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PURSUING PROSPERITY AND PEACE IN THE LEVANT WHITE PAPER SERIES: AN OVERVIEW

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EXECUTIVE SUMMARY

Renewed conflict in the Middle East on October 7, 2023 drew the world's attention to long-standing tensions in the group of countries collectively known as the Levant. Although it is naïve to suggest that economic cooperation efforts alone are sufficient solutions to political crisis, they can be a key building block for peace. Drawing upon academic literature that finds that economic integration is associated with a lower probability of conflict, this White Paper series explores specific areas that Levant countries can leverage to promote economic integration. This paper provides the academic roots and motivation for a series of sector-specific White Papers that explain in detail how to support economic integration within the Levant and offer some initial insight into the apparel and textile industry as an example.

Figure 1 The Levant Countries

Note: Shading indicates the frequency with which the country is included in definitions of the Levant. Darker shading indicates higher frequency. The West Bank and Gaza are often referred to as Palestine.
Map Credit: Samuel Robertson.

1. INTRODUCTION

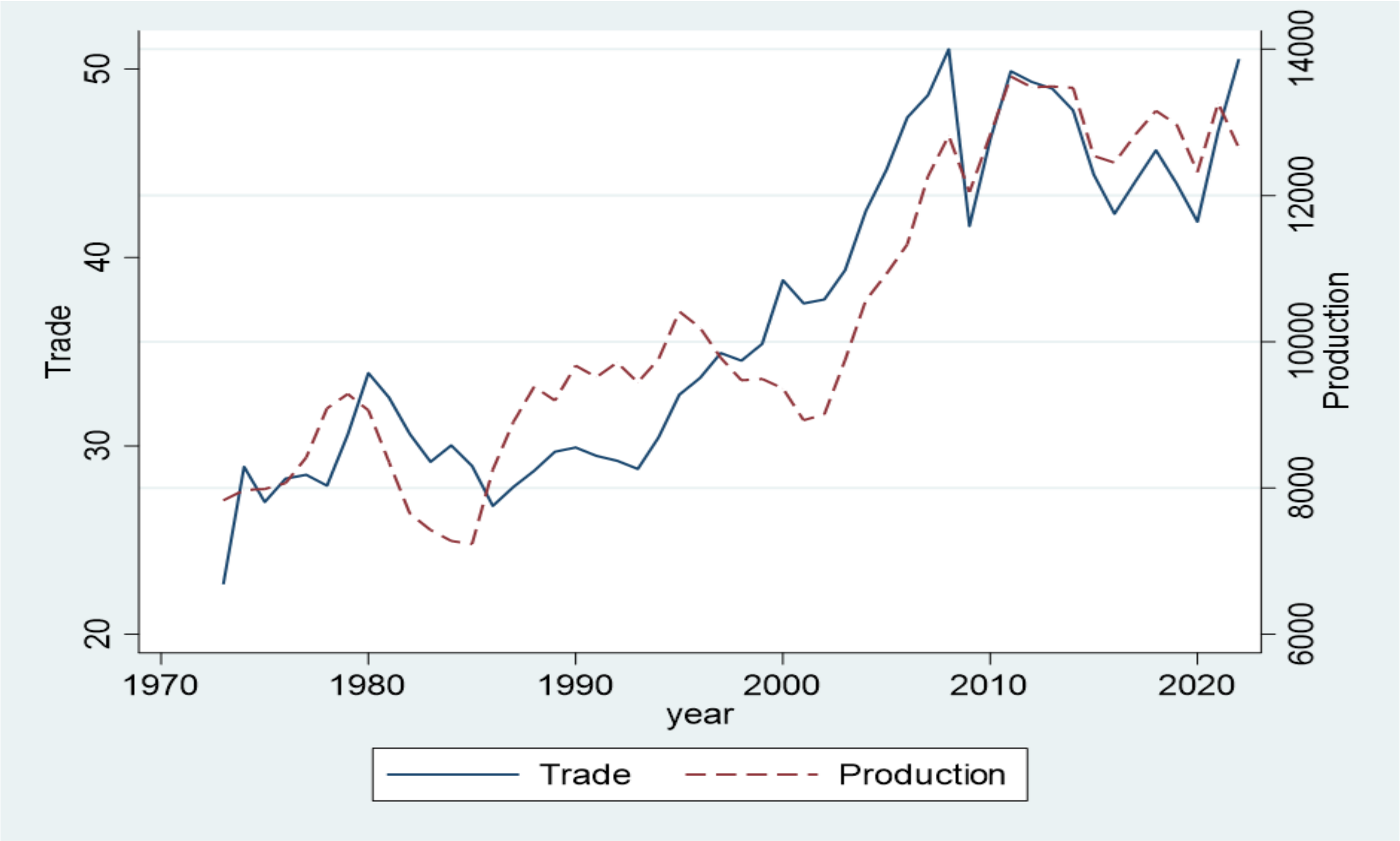
In October 2023, conflict between Israel and Hamas recaptured the world's attention. Tragically, conflict in the countries collectively known as the Levant is not new. In October 1991, representatives from Israel, Egypt, Syria, Lebanon, Jordan, and Palestine attended the Madrid Peace Conference hosted by Soviet President Mikhail Gorbachev and U.S. President H.W. Bush.[1] The Madrid conference was historically significant because it was the first time that all of the stakeholders involved in the Arab-Israeli conflict came together to directly negotiate. The conference reflected recognition of a need for a new approach for pursuing peace in the Levant, which mainly comprises Israel, Jordan, Lebanon, Palestine, and Syria, and at times includes Cyprus, Egypt, Turkey, Iraq, Libya, and Greece (Figure 1). Figure 1 maps the countries of the Levant using shading to indicate the frequency with which different countries are included in the definition of the Levant (darker shading indicates being included more frequently).

The thirty years after the Madrid conference have been characterized by a growing realization that economic integration offers the potential for economic growth, political stability, and peace in the Levant. There is a rising consensus that economically-integrated countries are more likely to find common ground that increases the incentive to secure peace. Ireland and Northern Ireland, the United States and Japan, and Europe after World War II are just a few examples of how economic integration can help heal the divisions and animosity of war. Economic integration, however, remains a lofty goal. As with most lofty goals, the specifics of policies that can promote economic integration are often elusive. To help promote economic integration and peace in the Levant, the Mosbacher Institute has launched a White Paper series designed to provide detailed background information and offer specific suggestions for how Levant countries might be able to deepen their economic ties and help facilitate the peace process.

This White Paper series builds on both the academic literature showing the strong relationship between trade and growth generally and the growing number of studies suggesting that Levant countries would gain from strengthening trade ties. Many of these studies are motivated by the fact that globalization has been one of the dominant features of the global economy in the 21st century. The global economy has experienced periods of increasing international cooperation featuring the proliferation of regional trade agreements, including the formation of the World Trade Organization. These efforts have substantially contributed to the growth of global output and trade over time, especially between the mid-1990s and the Great Recession (Figure 2).

Evidence shows a strong positive relationship between trade and economic growth (Frankel and Romer, 1999; Noguer and Siscart, 2005). When striving to promote exports, regional integration is important because regional exports help domestic producers learn to become globally competitive through exporting experience (Bown et al., 2017). Trade is also the main conduit for technology transfer (Coe and Helpman, 1995; Coe et al., 1997). Relatedly, economic cooperation usually involves reduction of tariff and non-tariff trade barriers, and these measures are shown to increase the availability of cheaper and better inputs, which, in turn, raises productivity (Amiti and Konings, 2007; Kasahara and Rodrigue, 2008; Halpern et al., 2015; Abreha, 2019), technology upgrading (Bas and Berthou, 2012; Bas and Berthou, 2017), and improves firm performance and innovation (Goldberg et al., 2009; Goldberg et al., 2010).

Figure 2 Global Trade and Output, 1973-2020



Note: Trade is the merchandise trade share of global GDP as reported by the World Bank Development Indicators. Production is the global GDP per capita measured in 2022 real (constant) U.S. Dollars. Production is calculated as the nominal GDP reported by IMF Financial Statistics converted into GDP per capita using global population as reported by the World Bank Development Indicators and converted to 2022 real U.S. dollars using the annual average of the U.S. consumer price index city-wide average for all urban consumers.

Levant countries have much to gain from economic integration because their endowments, technology, and production suggest that they are complements (Habibi, 2018). This is further underpinned by differences in levels of development combined with a long history of economic relationships that stretches back to the Ottoman Empire. Perhaps not surprisingly, Turkey specifically has pursued pro-trade policies. Between 2002-2010, Turkey signed trade agreements with Syria (2004), Egypt (2005), Jordan (2009), and Lebanon (2010). Prior to 2011 Arab Spring uprisings, six Levant countries (Egypt, Jordan, Lebanon, Iraq, Syria, and Turkey) expanded trade and economic cooperation between 2000 and 2011. Similar economic integration from other Levant countries could produce similar positive impacts.

Simulation studies find large potential gains from economic integration. For instance, Ianchovichina and Ivanic (2014a) predict significant gains in per capita income if the Levant countries form an economic zone: Iraq (17%), Syria (12%), Jordan (7%), Lebanon (3%), and Turkey (2%). Other studies suggest that expanding trade, investment, and tourism would significantly increase GDP. For example, Egel et al. (2019) show that expanded trade is predicted to increase GDP by 1.5-3% and create 340,000 to 670,000 new jobs over a decade. More specifically, countries that already benefit from regional trade despite weak or non-existing trade agreements (Iraq, Jordan, Lebanon, and Syria) stand to benefit the most from expanded trade. Egel et al. (2019) further show that expanding investment could expand GDP by 1-1.5% and create 380,000 to 410,000 jobs from new investment. Iraq specifically stands to receive the greatest benefit with GDP expanding by more than 2 percent because of increased trade and Egypt and Tukey with expansion by at least 1.5%. While highlighting how visa restrictions currently hinder tourism, their estimates show that removing travel restrictions could increase average GDP by at least 0.3% and potentially create 90,000 new jobs.

While broad-based integration policies such as trade agreements usually generate significant gains, more focused policies like Qualifying Industrial Zones (QIZs) could be stepping stones to initiate and strengthen economic integration. For instance, Jordan's and Egypt's QIZs (supported by free trade agreements with the United States) contributed significantly to the observed increase in participating countries' shares of U.S.-bound exports in the nine most common categories of clothing items for which the effects of tariff and quota exemptions are likely to be strongest (Carter et al., 2015). Apparel, in particular, is important because Levant nations have a relatively high level of unskilled labor, suggesting that further integration could increase the demand for less-skilled workers who might be the most vulnerable to unemployment.

Given the significant potential gains, Levant members have made several attempts to integrate economically. Syria, Turkey, Jordan, and Lebanon formed the Levant Quartet in June 2009 in an attempt to establish a free trade zone and a visa-free travel regime for nationals, but negotiations stalled after the Arab Spring. These countries included a cooperation council called the Close Neighbors Economic and Trade Association Council to oversee and facilitate the process (Egel et al., 2019). Although progress was limited, Turkey, Syria, and Jordan (2009) and Turkey and Lebanon (2010) managed to approve visa-exemptions (Bilaterals.org, 2010).

The Agadir free trade agreement (FTA) was another significant integration attempt. Signed in 2004 and entered into effect in 2007, the agreement was quickly followed by a disputed protocol on trade in textiles in 2008. The 2011 Arab Spring protests shifted priorities to other issues and the agreement lost momentum and entered a six-year period of inactivity (2010-2016). After a decade (2011-2021), the agreement has been called a failure, in part due to overly restrictive rules of origin (Kourtelis, 2021).

Under the 1997 Greater Arab Free Trade Area Agreement (GAFTA), members United Arab Emirates, Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, Jordan, Egypt, Iraq, Lebanon, Morocco, Tunisia, Palestine, Syria, Libya, and Yemen have agreed to allow tariff-free access to their markets. The GAFTA expanded to include Iraq and Kuwait. Unfortunately, enforcement and implementation of the ambitions in the agreement, including customs treatment at borders, have been questioned, raising concerns about the extent of integration actually achieved. Abedini and Peridy (2008) estimated that the agreement was associated with a 20% increase in trade through 2005, but El-Sahli (2023) suggests that the welfare effects of the agreement were negligible and therefore deeper integration within the Levant is necessary to promote welfare.

As the first paper in the series, the goal of this paper is to provide an overview of the Levant region, present the foundation for the link between economic integration and peace, assess the current state of economic development and integration, and offer some insight as to the potential economic gains from economic integration. It also showcases the role of economic integration by highlighting some of the main issues related to a key sector for the region: apparel and textiles.

2. THE LEVANT THROUGH HISTORY

Historically, the Levant referred to the eastern shore of the Mediterranean Sea and nearby islands. It was never a single political entity and, therefore, does not appear on maps. Typically, it is considered bounded by the area west of the Zagros Mountains, south of the Taurus Mountains, and north of the Sinai Peninsula. In antiquity, the southern part of the Levant, or Palestine, was known as Canaan (Gill, 2020). In contemporary times, it encompasses Cyprus, Israel, Jordan, Lebanon, Palestine, and Syria and often includes Egypt, Greece, Libya, and Turkey. The word "Levant" closely resembles the Arabic term "Mashriq," which translates to "the land where the sun rises." Consequently, it is often used interchangeably with terms like "Near East," "Middle East," and "Eastern Mediterranean" (Istizada, 2020).

Defining the precise boundaries of the Levant has historically been a challenge, given its lack of existence as a single political entity. European colonization exerted a profound influence on the Levant, with Napoleon annexing Egypt in 1798, making the region desirable for French and English colonizers. The collapse of the Ottoman Empire in 1922 and the subsequent rise of nation-states resulted in the loose and ill-defined concept of the Levant. Levant territories were primarily shaped by French, Italian, and British forces. The post-war settlement revised the map outlined in the 1916 Sykes-Picot Agreement, with France administering Syria and Lebanon, and Britain taking responsibility for mandates in Palestine, Transjordan, and Iraq. The goal was to help these newly created states achieve full sovereignty and self-rule with European assistance. These hard borders, however, strained socioeconomic relations, particularly during times of conflict, leading to the imposition of protectionist policies and restrictions on regional trade.

Most definitions of the Levant encompass Israel, Jordan, Lebanon, Palestine, and Syria, with some including all or parts of Egypt, Turkey, Cyprus, and, in more recent contexts, Iraq. A broader definition of the region occasionally includes include Libya and Greece. In the modern context, geographic positioning serves as the primary determinant for the region's definition. More recently, the "new Levant" is defined as comprising Egypt, Turkey, Jordan, Lebanon, Iraq, Syria, and the Palestinian Territories as well as Tunisia, Libya, Israel, and Iran as "outer circle" countries (World Bank, 2014). Notably, these countries exhibit varying income levels, with Israel, Greece, and Cyprus classified as high-income; Iraq, Jordan, Lebanon, Libya, and Turkey as upper middle-income; and Egypt and Palestine as lower middle-income.[2] Cultural, religious, linguistic, and political differences among Levantine countries further complicate any attempt to view them as a single unit.

3. ECONOMIC INTEGRATION AND THE PROPENSITY FOR CONFLICT

Theoretical framework and evidence

While certain important exceptions are often cited, there is an emerging academic consensus that suggests that economic integration is associated with a lower probability of conflict. In contrast to the highly visible exceptions, studies that draw upon large sample of countries and years show a significant negative association between economic integration and the probability of conflict.

As globalization spread (Figure 2), questions of whether increased trade integration is more likely to lead to more peaceful relations among nations or higher levels of conflict have become increasingly salient. While there are opposing theoretical views of whether trade integration can lead to peace, the empirical literature on the subject tends to provide evidence supporting the hypothesis that countries that are economically integrated through trade are more likely to have peaceful relations.

One theoretic perspective is economic liberalism. A key tenet of economic liberalism is that international trade and economic interdependence will lead to shared prosperity, increased stability, and international peace (Martin, 2009). There are several reasons why increased economic integration could contribute to peace in theory. Economic integration establishes social links between two countries or within a region. These social links include communication, shared economic interests, and cultural ties, all of which can help prevent conflict because trading partners that have social ties are less likely to resort to conflict. Second, conflict interrupts trade, and thus nations have an incentive to maintain peace with their trading partners to not lose the gains from trade (Benson and Niou, 2007). Countries that are economically interdependent should have more at stake when it comes to conflict, making the costs of conflict higher and the decision of states to resort to war with their trading partners far less likely.

Empirical studies tend to find a negative relationship between economic integration and the probability of conflict. Polachek and Seiglie (2006) use cross-sectional data and find that countries that are trading partners cooperate more and fight less: when the level of trade doubles, conflict decreases by 20 percent. Kollias and Paleologou (2017) test a similar hypothesis, for a sample of 132 countries between 2008-2012 and find some (but not strong) evidence supporting that globalization leads to peace. Unlike the short timeframe in Kollias and Paleologou's (2017) study, which is a major drawback as globalization and peace are long-term processes, Lee and Pyun (2016) use data that span 1950-2000 and find that an increase in bilateral trade significantly promotes peace and that the effect is higher when countries share a border. They also find that global trade openness also promotes peace, and the effect is higher for countries that are farther apart. McDonald (2004) conducted a similar analysis but changed the primary factor to be the level of tariff-free trade, rather than merely the level of trade. He argues that free trade removes domestic privileges that empower societal groups that are more likely to support war and that allow governments to form pro-war coalitions.

Despite clear theoretical causal link and evidence on the negative relationship between economic integration and conflict, there are historical counterexamples. Notably, the First World War was not prevented by the high levels of trade and economic interdependence that characterized the early decades of the 20th century. Some causes of war, like neighboring a country led by an ambitious empire-seeking authoritarian, cannot be overcome by the gains from trade alone (Park, 2018; van de Haar, 2020). To this end, the realist view, in opposition to the liberal view, argues that trade integration threatens peace. The argument is that interdependence can potentially create resentment between countries, intensify rivalries, and cause political discontent that could raise the likelihood of conflict (Braddon, 2012).

Additionally, strong economic linkages with other countries could be a threat to national security, particularly in cases where the gains from trade are not equally distributed between the trading partners. The realist view does not question the economic theory that higher levels of free trade increases welfare, but posits that the likelihood of conflict also increases alongside trade, as the range of issues over which countries could possibly disagree increases. Furthermore, Paganelli and Schumacher (2019) argue that the wealth commerce generates decreases the relative cost of wars, increases the ability to finance wars through debts, which decreases their perceived cost, and increases the willingness of commercial interests to use wars to extend their markets, increasing the occurrence and prolonging the length of wars.

Given the apparent conflict between the liberal and realist views on the relationship between economic integration and peace, several studies attempt to reconcile liberal and realist views. One notable example is Copeland (1996), which introduces expectations of future trade as a variable that might help explain the variation in individual country-pair experiences. When expectations of future trade are high, Copeland (1996) finds that interdependence fosters peace and when expectations of future trade are low, interdependence will foster conflict. If countries fear that their access to resources from trading partners is likely to be lowered or cut off, they are more likely to initiate conflict to maintain access. Aydin (2010) analyzes the deterrent effects of trade and find that contrary to rational deterrence logic, trade itself is a poor indicator of a defender's willingness to defend and fails to adequately inform the attacker about the likelihood of multilateral confrontation and its costs. Nevertheless, his empirical evidence reveals that trade has a general deterrent effect on attackers when the target is economically integrated with potential defenders through regional trade institutions.

Other factors influence why a negative relationship between economic integration and the probability of conflict is more likely to emerge for some country-pairs more than others. For example, Aaronson et al. (2015) show that, when the country-pairs are both members of the GATT/WTO and both benefit from increased trade, the countries are less likely to engage in military disputes with each other. Considering India and Pakistan, Mamoon and Murshed (2010) analyze the conflict mitigating effects of trade, democracy, and military spending as drivers of belligerence between countries. They first find that reduced bilateral trade, less overall trade openness, lower developmental expenditure and growth rate, lower levels of democracy, and greater military expenditure are all conflict enhancing. Their results show that economic progress and poverty reduction combined with greater trade openness are more significant drivers of peace between India and Pakistan, rather than the independent contribution of a common democratic polity.

On the relationship between economic integration and peace, the direction of causality runs both ways: more trade leads to peace, and peace leads to more trade. Addressing the latter relationship, Ekholm et al. (1996) raise the question of whether the conflict in the Levant even was an impediment to trade and whether the Middle East Peace Process would increase prospects for interregional trade. Comparing the predicted level of trade that would have been for MENA countries without the conflict and the actual exports, they find the actual and predicted exports to be rather similar for most countries and, hence, no significant impact of peace on trade. Recently, Gylfason et al. (2015) examine whether there was potential for increased intra-regional trade in the Middle East and show that that while the gains realized so far have been small, there is still a large potential for future gains stemming from trade integration and that closer integration could promote peaceful conflict resolution as well as democratization.

The Levant Case

Economic integration, despite its extensive benefits, faces formidable obstacles in the Levant region. Historically, the Levant countries shared strong ties, united under the Ottoman Empire until its dissolution in 1922. As they emerged as distinct entities, differences in economics, politics, culture, and religion have fueled persistent regional conflicts and wars.

With the exception of Israel, Cyprus, and Greece, where Islam is not the predominant religion, the Levant countries are predominantly Muslim (Jacobs, 2019). The Arab-Israeli conflict, spanning much of recorded history, remains a central source of tension, particularly between Israel and Arab populations residing in the West Bank and Gaza Strip, collectively known as the State of Palestine. Only Egypt (in 1979) and Jordan (in 1994) have signed peace treaties with Israel, establishing full diplomatic relations (Gavlek, 2020). These treaties were premised on both partner countries supporting the two-state solution to the Israel-Palestine conflict (Gavlek, 2020).

Four Levant countries—Iraq, Lebanon, Libya, and Syria—do not maintain relations with Israel. Lebanese law has enforced a comprehensive boycott of Israeli entities and products since June 1955, with the Ministry of Economy emphasizing its significance in preventing Israeli economic encroachment on Lebanese markets (USTR, 2019). Such longstanding animosities complicate integration efforts.

The Syrian war, which commenced in 2011, has further disrupted integration initiatives. Ianchovichina and Ivanic (2014b) estimate that the collective economic size of Levant economies, as measured by gross domestic product (GDP), could have been $35 billion larger had the conflict not occurred. Syria and Iraq bore the brunt of direct and opportunity costs resulting from forfeited trade integration initiatives. Syria's economic losses included the trade embargo, dwindling workforce due to casualties, refugee exodus, infrastructure destruction, and increased business costs in conflict zones. The war also led to Syria's unilateral withdrawal from the "Levant Quartet," comprising Turkey, Lebanon, Syria, and Jordan, in 2011.

Border closures and cross-border transportation present additional challenges. Border closures, particularly along Iraq's frontiers, have been problematic. Iraq's primary international trade route with Jordan, the Tureibil crossing, was closed between 2014 and 2017, significantly impacting Iraq's economy (Yeranian, 2017). The Qaim border between Syria and Iraq remained shut from 2012 to 2019 due to the Islamic State's occupation. Israel's alleged air strikes along the border have strained Israeli-Syrian/Iraqi relations (Dadouch & Khattab, 2019). Transporting goods across borders is a recurring issue, with infrastructure and bureaucratic hurdles being top constraints (Harb and Abou Shady, 2016).

The Levant region faces specific challenges, including limited diversification of production and exports, weak regional global integration through trade and investment, and high youth unemployment (World Bank, 2014). Conflicting national policies and insufficient government support pose integration challenges. Chauffour and Maur (2011) discuss the difficulties of securing government backing. National governments may perceive adverse consequences, such as reduced tariff revenues or potential harm to domestic suppliers, as outweighing integration benefits. Achieving coordination in domestic policies, reducing regulatory measures, and ensuring compliance mechanisms necessitate reform and accountability practices. The region currently lacks effective collaboration and coordination mechanisms.

Multiple existing and canceled trade agreements also present hurdles. Conducting business within the same region under multiple frameworks can be cumbersome, prompting calls for standardization as global supply chains grow more integrated. Varied requirements and standards hinder efficient intraregional trade. All Arab Levant countries belong to the Pan-Arab Free Trade Agreement (PAFTA), with Egypt and Jordan also members of the Agadir agreement with Morocco and Tunisia. This narrows the scope for tariff concessions that Levant countries can offer each other in a potential intra-Levant free trade agreement (Habibi, 2018).

Notably, Turkey and Jordan had an FTA from 2009 to 2018, but Jordan terminated the agreement due to perceived lack of benefits and specific demands (Ghazal, 2018). Intraregional trade faces barriers such as non-tariff measures (NTMs), high most favored nation (MFN) tariffs, and complex rules of origin (RoOs), leading to lengthy and costly trade transactions. Despite numerous regional agreements, trade barriers remain significant and hinder intra-regional trade expansion (Habibi, 2018; Malkawi & El-Shafie, 2019; Peridy & Abedini, 2014). RoOs, in particular, play a substantial role in this issue. The Greater Arab Free Trade Agreement (GAFTA) has extensive RoOs that often impede trade at borders (Peridy & Abedini, 2014), with non-uniform standards across member nations (Malkawi & El-Shafie, 2019), especially concerning apparel RoOs. GAFTA, for instance, mandates certificates of origin, resulting in added costs and delays for businesses and uncertainty regarding goods' eligibility for preferential treatment. Language requirements for certificates further compound the issue (Malkawi & El-Shafie, 2019).

4. THE POTENTIAL GAINS OF ECONOMIC INTEGRATION IN THE LEVANT

Countries’ partnerships promote mutual economic development and facilitate peace and political stability. Establishing effective economic partnerships requires reforms that enable free trade, promote bilateral capital flows, relax requirements for travel and work, and open domestic sectors for mutual market integration. Therefore, efforts that enable the economic integration of countries in the Levant offer a promising path to deal with its main economic woes: lack of economic diversification; high (youth) unemployment; fiscal, external and energy imbalances; and limited trade and investment.[3]

Estimating the Economic Gains

It is more relevant to assess the economic potential of regional integration in the Levant primarily from the perspective of its impact on regional trade. Levant countries have entered into multiple bilateral trade agreements. Notable examples include Egypt-Turkey (signed in 2005, with the implementation date 2007-2020); Jordan-Turkey (2009, 2011-2018); Turkey-Syria (2004, 2007-2018); Turkey-Israel (1996, 1997-2000); Turkey-Lebanon (2010, not yet ratified), and Turkey-

Table 1 Projected Gains from Economic Integration in the Levant over 10 years

Countries	Egypt	Iraq	Jordan	Lebanon	Syria	Turkey
		Scenario 1				
GDP change (billion 2016 US$)	6.3	10.3	1.5	1.9	0.1	20.7
due to trade	1.8	7.5	1.2	1.3	0.0	7.8
due to investment	3.6	2.2	0.3	0.4	0.1	9.7
due to tourism	0.9	0.6	0.1	0.3	0.1	3.2
GDP growth (%)	1.9	6.0	4.0	3.9	0.8	2.4
Unemployment (pp.)	-1.0	-1.3	-1.8	-0.7	-0.4	-0.4
		Scenario 2				
GDP change (billion 2016 US$)	12.9	16.9	2.9	3.5	0.3	39.1
due to trade	2.7	11.3	1.8	1.9	0.0	11.7
due to investment	6.5	4.1	0.5	0.6	0.1	17
due to tourism	3.7	1.5	0.6	1.0	0.2	10.4
GDP growth (%)	3.9	9.9	7.5	7.1	2.0	4.5
Unemployment (pp.)	-2.0	-2.1	-3.3	-1.3	-1.0	-0.7

Note: Computed using the Levant Economic Integration Calculator by Egel et al. (2019). In Scenario 1, bilateral trade growth is 100%; trade-to-GDP multiplier 0.5 (trade assumptions); investment-to-GDP increases by 0.45 percentage points (pp); no improvement in political instability (investment assumption): elimination of visa requirements increases tourism by 0.8%; no regional coordination (tourism assumption); and employment-growth relationship (0.58, 0.27, 0.55, 0.20, 0.58, and 0.50 respectively) (job creation assumption). In Scenario 2, trade growth is 150%; investment-to-GDP increases by 0.75 pp; slight improvement in political instability; elimination of visa requirements increases tourism by 0.8%; regional coordination increases tourism by 0.5 pp. See the documentation of the Levant Economic Integration Calculator for further details.

Palestine (2004, 2005).[4] Except for Turkey, the core Levant countries are also members of the plurilateral trade agreement Pan-Arab Free Trade Area (1997, 1998-2005). Significant progress was also made by Jordan, Lebanon, Syria, and Turkey to form a regional trade agreement, but it failed to materialize due to the 2011 Arab Spring.

Leveraging different studies on the production and employment gains from trade agreements between different countries, Table 1 provides approximate measures of the potential gains from regional integration in the Levant. It presents predicted changes in GDP and unemployment under different scenarios of economic integration among the core Levant countries. Panel A presents expected gains from a 10-year scenario in which bilateral trade doubles, investment-to-GDP ratios increase by 0.45 percentage points, and visa requirements are eliminated. Under this scenario, the regional GDP would expand by 40.8 billion (2016 US$), as yearly GDP growth rates for countries in the region move to a range between 0.8% and 6%. Such faster economic growth would lower unemployment, particularly in countries with high unemployment rates.[5] Panel B considers a more ambitious integration scenario: 150% growth in regional trade, investment-to-GDP ratio increases of 0.75 percentage points, the removal of visa requirements, and improved political environment. Regional GDP is expected to expand by US$75.7 billion under this scenario, with yearly national GDP growth rates ranging between 2% and 10%, and unemployment declines

Table 2 Welfare Effects of Regional Integration in the Levant (percentage of per capita income, million 2007 US$)

Countries	Welfare gains from....								Cumulative welfare gains	
	Removing tariffs on agriculture and food		Reducing non-tariff trade barriers		Liberalizing transport services		Liberalizing services			
	%	$ mil.	%	$ mil.	%	$ mil.	%	$ mil.	%	$ million
Egypt	0.10	113	0.11	119	0.09	103	10.59	111,665	10.89	11,999
Iraq	0.01	2	0.09	14	1.15	177	15.37	2,354	16.63	2,546
Jordan	0.02	3	0.09	15	0.07	11	6.33	1,035	6.51	1,064
Lebanon	-0.02	-5	0.61	140	0.28	64	2.38	543	3.25	743
Syria	-0.02	-4	0.82	237	0.34	99	10.40	2,992	11.55	3,323
Turkey	0.01	79	0.03	179	0.07	389	1.61	9,154	1.72	9,802

Note: Based on the World Bank (2014). The simulation results are based on a modified GTAP model. The model setup assumes perfect mobility of production inputs indicating the reported outcomes capture medium-term impacts. See the report for further details.

between 0.7 and 3.3 percentage points.

Similarly, a World Bank (2014)'s report assesses the approximate welfare impacts of different regional integration scenarios.[6] Columns 1 and 2 of Table 2 indicate that removing tariffs on agricultural goods and processed food items can have distributional effects within the region, with Lebanon and Syria experiencing modest welfare losses. Nevertheless, columns 3 and 4 show that the Levant countries would experience welfare gains across the board from the reduction of non-tariff trade barriers, with Lebanon and Syria among the largest beneficiaries. Further, the liberalization of transportation services (columns 5 and 6) and broader service liberalization (columns 7 and 8) would also stimulate sizable welfare gains for all countries in the region. Overall, there are substantial expected gains from implementing a comprehensive plan for regional integration.

5. APPAREL AND TEXTILE TRADE IN THE LEVANT

To provide specific areas for improved Levant integration, this section focuses on the apparel andtextile (AT) industries. The Levant countries share a rich historical connection to these industries, driven by their position along the Silk Road and ancient Mediterranean trade routes, which fostered trade and investment. Access to superior materials, advanced weaving techniques, and modern dyeing practices made the garment industry an attractive and profitable endeavor. Apparel is usually labor-intensive, meaning that expanding apparel has significant potential for job creation and, therefore, economic growth. Expanding production by lowering trade costs has the potential to increase economic integration that can contribute to peace. The main point of this section is to demonstrate that there is significant heterogeneity within the Levant. Such heterogeneity, in terms of raw materials, wages, and technology, can support an endowment-based integrated apparel supply chain.

Apparel and Textiles in Existing Trade Agreements

The Levant countries maintain diverse trade relations and free trade agreements outside the region. At the same time, numerous trade agreements cover the Levant.[7] Among these agreements, two primary ones stand out: the Agadir Agreement and GAFTA. While both agreements share the overarching goals of fostering regional economic integration and promoting trade liberalization, there exists a fundamental discrepancy between the RoOs delineated in the Agadir Agreement and those found in GAFTA.[8]

In particular, the Agadir Agreement adopts the RoOs of the European Union and appears to be oriented towards enhancing trade between its participating members and the EU nations. Conversely, GAFTA's primary objective is to stimulate trade among Arab countries. It is worth noting, however, that inter-regional trade arrangements currently seem more appealing than those designed to facilitate intra-regional trade.

GAFTA was conceived with the aim of liberalizing trade across various sectors, including agriculture, industry, and services. While certain measures have been put in place to encourage the reduction of NTMs and tariffs, they have not necessarily led to a notable increase in intra-regional trade within the apparel industry. This can be attributed to the complexity, ambiguity, and associated costs of complying with the RoOs and tax-related processes.

Apparel and textile exporters faced particular challenges when exporting to regional countries due to the requirement of a proof of origin certificate for all sellers. These certificates needed to be completed in Arabic, issued by specific entities, and free from typos or misspellings to be deemed acceptable.

GAFTA's RoOs encompass several criteria for determining the origin of goods in various scenarios. Malkawi and El-Shafie (2019) contend that AFTA's RoOs are formulated to safeguard domestic clothing industries, especially in Egypt, Morocco, and Tunisia. For example goods wholly produced in one country must be manufactured exclusively within GAFTA member states. GAFTA provides an exhaustive list covering primary products, raw minerals, lumber, and unprocessed agricultural commodities. In addition, value-added content permits the inclusion of imported components if at least 40 percent of the product's value is attributable to production in another GAFTA country.

Change of tariff category using the Harmonized System (HS) nomenclature results in the country where the change occurred being deemed the country of origin. This rule necessitates the classification of the good upon importation and exportation, often requiring imported parts to be classified differently from the final product. Certain processes confer origin for specific products, such as various oils, their fractions (HS 1507-1515), and goods in sub-chapters 2840, 4302, 5007 (woven fabrics of silk waste), and 5604. For instance, HS 5007 is subject to a "three operations" rule, where a product is considered of GAFTA origin if the fabric is printed in an Arab country and accompanied by two or more specified operations, regardless of where the fabric was woven. A combination of one or more RoOs applies to some products, including cinematographic goods, organic chemicals, and certain textile products. These products must meet specific technical requirements and value-added rules.

The United States initiated the Qualified Industrial Zone (QIZ) program in 1996 to support the Middle East peace process. Under this program, Egypt and Jordan can export products to the United States duty-free if they contain inputs from Israel. The program authorized the elimination of duties on articles produced in the West Bank, Gaza Strip, and designated QIZs in Jordan and Egypt. The U.S. Trade Representative, in collaboration with other government agencies, designates these QIZs. While initially limited to Jordan, the program expanded to include six QIZs in Egypt as of 2020. Jordan also has seven QIZs, but due to the U.S.-FTA, the QIZ initiative is no longer as essential.

U.S. tariffs on apparel goods are relatively high, making the production of these goods in QIZs particularly appealing. For QIZ products to qualify for duty-free entry into the United States, they must be distinct articles grown, produced, or manufactured, or they must be "new and different" articles imported directly from the West Bank, Gaza Strip, or a QIZ in Jordan or Egypt. The eligibility requirements for country input share are stipulated in the U.S.-Israel FTA, mandating that the value of materials or total production costs must not be less than 35% of the appraised value of the product at the time of entry into the United States. Within this, U.S. components can contribute up to 15%, while inputs from Israel and Jordan, or Israel and Egypt, must collectively account for 20%.

For products co-produced by Israel and Egypt, 11.7% of the value of materials must originate from Egypt, 10.5% from Israel, and the remaining 12.8% can come from an Egyptian QIZ, Israel, or the United States. Textiles, including towels andsheets, as well as apparel, constitute the largest volume of exports to the United States under the Egyptian QIZ initiative.

Notably, Jordan and Israel have FTAs with the United States that do not involve restrictive RoOs requirements. The U.S.-Jordan FTA only require that Jordanian exports to the U.S. have at least 35% Jordanian content to enjoy FTA duty benefits. Additionally, Jordan has relaxed RoOs requirements until 2030 for exports to the EU, provided that factories employ 15% of their workforce on EU-dedicated production lines for Syrian refugees.

Workforce and Exports

Collectively, the Levant nations employ approximately 2.3 million workers in the apparel and textile sectors, with Egypt and Turkey leading in terms of workforce size (Table 3). Jordan, while ranking third, relies heavily on migrant workers, constituting over two-thirds of its labor force. The civil war in Syria caused many workers to seek opportunities abroad and AT production fell. The Levant region also harbors a substantial labor force in the industry comprising refugees, immigrants, and migrant workers. Facilitating the legal movement of these individuals across borders is crucial, as informal labor often leads to underpayment and a lack of protection under national labor laws.

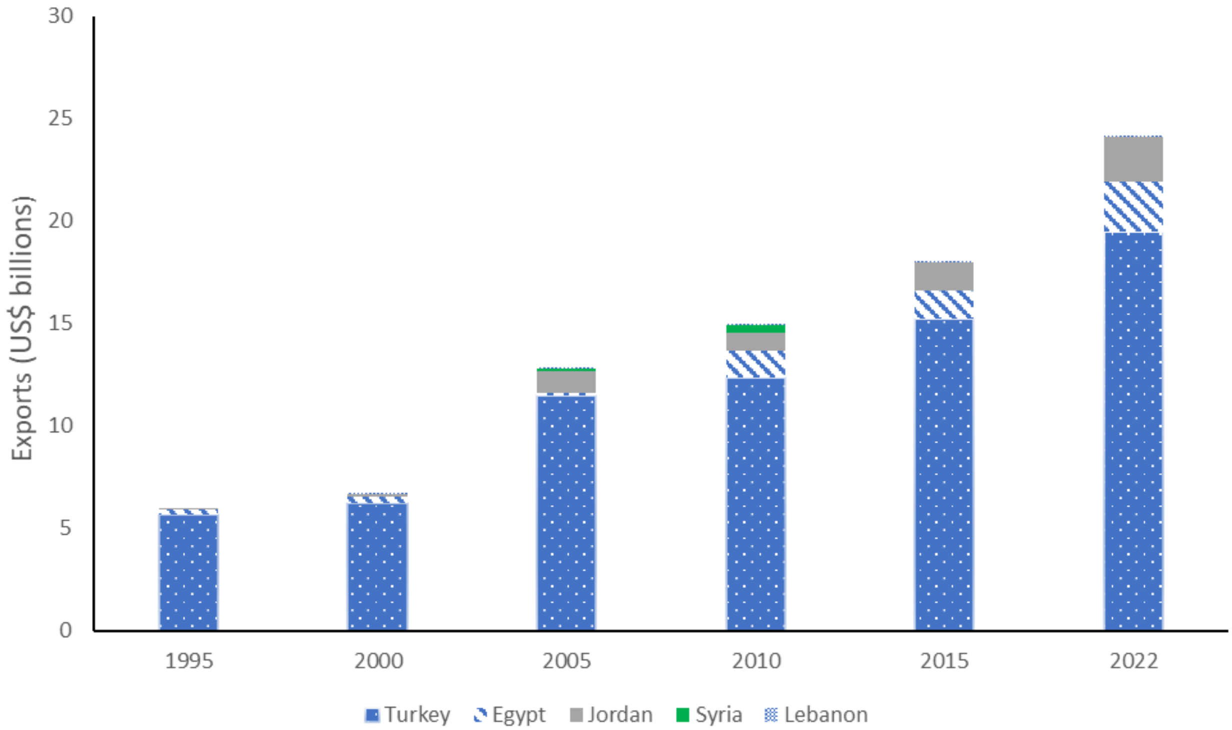
According to the World Bank's WITS database, the core Levant countries' exports of all goods amounted to US$317 billion in 2022, with apparel exports totaling $24 billion, representing 7.5% of the overall exports (Figure 3). Turkey dominated this industry, contributing about 80% to the Levant's apparel exports and ranking as one of the world's top exporters. Egypt and Jordan also boasted significant export levels.

Table 3 Employment, Firms, and Wages in Apparel and Textiles, 2018

Country	Workers			Apparel (incl. textiles) Share of Workers		Firms			Wages ($US)
	Textiles	Apparel	AT	Total	Mfg.	Textiles	Apparel	AT	Monthly
Turkey	431,506	496,558	928,064	--	--	22,854	57,300	80,154	$600
	669,000	925,000	1,594,000	5.5%	30%	--	--	--	--
Egypt	200,000	427,000	627,000	2.4%	20%		2,500	6,500	$100
		1.5 mil.						843	
Jordan	2,535	26,800	29,335	1.4%	14%			1,235	$310
Greece	7,945	14,001	21,946	0.6%	6%	1,546	3,916	5,462	
Israel	4,411	9,266	13,677	0.4%	3%				
Lebanon	2,000	14,000	16,000	1.0%	9%			273	
Syria	--	--	--	--	--	2,400	4,800	7,200	
Palestine	2,004	11,399	13,403	1.4%	11%	367	1,625	1,992	
Cyprus	512	--	512	0.13%	2%	103	172	275	
Iraq	--	--	--	--	--	349	2,892	3,241	
Libya	--	--	--	--	--			< 150	
Levant Total	900,000	1.4 million	2.3 million			27,600	73,200	106,500	

***Source*:** Complied by Frederick (2021). Cyprus Employment (2018) suggests there are also 322 apparel workers, Firms (2015)(CYSTAT, 2019; MOF, 2018); Employment (2019): Lebanon, (2018): Cyprus, Egypt, Greece, Jordan, Palestine, Turkey; (2017): Israel (ILO, 1992-2020); Egypt (2019) QIZ firms (QIZ Egypt, 2020); Greece firms (Eurostat); Lebanon firms (MOI Lebanon, 2018); Palestine (PIPA, 2016); Iraq firms (2017), Syria firms (OIC SESRIC, 2021)-estimated 70% of factories destroyed in war (24,000 prior to war) suggesting 7,200 remain. Turkey 2017 data: Turkish Statistical Institute as cited in Frederick (2021). Central Dissemination System: Advanced Query, Number of Enterprises, Downloaded Excel File with Number of Enterprises. Rev 1.1 (Textiles 13, Apparel 14). Jordan: firms and Apparel (including textiles) total employment (JCI, 2019, 2020). Wages: Turkey & Egypt (Cochrane, 2020); Jordan 2020 Min. Garment Wage (BWJ, 2021). ***Note*:** Data represent 2018 unless otherwise noted. Iraq: The Apparel (including textiles) industry is highly influenced by state ownership of petroleum and fuel. Dependence on oil makes all other prices within the country subject to volatility considering its currency and wealth are tied to the price of oil. Oil prices are determined by the global market.

Figure 3 Apparel Exports from Levant Countries (US$ billion), 1995-2022



Source: Based on data from World Bank's WITS database. Apparels are product groups 61 and 62 at 2-digit (HS 1988/1992). The sample of Levant countries comprise Egypt, Iraq, Jordan, Lebanon, Syria, and Turkey.

The AT industry's supply chain in the Levant is multifaceted, involving various stages and products. For example, initiatives like the Better Cotton Initiative operate in Turkey, Greece, Israel, and Egypt, aiming to reduce waste in cotton farming and improve livelihoods while preserving the environment. Meanwhile, Syria, Libya, and Iraq export wool products. Levant countries like Turkey, Greece, Egypt, and Israel also play significant roles in the production of non-apparel end-use textile components.

The Levant countries engage in varying levels of AT trade within the region (Table 4). Table 4 shows the relative product strengths of each country and demonstrates significant diversity within the region. Turkey, Egypt, Iraq, and Israel are top importers. Turkey dominates Levant AT imports, accounting for 72% of such imports. Similarly, Egypt contributes 10% of all AT exports from the Levant and maintains a dynamic trade relationship with other Levant countries, despite occasional turbulence influenced by conflicts and policy changes. A good example of this relationship is the FTA signed between Egypt and Turkey in 2005 to gradually reduce tariffs on industrial products, including all AT products. Turkey remains a vital destination for Egyptian AT exports, with Turkey importing Egyptian cotton extensively. Trade in final apparel products have consistently become more relevant since the early 1990s, with carpet and floor coverings gaining traction since 2004.

Islamic Fashion

Islamic fashion, characterized by modest clothing adhering to religious beliefs, holds significant potential. The Levant countries exhibit diverse attitudes toward wearing the Hijab, influencing fashion consumption. Some nations, like Turkey and Egypt, have high Hijab prevalence, while others, like Israel and Greece, have lower adoption rates. This diversity suggests that Arab countries are

Table 4 Intra-Levant Textiles and Apparel Trends

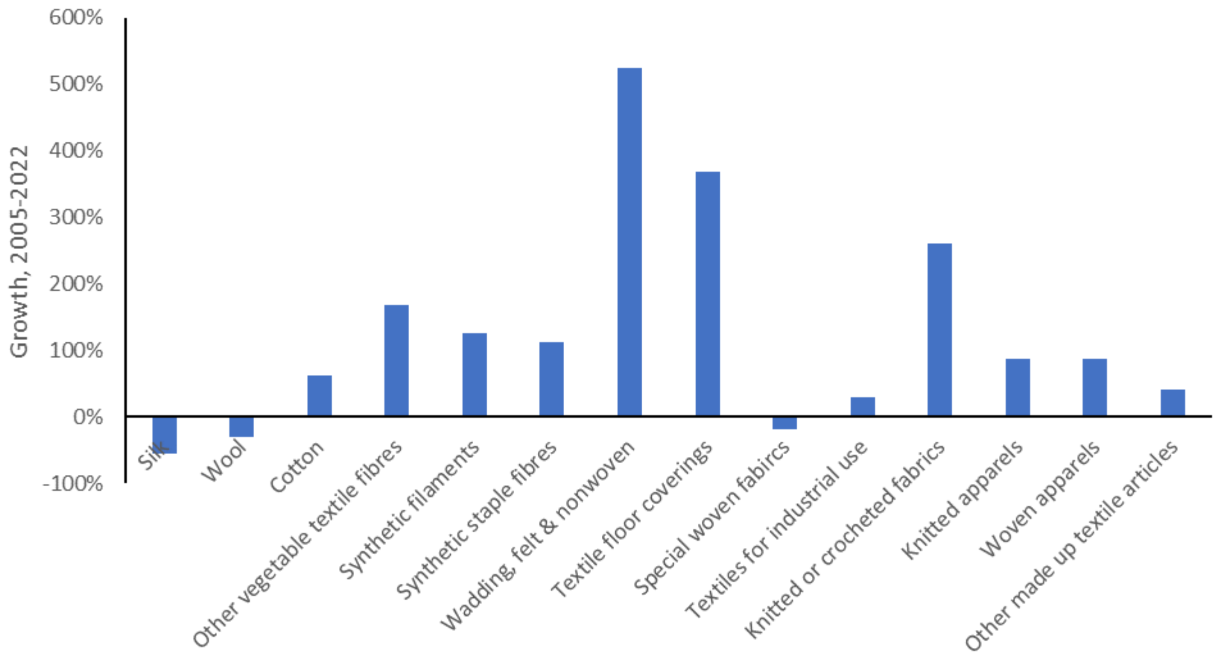
Country	Top Levant AT Export Destination & Levant Share	Levant's Share of Country's AT Exports	Main exports to Levant
Turkey	Iraq (31%)	10%	57, 60-63 Apparel, carpet to Iraq, Israel Knit fabric to Egypt & Greece 52, 62, 54, 63, 57
Egypt	Turkey (84%)	15%	Woven apparel, cotton, MM filaments & staple fibers (Turkey)
Jordan	Israel (39%) Egypt (27%)	3%	Knit apparel & made ups (Israel); Carpet (Egypt)
Greece	Turkey (49%)	22%	Cotton (Turkey)
Israel	Egypt (56%)	15%	Nonwovens (Turkey, Greece), Coated fabric (Egypt), MM staple fibers (Egypt), Cotton (Egypt)
Syria	Turkey (57%)	57%	--
Lebanon*	Jordan (30%)	18%	MM filaments & fibers (Syria); woven apparel (Jordan)
Cyprus	Greece (90%)	30%	Woven apparel (Greece)
Palestine	Israel (98%)	96%	--
Libya	Turkey (78%)	38%	--
Iraq	Turkey (77%)	12%	--

Source: Complied by Frederick (2021) based on data from OEC (2020). ***Note:*** * No trade with Israel or Palestine. Main exports to Levant based on (World Bank 2021). Numbers in export column represent 2 digit Harmonized System (HS) codes.

well-suited to design and produce Islamic fashion items, aligning with consumer trends and preferences in Islamic and Arab communities. In 2018, Muslim consumers spent US$283 billion on apparel and footwear, constituting 11% of global expenditure, which is expected to rise to US$402 billion by 2024 (DinarStandard, 2020).

The Gulf Cooperation Council (GCC) and Middle Eastern markets are key players in this industry, with annual fashion sales nearing US$50 billion (McKinsey & Company, 2020). These markets, however, are sensitive to oil prices, with higher oil prices correlating with increased consumer spending.

Figure 4 Growth in AT Export Value of Levant Countries by Product, 2005-2022



Source: Based on data from World Bank's WITS database. Product groups are defined at 2-digit (HS 1988/1992). The sample of Levant countries comprise Egypt, Iraq, Jordan, Lebanon, Syria, and Turkey.

Women's roles in the workforce are expanding, and relaxed dress code regulations in Saudi Arabia may disrupt fashion consumption patterns. Promising growth sectors in modest fashion include the luxury market, activewear, and men's clothing, with trends such as mobile commerce and circular fashion gaining traction.

In summary, the AT industry presents opportunities for regional integration and catering to growing consumer demand in the Islamic and Arab fashion markets. Strategies that leverage these opportunities could enhance economic cooperation and stability within the Levant and its neighboring regions.

6. CONCLUSIONS: A ROAD MAP FOR FUTURE WORK

Most evidence from the academic research support a strong, positive relationship between trade and economic growth. Simultaneously, the empirical relationship between economic integration and the propensity for armed conflict suggests that economic integration is usually (but not in every case) associated with less conflict. While several studies document the progress that Levant countries have made towards the broad steps of integration through trade agreements, simulation studies predict substantial economic gains could emerge from strengthening economic cooperation in the Levant.

What is now needed is a series of studies that focus on specific areas in which Levant countries can make progress towards integration. The goal of this White Paper series is to identify well-focused areas with significant potential gains. To highlight the approach, this paper has considered the AT industry. The next paper in the series focuses on hydrocarbons and energy policies.

NOTES

[1]Office of the Historian, Foreign Service Institute. “The Madrid Conference, 1991”. United States Department of State. Retrieved from: https://history.state.gov/milestones/1989-1992/madrid-conference.

[2]Syria has been downgraded to the low-income category since 2016 according to World Bank’ country classification (World Bank, 1987-2019).

[3]World Bank, 2014: https://documents.worldbank.org/en/publication/

[4]WTO, 2023: http://rtais.wto.org/UI/About.aspx; Information on the Jordan-Turkey agreement is obtained from UNCTAD’s Investment Policy Hub and Turkey-Lebanon from USITA.

[5]The unemployment rates are based on 2018 data (Egel et al., 2019).

[6]World Bank, 2014: https://documents.worldbank.org/en/publication/

[7]Israel, Jordan, Egypt, Greece, and Turkey maintain strong ties and free trade agreements, with Turkey, Greece, and Cyprus mainly exporting to the European Union, Jordan focusing on the United States, and Egypt and Israel evenly dividing their exports between the EU and the US. Syria, Lebanon, and Palestine primarily trade within the Levant or GCC, (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) while Turkey and Egypt compete in cotton products, catering to different regions. Turkey leans toward the European Union, while Egypt aligns more with Arab countries in the MENA and GCC regions. Jordan boasts multiple FTAs with the EU, Canada, Singapore, and the United States, in addition to its participation in multilateral trade agreements. The presence of these FTAs diverts exports toward lucrative North American markets, bypassing regional complexities.

[8]Abreha and Robertson (2023) show the crucial role of RoOs in the trade-promoting effects of RTAs and the highlights the implications of the complexity and wide variation of apparel-specific provisions (Figure A.1)

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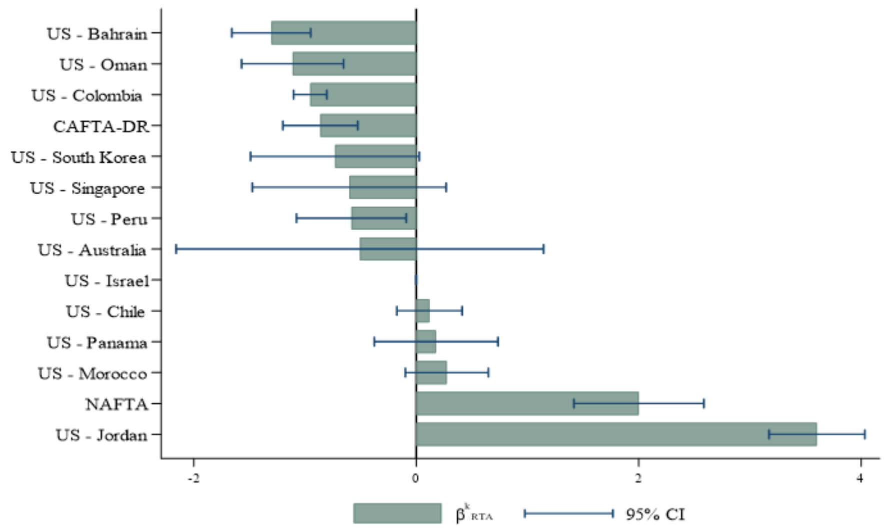
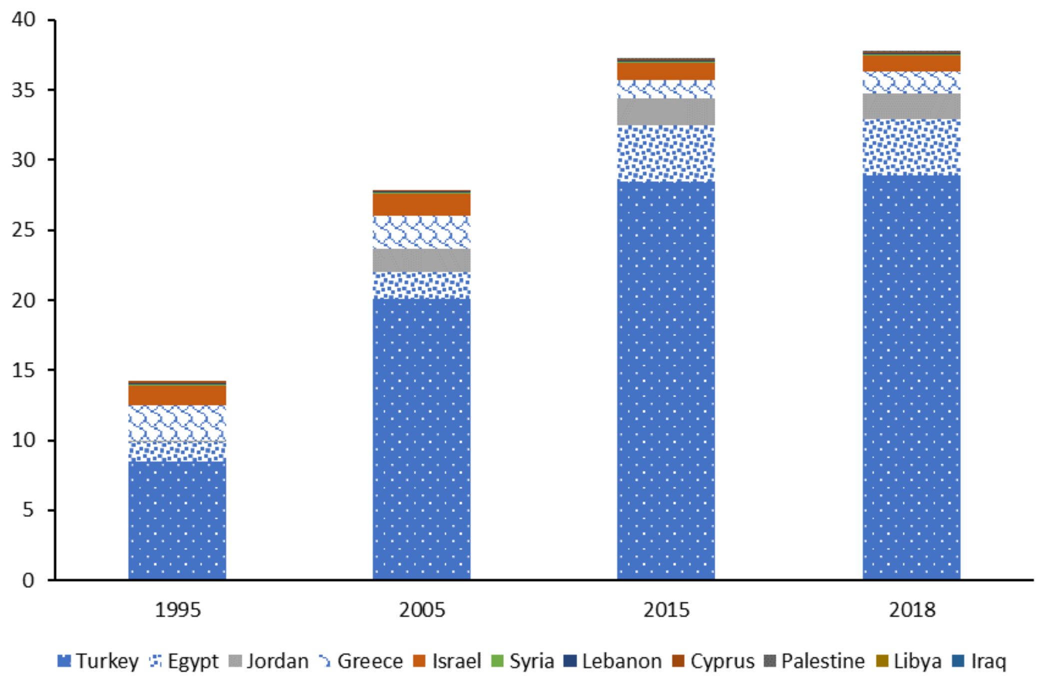
Appendix

Figure A.1 Effect of U.S. Trade Agreements on Apparel Trade, 1988-2019



Source: *Abreha and Robertson (2023).*

Figure A.2 AT Exports from Levant Countries (US$ billion), 1995-2018



Source: OEC (2020).

Appendix

Table A.1 Apparel and Textile Exports & Trends in the Levant

Country	OEC AT Exports 2018	WITS AT Exports/ Imports 2018	AT Share of Exports, 2018 (OEC)	Primary AT Exports	Primary AT Export Destinations (in order)	Growing	Declining
Turkey	$28.9 B	$27.9B $10.5B	16%	Final (apparel, home textiles)	EU (61%), Levant	Knit fabric, Carpet	--
Egypt	$4.0 B	$3.2B $4.4B	11%	Final (apparel, carpet), Cotton intermediates	EU (34%), US (27%), Levant (15%), GCC (3%)	Carpet, apparel, nonwovens	Cotton intermediates*
Jordan	$1.8 B	$1.8B $1.3B	22%	Final (knit apparel)	US (70%), EU	Knit apparel, carpet	--
Greece	$1.6 B	$1.7B $2.8B	4%	Cotton intermediates, Knit & woven apparel	EU (59%), Levant (22%)	Knit fabric, nonwovens	Knit apparel
Israel	$1.1 B	$1.0B $2.8B	2%	Intermediates	EU (>33%), US (25%), Levant/ Egypt	Nonwovens, coated & knit fabrics	Woven & knit apparel
Syria	$78.1 M	--	11%	Raw (Cotton, Wool), Final	Levant (57%), GCC	Wool	Cotton, apparel
Lebanon	$76.3 M	$51.9M $757M	2%	Final (woven apparel)	GCC (29%), EU (28%)	MM filaments, fibers	Knit apparel
Cyprus	$41.3 M	$3.8M $340M	1%	Final apparel	EU	Made ups	Woven apparel
Palestine	$15.8 M	--	1%	Final and Intermediates	Levant/Israel (94%)	Woven & knit apparel, MM filaments	Nonwovens
Libya	$3.8 M	--	0.01%	Raw (Wool)	India (38%), Levant, EU		
Iraq	$1.4 M	--	0.002%	Raw (Wool), Final (Carpet)	EU (UK), India		

Source: OEC (2020). ***Note:*** *Decline is based on share of Apparel (including textiles) exports, not value.

Appendix

Table A.2 Levant Countries participation (from strongest to weakest AT footprint)

Country	Strengths	Main AT Imports (WITS data)
Turkey	Cotton textile components (yarn, fabric), home furnishings, apparel (cut/sew) and some apparel brands for global market and Islamic fashion.	Cotton, synthetic filaments, MM fibers
Egypt	Cotton (raw), some yarn/fabric, high-end home furnishings, apparel; have domestic labor force.	Synthetic filaments, cotton, synthetic fibers
Jordan	Apparel (cut/sew only); apparel is the primary generator of export revenue and manufacturing employment in Jordan. Benefits from the FTA with the US. Donor support: in response to trade legislation, several donor agencies have established programs in Jordan, particularly for the apparel industry. Recent EU preferences. Labor force primarily migrant from South Asia (Bangladesh, India & Sri Lanka) and Syria. Export-oriented production all FDI. During the QIZ phase there were more Israeli and Palestinian investors.	Knit fabric, knit apparel, synthetic filaments
Israel	Israeli companies are also engaged in chemical manufacturing, higher-end intimate apparel and more advanced manufacturing. Israel has an FTA with the US. Haifa port provides lead time advantages for exporters to the US. A report on the industry in Israel suggests that 85% of production is for the domestic market.	Knit & woven apparel, made ups
Palestine	Apparel production in the past; part of QIZ. Primary contribution likely through FDI in nearby countries.	--
Syria	History in apparel and now refugee policies in nearby countries have led to Syrian migrant labor, particularly in Jordan and Turkey.	--
Lebanon	Apparel production in the past for the regional market, but limited participation for global apparel brands.	Knit & woven apparel, made ups
Iraq	Potential buyer of apparel; no domestic production.	--
Cyprus		Knit & woven apparel
Greece		Knit & woven apparel

Source: Compiled by Frederick (2021) based on data from WITS

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