

HATAY: THE SYRIAN CRISIS AND A CASE OF TURKISH ECONOMIC RESILIENCE

Turkey's southern province of Hatay has been deeply affected by the turmoil in Syria since April 2011. But, remarkably, despite damage in some areas, and new tensions after border car bombings in early 2013, Hatay's story is still reflecting Turkish economic flexibility and resilience. One reason is that the Turkey-Syria trade boom was too new to have put down deep roots. Secondly, Hatay business people found new opportunities in the Syrian crisis. Thirdly, whereas Syria's GDP per capita was greater than Turkey's three decades ago, even before the war Turkey's economic performance, wealth, stability, and resilience had already far outstripped that of Syria.

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Turkey's southern province of Hatay is deeply affected by the turmoil in Syria since April 2011. This is not just because it was part of Syria until 1939, shares nearly one third of the 900km mutual border and has many ethnic and religious communities whose relatives still live on both sides of the frontier. It is also because Hatay was the principal beneficiary of the past decade's surge in Turkey-Syria trade and was then faced with a serious economic setback. But, remarkably, and despite damage in some areas, two years into the turmoil, Hatay's story is still proving to be one of Turkish economic flexibility and resilience.

One reason is that the Turkey-Syria trade boom was too new to have put down deep roots. A free trade agreement between Turkey and Syria was signed in January 2007 and a visa-free regime only began in August 2009. Secondly, Hatay business people found new opportunities in the Syrian crisis. Thirdly, whereas Syria's GDP per capita was greater than Turkey's three decades ago—a time when visitors from Syria routinely brought with them bread, coffee and cigarettes due to their unavailability in poorer Turkey—even before the war, Turkey's economic performance, wealth, stability, and resilience had already far outstripped that of Syria.

A Heavy Blow at First...

Hatay's economy and its 1.5 million people depend mainly on international transport, tourism, and agriculture. Starting in 2007, Ankara's new focus on the Middle East and Turkey's economic boom led to sudden growth for businesses handling Turkish trade with Syria and the region beyond. The number of full Turkish trucks crossing from Hatay into Syria nearly doubled every year from 2007 onwards, starting at 15,634 trucks in 2007 and peaking at 108,591 trucks in 2010.¹ In the first ten months of 2012, Hatay had Turkey's second highest provincial level of exports to Syria after Istanbul, underlining its role as Turkey's trade transit route to the south.²

Trade with Syria then dropped steeply after March 2011 when Syria's civil conflict began to spread. The total number of full trucks crossing into Syria from Turkey fell to just over 6,000 in January-July 2012 period, one ninth of the peak in 2010, but about the same as the number in 2007.³ As a result, rows of idle trucks can be seen in large parking lots outside Hatay's main towns, many with "for sale" signs on their windscreens. But the direct impact on Hatay itself proved limited,

1 Turkish Ministry of Foreign Affairs' response to a written motion for information dated 9 July 2012 by Şefik Çirkin, Nationalist Movement Party (MHP) deputy for Hatay.

2 "Suriye Krizinin Ekonomik ve Sosyal Etkileri Analiz Raporu," [Analysis of the Economic and Social Impacts of the Syrian Crisis], *Republic of Turkey Eastern Mediterranean Development Agency (DOĞAKA)*, 11 December 2012.

3 Turkish Ministry of Foreign Affairs' response to a written motion for information dated 9 July 2012 by Şefik Çirkin, Nationalist Movement Party (MHP) deputy for Hatay.

since Syria was only taking around five percent of its total exports. Even then, exports to Syria only fell 38 percent from 102 million dollars in 2011 to 63 million dollars in 2012. And only six of the top ten countries that receive Hatay's exports are in the Middle East, and they account for only 40-50 percent of its total exports.⁴

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On the tourism side, local business owners and hotels complain that once-frequent bus tours from Middle Eastern countries are now cancelled and most foreign tourists avoid Hatay for security reasons. A management employee at the province's newest, multi-storey Prime Mall shopping center on the city's big new ring road told Crisis Group in January 2013 that they experienced a big drop in tourists from the Middle East, particularly Iran, but that some Syrians living inside Hatay had started frequenting the mall. The number of Turks and foreigners entering from Cilvegözü and Yayladağ border crossings between Hatay and Syria indeed fell by 57 percent in the January-October 2012 period compared to a year before. Some 400,000 people entered in these 10 months compared to 935,000 in 2011.⁵ But these developments did not doom the tourism industry: the number of domestic tourists, who make up the majority of the province's visitors, actually rose in 2012 and tourist sites recorded more visits overall. Syrians can also be seen thronging Hatay's busy new airport.

The owners of small businesses like restaurants and stores are complaining, but not necessarily closing. Certainly, they are less able to adapt their services to changing circumstances than transport or tourism-related companies. In January 2013, several shops in the city center's historic bazaar complained to Crisis Group that their sales have fallen by half or more in the last year. “I used to have merchants, visitors coming and eating here, including from Syria,” a restaurant owner explained. “Now there are very few. We take out new loans to pay for the old ones and try to keep the wheel turning. But there is no money in circulation anymore.” Loan repayment difficulties are common among big and small businesses alike. Cash loans have been on the rise in Hatay between 2010 and 2012, reaching 12.5 billion Turkish Lira (7.4 billion dollars) as of August 2012, and local businessmen worry defaults may start soon and that problem loans, not yet reflected in banks' balance sheets, may become a threat to the local economy in the near future.⁶ Local

4 Turkish Statistical Institute figures quoted in *DOĞAKA* (2012).

5 Eastern Mediterranean Regional Directorate of Customs and Trade, quoted in *DOĞAKA* (2012).

6 Loan figures from Banking Regulatory and Supervisory Authority (BDDK), quoted in *DOĞAKA* (2012).

businesses hope the Turkish government will accept their pleas to postpone tax and social security obligations for a few years and provide loans with zero interest and two or three-year grace periods.

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One problem in assessing the extent of economic damage is that official statistics do not account for the losses or changes in the black economy. Before the crisis, it was common for unemployed locals to smuggle cigarettes, fuel oil or other goods from Syria to sell them all over Turkey. A businessman told Crisis Group that such smuggling was one of “the most important sources of income” in Hatay adding, “Syria’s economy was not integrated into the

world and used Hatay as a transit route.” One study estimated such “luggage trade” was worth millions of dollars for Hatay, but specific figures are hard to find.

...but Southern Turkish Businesses Adapt

So far, however, Hatay has contained the crisis through local adaptability and Syria’s relatively small share in the province’s overall trade – for instance, one local businessman explained to Crisis Group that he was Turkey’s biggest exporter of fresh parsley, to points as far away as Siberia, but that he personally had never had, nor sought any Middle Eastern customer. Remarkably, the province’s total exports to the Middle East even rose slightly, to over 900 million dollars in 2012 from 846 million dollars in 2011, and Hatay’s governor Celalettin Lekesiz said that when the crisis really began to bite in 2012, exports and economic output in the province were both down only one percent from a year earlier.⁷

As the border with Syria closed to exports, transport companies first rerouted to different markets like Europe, Russia, and Central Asia as well as Iraq, which also served as an alternative land route to the Middle East. Then, between February and December 2012, roll on/roll off (“Ro-Ro”) boats from Turkey’s Mediterranean provinces of Mersin and Iskenderun started to take off for Egypt’s Alexandria and Port Said, Israel’s Haifa port, Port Duba in Saudi Arabia, and Lebanon’s Tripoli, for onward transport to the Middle East and North Africa. While they provide a much-needed alternative, Ro-Ro trips are not the ideal solution for all Hatay-based

⁷ Trade data from Türkiye İhracatçılar Meclisi, [Turkey Exporters’ Assembly, TIM], www.tim.org.tr

companies. The Turkish government pays 1,000 dollars incentive per truck to operators, but businesses say it still costs up to two-thirds more and takes longer than the land route through Syria. Local transport company representatives often complain that Ro-Ro operators can arbitrarily cancel trips if demand is low, or they may leave with delays, which means Middle Eastern clients may be inclined to find new suppliers. Moreover, the fact that fresh fruit and vegetables are one of the main export items from the province (after iron and steel) makes timely delivery crucial.

Adaptation seems to be the order of the day in other sectors as well. Media headlines about Syrian shells hitting Turkish soil may put off visitors coming to hotels in the province's central Antakya district, but they attract foreign journalists. According to a hotel manager interviewed by Crisis Group in January 2013, up to 70 percent of hotel guests inside the city are journalists or aid workers. A study found that domestic tourist numbers rose 21 percent even as foreigners fell 12 percent in 2012, leading to an overall 15 percent yearly rise in people visiting Antakya's attractions like its famed archeological and mosaic museum, the first mosque built in Anatolia, or one of Christianity's first churches, St. Peter's, dug into a mountainside on the edge of old Antioch.⁸

Fixed investments, which appeared to have taken a hit in 2011, picked up again in 2012 as Hatay received 1.8 billion dollars of foreign and 380 million dollars of domestic investment in the January-October 2012 period, boosting total investments from 304 million dollars in 2011 to 2.1 billion dollars in 2012. These included several investments in the energy sector and seaports.⁹

Border districts also found new opportunities in the crisis. In the small border village of Yayladağ, a hunting shop owner told Crisis Group in January 2013 that his business had taken off since the conflict started, and pointed to similar shops that recently opened on his street. Syrian opposition fighters buy items like camouflage trousers and jackets in bulk, and stock up on the three-starred Syrian revolutionary flag that the store custom makes for them. Small supermarkets opened after Turkish Red Crescent and World Food Program distributed food cards to refugees in camps allowing them to buy food items in the village. As elsewhere in the province, landlords also benefit from higher rents, which have tripled in some cases. Locals in Yayladağ village said there is a shortage of houses for rent, and the village *muhtar* (locally elected head) said rents for a one-room apartment rose from 100 TL to 300 TL after the arrival of Syrians.

8 Turkish Ministry of Foreign Affairs' response to the written motion for information dated 9 July 2012 by Şefik Çirkin, Nationalist Movement Party (MHP) deputy for Hatay.

9 Economy ministry figures, quoted in *DOĞAKA* (2012).

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In another sign that the local economy is managing the storm, business circles agree that unemployment did not increase, at least yet. The owner of a Hatay-based transport company said he sold two trucks but did not lay off any personnel. But Syrians living outside the camps are increasingly seeking jobs as they run out of money and are willing to work for up to 50 percent less than locals, according to Syrians living in Antakya. In autumn 2012, Syrians already began replacing local villagers in seasonal fruit-picking jobs – as indeed they have begun to do as far west as Antalya province. This shows once again that Turkey is so far managing the short-term situation with constructive flexibility. Overall, Hatay’s businesses will not be truly confident until Turkey has found a way of insulating itself in the long term from the humanitarian, political, and security overspill from the crisis, especially after car bombs hit the main border crossing and main border town of Reyhanlı in early 2013. For the medium term, however, Ankara could assist struggling enterprises with their outstanding debts, promote the province’s tourism industry and offset the potential effects on unemployment of the new influx of Syrian workers to the country’s southern provinces.



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