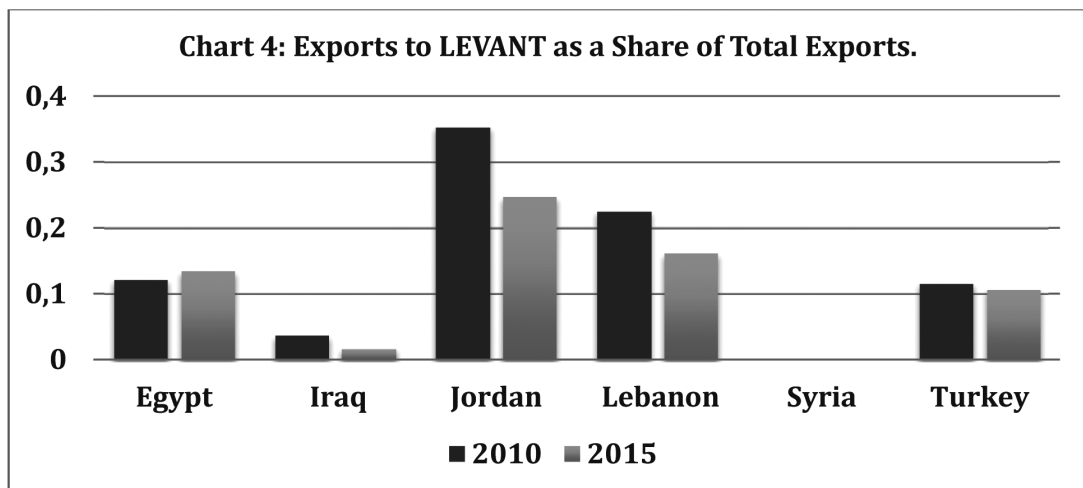
19 Thoma Seibert, "Turkey's support for Morsi jeopardizes ties with Egypt", *The National*, 28 July 2013, <https://www.thenational.ae/uae/turkey-s-support-for-morsi-jeopardises-ties-with-egypt-1.455255>, (Accessed on 28 February 2013).

20 Based on Turkey's trade statistics with Egypt and Syria as reported by the United Nations, UNCTAD database, <http://unctad.org/en/Pages/statistics.aspx>, (Accessed on 12 November 2017).

21 Samir Aita, "Trade without Religion between Turkey and Syria", *Éditoriaux de l'Ifri*, 24 March 2017.

after the civil war. Consumer goods would become a larger share of exports and the geographic source of exports shifted from the Istanbul-Ankara industrial region to Gaziantep, Hatay, Adana and Mersin in the south. These southern regions' share of Turkey's total exports to Syria rose from 20% to 60%.²²

Another important dimension of Turkey's economic relations with fragmented Syria is its trade relationships with the regions that are controlled by the anti-Assad opposition groups in northern Syria, such as the Al-Nusra Front. Turkey is the main external trade partner for these regions. Furthermore, some Western research institutions as well as the Russian government have accused Turkey of allowing the Islamic State (ISIS) to sell oil to private and clandestine buyers in Turkey who facilitated its transportation across the Turkey-Syria border between 2014 and 2016.²³ During this interval, ISIS controlled several oil fields in Iraq and Syria. According to one study by a Western institution, local business owners in southern Turkey purchased this crude oil in small quantities from ISIS-controlled fields, and then sold it to intermediaries for domestic (Turkish) refineries or for export.²⁴



Source of data: United Nations, UNCTAD data base. Shares calculated by author.

Prospects for future

Prospects for economic cooperation among Levant countries remains uncertain and will depend on several geopolitical developments that affect most of these countries. The most important uncertain factor is the emerging political order in Syria. While the risk of a complete regime collapse in Syria has diminished as a result of Russian and Iranian support, the country remains fragmented and the central

²² Ibid, Figure 4.

²³ "Russia Unveils 'proof' Turkey's Erdogan is smuggling Isis Oil across border from Syria", *Independent*, 4 December 2015, <http://www.independent.co.uk/news/world/europe/russia-releases-proof-turkey-is-smuggling-isis-oil-over-its-border-a6757651.html>, (Accessed on 18 November 2017).

²⁴ George Kiourktsoglou and Alec D. Coutroubis, "Isis Export Gateway to Global Crude Oil Markets", London Shipping Law Centre, Maritime Business Forum, 12 March 2015, <http://cibal.eu/occasional-papers/4801-ocasional-papers-231-2015-isis-export-gateway-to-global-crude-oil-markets>, (Accessed on 10 October 2017).

government controls only a portion of the country. While the Al-Assad regime and the U.S. supported forces made significant gains against the Islamic State, the tensions between these two factions have intensified.²⁵ Furthermore, Syria is still a major battleground in the Iran-Saudi proxy war. As a result, it is possible to envision several future geopolitical outcomes for Syria and the prospects for Levant economic cooperation will be different under each scenario.

In a 2017 analysis, Meijnders, Lein and Mierlo presented four scenarios for Syria on two dimensions: fragmentation and violence.²⁶ These scenarios are displayed in Table 3. The four scenarios envisioned are Fragile Peace, Reconquista, Warlordism and Frozen Conflict. If all factions in Syria agree on a political solution, the Fragile Peace Scenario will prevail. The country will remain united under a central government in Damascus but some regions such as the Kurdish areas will enjoy considerable autonomy. In this scenario the central government will most likely adopt a liberal trade regime because of the difficulty in obtaining consensus for strong trade regulations.

		Intensity of Violence	
		Low	High
Fragmentation	Fragmented Government	Frozen Conflict Low intensity violence, Fragmented Governance, Syria partitioned into several statelets with no effective central authority over the entire country.	Warlordism High Intensity Violence, Fragmented governance, Syria partitioned into fiefdoms.
	Centralized Government	Fragile Peace Negotiated peace, Regional autonomy, A stable central government with limited powers.	Reconquista Assad regime dominates all or most of Syria, Fragmented/weak opposition, Frequent terrorist attacks and bombings.

Source: The four scenarios described in the table are borrowed from Meijnders et.al. (2017). Table generated by author. Meijnders, Minke, Jair Van der Lijn and Bas Von Mierlo. "Syria in 2019: Four Scenarios –Implications for Policy Planning", *Clingendael Report*, November 2017, <https://www.clingendael.org/publication/syria-2019-four-scenarios> (Accessed 18 November 2017).

In a way, this political system will resemble the fragile coalition governments in Lebanon and Iraq. The constitution of Iraq after the 2003 U.S. occupation limited the powers of the central government in an attempt to prevent the Shiite majority from dominating the political scene at the expense of the Kurds and Sunni Arabs.²⁷ An unintended consequence of Iraq’s weak central government has been country’s imposition of a liberal trade and investment regime, which has kept the legal barriers to trade low and allowed the Kurdish regional government to enjoy considerable autonomy over trade and economic policies.²⁸

25 Anne Barnard and Hwaida Saad, "As ISIS' Role in Syria Wanes, Other Conflicts Take the Stage", *New York Times*, 19 October 2017, <https://www.nytimes.com/2017/10/19/world/middleeast/isis-syria-war.html>, (Accessed on 1 March 2018).

26 Minke Meijnders, Jair Van der Lijn and Bas Von Mierlo, "Syria in 2019: Four Scenarios –Implications for Policy Planning", *Clingendael Report*, November 2017, <https://www.clingendael.org/publication/syria-2019-four-scenarios>, (Accessed on 18 November 2017).

27 Cory Kopitzke, "Realizing an Opportunity: Limiting the Power of the Executive in the Iraqi Constitution", *Indiana Journal of Constitutional Design*, Vol.2, 2017, <http://www.repository.law.indiana.edu/ijcd/vol2/iss1/3>, (Accessed on 18 February 2018).

28 The central government in Baghdad gained more control after the failed Kurdish referendum in September 2017.

A fragile peace scenario in Syria will most likely grant a limited amount of autonomy to the Kurdish region of the country and minimum constitutional guarantees of political power for the Sunni and Alawi sects. The United Arab Emirates is another Middle Eastern country that operates as a decentralized federation with considerable devolution of control over trade and economic policies to the ruling authorities in its seven emirates. If Syria can adopt such a decentralized federal system, it will be in a better position to restore trade and investment relations with other the other countries of the Levant. The reconstruction opportunities in that country will create many opportunities for Syria's economic partners in the Levant, particularly Turkey.

Under the Reconquista Scenario, the Al-Assad regime will capture all or a significant portion of Syria with the support of Russia and its regional allies.²⁹ The regime will then be able to impose a stable political order by force. The country will return to normalcy but opposition forces will receive external support to engage in bombing and terrorist activities with an intensity that might resemble Iraq during 2006-2017. These acts of terror will not topple the government but will increase the political and security risks for foreign investors.

Under this scenario, the central government will have full control over trade policy and will direct Syria's trade and investment opportunities toward the countries that supported it during the civil war.³⁰ This means that Syria will favor Lebanon and Iraq among its Levant neighbors and will restrict economic relations with Turkey, at least for a few years, until Syria-Turkey relations are normalized. Nevertheless, Turkish products are likely to find their way into the Syrian market indirectly through an informal border trade and via Lebanon.³¹ The recent refusal of Egypt to support the Saudi insistence on the removal of the Al-Assad regime might also be viewed positively by the Al-Assad government.³²

Under the remaining two scenarios, Warlordism and Frozen Conflict, Syria will not be governed by a central government and instead it will be carved up into autonomous statelets that will not be at war with each other but will observe a ceasefire without political unity. The situation under Warlordism will resemble the post-Ghadafi Libya and might gradually evolve into a Frozen Conflict scenario as a result of external mediation.³³ A fragmented Syria will pose both challenges and opportunities for trade relations with its Levant neighbors. The small statelets that will emerge under this scenario will have no choice but to develop cross-border economic ties with other countries in the region. As a result, they will develop an economic dependency on that neighbor. At the same time the political risks and the unstable nature of this scenario will discourage long-term investments and economic strategies until the point where the country either reaches a political solution or that the frozen conflict scenario appears permanent. Furthermore, the international community is unlikely to commit any substantial resources to Syria beyond humanitarian aid under if the country were to experience the Warlordism Scenario.

29 See Meijnders *et al.*, "Syria in 2019".

30 Bethany Allen-Ebrahimian, "Syrian Reconstruction Spells Juicy Contracts for Russia, Iranian Firms", *Foreign Policy*, 20 October 2017, <http://foreignpolicy.com/2017/10/20/syrian-reconstruction-spells-juicy-contracts-for-russian-iranian-firms-china-civil-war/>, (Accessed on 14 February 2018).

31 During the Syria's civil war years, many Turkish consumer goods and food items found their way into government-held territories despite Turkish support for anti Al-Assad forces. See Aita, "Trade without Religion between Turkey and Syria".

32 Elissa Miller, "Understanding Recent Egypt-Saudi Tensions", *Atlantic Council*, 26 October 2016, <http://www.atlanticcouncil.org/blogs/menasource/understanding-recent-egypt-saudi-tensions>, (Accessed on 8 November 2017).

33 These two scenarios are also explained in more detail in Meijnder *et al.*, "Syria in 2019".

The ongoing regional rivalries in the Levant among Iran, Saudi Arabia and Turkey, plus intense interventions by external powers, can have a destabilizing effect on Iraq and Lebanon as well. Both countries are likely to remain vulnerable to the Iran-Saudi proxy wars as well as to the U.S.-Saudi-Israeli efforts to reduce Iran's influence in the Middle East. The interventions of these external actors will intensify factional disputes and lead to further political instability. Political instability and security risks, in turn, will reduce the region's potential for formal economic engagement at the regional level. If the national governments of these countries remain weak and become less effective as a result of factional politics, their foreign trade patterns are likely to resemble Syria under the Fragile Peace Scenario.

Centrifugal Tendencies

Another important factor for assessing the Levant region's potential for economic cooperation is the opportunities that some Levant countries will have for economic relations with countries outside of the region. For both economic and geopolitical reasons, each Levant country might be attracted to other economic partners such as the European Union, the U.S., the Gulf Cooperation Council (GCC), Iran, or China. Intra-Levant economic cooperation will have to compete with these strong centrifugal forces as well.

To start with, these extra-Levant powers already represent the main trade partners for Levant countries, and any effort to expand intra-Levant trade will face strong competition from these established trade and investment links. China for example offers a wide range of manufactured goods at competitive prices and it has proactively reached out to Syrian officials expressing a willingness to play an active role in the country's reconstruction.³⁴ China has also been very proactive in seeking investment opportunities in other Levant countries. Similarly, Iran has purchased large amounts of land that is suitable for both agriculture and manufacturing production sites in Syria, in exchange for its military and economic aid to the Syrian regime.³⁵ These purchases, and the ongoing reliance of the Al-Assad regime on Iran, will increase Iran-Syria economic relations. In other Levant countries, such as Turkey, Lebanon and Jordan, we observe a strong economic connection with the GCC countries. These economic connections have endured despite periodic geopolitical tensions.

Restoring economic cooperation among Levant countries must account for each country's current membership in other trade agreements and custom unions. Membership in multiple trade agreements might lead to an inconsistency in trade. Jordan has a preferential trade agreement with the United States while Turkey has customs union agreement with the European Union. Lebanon, Jordan, Turkey and Egypt are members of the Euro-Med trade agreement. All Arab Levant countries belong to the Pan-Arab Free Trade Agreement (PAFTA) and finally, Egypt and Jordan are members of the Agadir agreement with Morocco and Tunisia. Membership in these agreements limits the tariff concessions that Levant countries could offer to each other in a future intra-Levant free trade agreement. Turkey for example has to maintain a minimum import tariff on manufactured goods from non-EU countries in order to comply with its customs union agreement with EU.³⁶

34 Robert W. Anderson, "Chinese Companies poised to Help Rebuild War-torn Syria," *Asia Times*, 19 December 2017, <http://www.atimes.com/article/chinese-companies-poised-help-rebuild-war-torn-syria/>, (Accessed on 17 February 2018).

35 "New Page in Iran-Syria economic relations," *Financial Tribune*, 21 January 2017, <https://financialtribune.com/articles/economy-business-and-markets/57826/new-page-in-iran-syria-economic-relations>, (Accessed on 24 February 2018).

36 Subidey Togan, "The EU-Turkey Customs Union: A Model for Future Euro-MED Integration," *MEDPRO Technical Report*, No.9, Brussels, European Commission, March 2012.

Economic cooperation among Levant countries can promote stronger trade and economic relations by removing non-tariff barriers (NTB) such as border closing delays, complicated customs regulations, and restrictive safety standards, which often serve as indirect trade barriers against imports. These NTBs are currently a major burden on intra-Levant trade.

Who will lead the Levant Economic Integration Initiative?

During the 2002-2010 period, Turkey played a leadership role in the expansion of economic relations among the Levant countries. This leadership included a willingness of the AKP government to reduce diplomatic tensions and water disputes with Syria in addition to launching an intense diplomatic effort to negotiate trade agreements and facilitate economic relations between business communities in Turkey and those in Syria, Jordan and Lebanon. Another contributing factor was the increasing personal contacts between Turkish Prime Minister Erdoğan and Syria's leader Bashar Al-Assad. In 2010, they jointly supported the creation of the Levant Quartet as a multi-lateral agreement among Turkey, Jordan, Lebanon and Syria for the promotion of economic and cultural exchange.³⁷ Had it not been for the massive disruptions caused by the Arab Spring uprisings, this agreement would have paved the way for a further deepening of Levantine economic integration.

The current tensions between the Al-Assad regime and Turkey will make it near impossible for the latter to play a similar leadership role to revive the Levant Quartet. Furthermore, the coalition government in Lebanon, which includes a strong representation of Hezbollah, will not be able to develop strong formal economic ties with Turkey as long as the tensions between Turkey and Syria continue. Hence overall, it is unlikely that any Levant country will play the effective leadership role necessary to drive Levantine economic integration, at least until there is a rapprochement between Syria and Turkey.

Instead, it is more likely that the economic relations among Levant countries will develop on a bilateral basis without any multilateral coordination. The Turkey-Egypt relations, for example, have recovered in recent years after a decline in 2013-2014. These two large economies have many trade complementarities and their business communities have a strong bond that will serve as a catalyst for stronger economic links. Even during the 2013 and 2014, years of diplomatic tension between President Sisi and President Erdoğan, private sector trade and investment relations between the two countries continued.

An important facilitator of intra-Levant trade in the coming years might be the presence of large Syrian refugee/immigrant population in other Levant countries, which can create an ethnic trade network throughout the region. One of the tragic consequences of the Syrian civil war is that approximately 5.4 million Syrians have taken refuge in other countries, with large concentrations in Turkey, Jordan and Lebanon.³⁸ There are also smaller Syrian refugee communities in Iraq and Egypt. While some of these refugees will eventually return to Syria if the situation were to improve, a portion are likely to stay and establish roots in host countries. Similar to how a network of Lebanese immigrants

37 Gökhan Kurtaran, "Mediterranean quartet taking step toward union, says Syrian minister" *Hurriyet Daily News*, 3 December 2010.

38 Based on the United Nations refugee statistics, as of April 2018, there were 3.6 million Syrian refugees in Turkey, 987,000 in Lebanon and 662,000 in Jordan. See <http://data.unhcr.org/syrianrefugees/regional.php>, (Accessed on 15 May 2018).

around the world have developed a strong trade network with one another and with Lebanon,³⁹ the Syrian refugees/immigrants are also likely to develop a similar trade network throughout the Levant. Since trade and investment in high risk and uncertain environments faces considerable transaction costs, ethnic networks play an important role in creating trust and long-term trade relationships. In this context, the Syrian refugees can help promote closer economic ties among Levant countries, particularly with Syria.

One of the benefits of economic integration is that it can increase the prospects for a peaceful coexistence between countries that have had a history of war and animosity, as is the case in the Levant. The best example of this effect is positive role that economic integration of Western Europe after World War II played in promotion of peace and political stability in that region. In the Levant, the nature and character of the ruling governments will affect the prospects for economic integration but the international community can offer economic incentives to the political elite to promote intra-Levant cooperation. In parliamentary democracies, pro-trade economic interests will lobby for regional economic integration. In paternalistic democracies and guided democracies it is the preferences of the political elite that will dictate economic relations among neighbors.⁴⁰

Conclusion

Overall, based on the economic and political conditions of the region, the six Levant countries that we have analyzed are not currently prepared for a deep multi-lateral trade and investment agreement. According to Balassa's classic work on the theory of economic integration, there are four categories of integration. Free trade areas represent the lowest level of integration with reduced barriers to trade but no additional harmonization of economic policy. Higher orders of integration are identified as customs unions, common markets, and economic unions.⁴¹ Under the most optimistic geopolitical scenarios in the Levant, the most that can be accomplished as a multilateral agreement is a weak free trade agreement with many restrictions and exceptions.

The most that can be hoped for, guided by more realistic assumptions on the future security and political conditions in Syria, is a collection of bilateral economic agreements. It is also possible to imagine that some Levant countries (for example Turkey, Lebanon, Egypt and Jordan) might sign a multi-lateral agreement that leaves the door open for Syria and Iraq to apply for membership at a later date. The limited economic cooperation that emerged during 2002-2010 is a clear indication that the region has the potential to move toward economic integration and that there exists political elites in every Levant country that support closer regional economic ties. The signing of the Levant Quartet agreement among Turkey, Lebanon, Jordan and Syria was an important step towards regional economic integration but was interrupted by the 2011 uprisings. Nevertheless, it was an important achievement that can serve as a model and a starting point for future efforts towards a greater economic integration of the Levant.

39 Guita Hourani, "Lebanese Diaspora and Homeland Relations", *Working Paper, The Forced Migration and Refugee Studies Program*, Cairo, The American University in Cairo, 2007.

40 Mustafa Aydın and Damla Aras, "Political Conditionality of Economic Relations between Paternalistic States: Turkey's Interactions with Iran, Iraq and Syria", *Arab Studies Quarterly*, Vol.27, No.1&2, 2005, p.21-43.

41 Bela Balassa, *The Theory of Economic Integration*, Homewood, Ill., Richard D. Irwin, Irwin Series in Economics, 1961.