



ESTABLISHING THE FORMAL ECONOMIC IDENTITY OF SYRIAN REFUGEES IN TURKEY: THE CASE OF GAZIANTEP

Gergely Sebestyen
Humboldt University of Berlin
Gergely.sebestyen@student.hu-berlin.de

Bruno Dyjas
Warsaw, Poland
Bruno.dyjas99@gmail.com

M. İhsan Kuyumcu
Marmara University
isankymcu@gmail.com

Abstract: To date, Turkey accommodates approximately 3,5 million refugees - more than 60% of the total Syrian refugee population. The vast majority conduct their daily lives outside of refugee camps, fully engaging with host communities on both a social and economic level. Despite this routine interaction and Turkey's increased public commitment to improve the legal integration of refugees from 2016 onwards, only less than 1% of the working age refugee population possess formal work permits. As a result, refugee labour radically shifts the dynamics of informal production practices in Turkey. Normative comments from Gaziantep provide key insight into the inefficiencies and conflicts of interest that reproduce the current deadlock.

Keywords: Informal economy, Labour market, Refugee labour force, Syrian refugees and Turkey

TÜRKİYE'DEKİ SURIYELİ MÜLTECİLERİN RESMİ EKONOMİK KİMLİĞİNİN OLUŞTURULMASI: GAZIANTEP ÖRNEĞİ

Öz: Günümüzde Türkiye, tüm dünyadaki Suriyeli mülteci nüfusunun %60'ından fazlasına denk gelen yaklaşık 3,5 milyon mülteciye ev sahipliği yapmaktadır. Mültecilerin büyük çoğunluğu kampların dışında, hem toplumsal hem de ekonomik düzeyde ev sahibi topluluklar ile iletişim halinde kalarak günlük yaşamlarını devam ettirmektedir. Günlük etkileşimin varlığına ve Türkiye'nin 2016 sonrası mültecilerin yasal entegrasyonu geliştirmeye yönelik artan kamu sorumluluğuna rağmen; çalışan mülteci nüfusunun yalnızca %1'inden daha azı yasal çalışma izni elde etmiştir. Sonuç olarak, mülteci işgücü, Türkiye'deki kayıtdışı üretim uygulamaları dinamiklerini köklü şekilde değiştirmiştir. Gaziantep örneğinin incelenmesinden çıkan normatif yorumlar, mevcut çıkmazı tekrar üreten çıkar çatışmalarına ve yetersizliklere ilişkin açıklayıcı anahtar unsurlar sağlamaktadır.
Anahtar Kelimeler: Kayıtdışı ekonomi, işgücü piyasası, Mülteci işgücü, Suriyeli mülteciler ve Türkiye

1. INTRODUCTION

The forced displacement of Syrian refugees ought to be considered as a defining event in the modern economic historiography of Turkey. Despite a clearly voiced public commitment to increase the economic integration of refugees in recent years, currently less than 1% of the working-age refugee population possess formal work permits (Betts et al., 2017). This has led to a transformation of informal economies in Turkey, redefining and reproducing the current economic identity of refugees.

The paper aims to locate the most relevant barriers and conflicts of interest preventing the formalization of refugee workers within the labour market. In this manner, the study strives to promote discussion on whether the productive capacity of refugees is optimally employed to benefit all participants of the Turkish economy.

First, a theoretical overview of the interaction between unofficial markets and economic productivity will be presented. Subsequently, the research compares the different policy initiatives in Jordan and Turkey, following their simultaneous pledge to improve refugee economic integration at a 2016 donor conference. Second, the research identifies the most probable barriers hindering the formalization of refugee labour in Turkey. Finally, relying on the normative evaluation of interview subjects from Gaziantep, the research tests which of these obstacles are the most evident in this specific microeconomic environment.

2. INFORMAL ECONOMIES AND REFUGEE LABOUR

Economic production often incorporates both formal and informal elements, therefore it is problematic to conceptualise these terms as a binary opposition. One definition characterizes markets as *formal* if every stage of the production process is fully conducted within the state's regulatory framework. If central labour market policies leave the incentive structure of the firm unaffected (Albrecht et al., 2009), for instance if it is undeclared work producing legal goods and services (Korkmaz, 2017), then at least to some degree the production mechanism is informal. The same pattern can be applied to an individual level analysis on the premise that a *formal economic identity* is established whenever a worker 'receives the benefits mandated by labour laws' (Maloney in Amaral and Quintin, 2006).

This definition suits our research as it portrays formalization of labour as a process of increasing the integration between economic activity and central legal directives. In this manner, the research analyses the role of refugee labour in Turkey within the context of unofficial production and economic efficiency. The potential of informal markets to contribute to economic growth is ambiguous, not least as depending on the *degree* of informality, the most common arguments suit some contexts better than others.

There is a number of examples supporting the view that unofficial markets constitute a 'micro-entrepreneurial sector'. Maloney (in Albrecht et al., 2009) presents evidence from Latin America on similar levels of labour productivity and significant mobility across the formal and informal segments of the economy. Likewise, following a wide sample of qualitative interviews in England, Williams (2005) argues that the informal sector is a 'launch pad for entrepreneurial business ventures'. This occurs due to many self-employed business owners using their unregistered status as an experimental resource in the initial stages of operation. While the 'periphery' of the informal sector might be associated with poor health, dubious safety standards and financial exploitation, the 'informal core' is often characterized by well paid, autonomous and non-routine work (Korkmaz, 2017). In Turkey, the productive core of the unofficial sector is well represented by the garment industry, which preserves its low-cost and high-quality competitive advantage by workers temporarily switching to informal status (Korkmaz, 2017). Such an unofficial core is likely to exist in countries where entering the formal sector is associated with excessive costs, which is highly plausible outside the top quartile of the world income distribution (Djankov et al., 2002).

While these examples testify that informal working conditions do not necessarily constitute a burden on productivity, financial security and long-term economic planning are better guaranteed in a formal setting. As De Soto (2001) demonstrates using the example of post-Soviet states, it is primarily

not a suppressed entrepreneurial spirit which hinders economic growth, but a lacking ‘access to the property mechanisms that could legally fix the economic potential of assets (...) to produce, secure, or guarantee greater value in the expanded market’. The main advantage of the official sector is that each economic agent is identifiable and accountable under an *impersonal* legal framework; which simultaneously collects dispersed information in one integrated system (De Soto, 2001). This provides the basis for formal entrepreneurs to access outside finance more easily by entering enforceable contracts with credit institutions (Amaral and Quintin, 2006). Thus, the short-term employment benefits and the cost-advantage of informality are likely to be outweighed by a ‘long-term negative impact on economic growth and job creation’ (Farrell, 2004). For instance, De Mel et al (2013) empirically show how in Sri Lanka the majority of informal firms purposefully avoid entering the formal sector where they would not be able to compete (the ‘exit view’). Further, Jaramillo (2013) observes how a lower tax revenue base in Peru results in the congestion of public services, adding significant social costs via a ‘fallacy of composition’ type of structural inefficiency.

Consequently, a more realistic view of the formal and informal sectors would be to perceive them as two segments serving distinct economic purposes and resulting in different productivity levels. This conclusion resonates with dual sector growth models theorizing a low-productivity subsistence sector and a modern capitalist sector (eg. Harris and Todaro, 1970), only here without spatial segmentation. The first stage of these models proposes an infinitely elastic labour supply from the subsistence to the modern sector. This surplus is then absorbed only gradually as further capital investments - ‘capital widening’ - take place, maintaining the capital to labour ratio constant (Enke, 1962). In the dual view, then, (unskilled) informal labour is a *substitute* to capital investments, whereas formal labour is viewed as a *complement* (Amaral and Quintin, 2006). Overall, the dual analysis implies that a part of the labour force is constrained to the informal sector due to a relative underdevelopment of official markets. Therefore, an effective policy approach to improve economic integration would be to invest in economic infrastructure, institutions and education, each of these facilitating the development of capital-intensive industry (Amaral and Quintin, 2006).

Overall, economic theory implies that a growing formal sector strengthens property rights and well-functioning public infrastructure, thus providing clear long-term economic gains. However, this strategy might not be an immediate developmental priority. In terms of the short-term economic incentive structure, formal firms face a cost disadvantage. Furthermore, the demand for formal products is often low due to the existence of a wide ‘inequality wedge’ (La Porta and Shleifer, 2014). Proponents of the dual view often suggest that public policy is irrelevant, and that the informal sector is simply a transition stage in the country’s developmental path. In turn, state policy might be the key variable to produce the environment where further formalization contributes to the rise in the efficiency of firms. The public legal framework can guarantee robust property, labour and business rights, work benefits and access to the judiciary system (Dasgupta, 2016). This, in turn, creates vital opportunity for economic enterprise and job creation.

2.1. Turkey in Transition

Economic theory clearly differentiates the formal and informal sectors in order to represent the fundamental policy dilemma. However, the Turkish economy does not display such a degree of segmentation. Instead, the country serves as a transition case where ‘the official and unofficial sectors are represented within a single firm, and not just across firms’ (Johnson et al., 1997).

In Turkey, although formal goods and services are mainly produced by registered firms, they often rely on some form of undeclared labour. These can take the form of waged labour, self-employment, ‘paid favours’ or family work (Korkmaz, 2017). Despite these firms complying with the most essential legal requirements, their employees might not benefit from the same standards of labour rights protection. Such environment of non-enforcement is likely to benefit private owners who enjoy the financial advantages of formality while simultaneously ‘profit from a labour force that is made vulnerable to exploitation and that tends not to claim its labour rights’ (Lenner and Turner, 2018).

Despite this short-term productive advantage, the incentives to boost formal economic integration are present even in a transition economy. Johnson et al (1997) reveal the adverse interaction between informal labour and the provision of public goods. Employing additional resources in the unofficial sector facilitates tax avoidance, which can paralyze public finance and undermine the quality of

infrastructure. Thus, both sectors suffer the consequences of low-quality public goods. Nonetheless, the formal sector might be disproportionately compensating for the shortage of public funds via prohibitive taxes, further encouraging resources and labour to relocate to unofficial markets (Johnson et al., 1997). This cycle produces an inferior economic equilibrium with much lower aggregate performance than the country's potential under strong formal arrangements.

In addition to social costs, there are incentives to tackle informality from an individual perspective. Only a centrally regulated economic regime can *legally* guarantee safe working conditions, defend against exploitation and ensure social security. 'The vulnerable workers of the informal economy earn, on average, lower wages, receive poorer health and safety protection, and have less opportunity to unionize' (Farrell, 2004). In addition to protecting these fundamental rights, formality can extend the socio-economic opportunities or the 'positive rights' of the sector's participants. With fixed labour contracts, the firm is incentivized to provide more on-the-job training where workers can learn and improve their productive capacity. This is particularly relevant in relation to the augmented Solow model where human capital consisted of education, experience and health attributes is perceived as a direct input into the production function (Mankiw, Romer and Weil, 1992). Overall, then, freedom from exploitation is not the sole aim of labour rights protection. The legal framework might also incorporate considerations of distributional equity, and view freedom as 'capability' to improve in the professional sphere (Anand and Sen, 2000).

If applied to economic challenges caused by the refugee inflow, this overview contributes to positioning Syrians as 'enterprising subjects' who can participate in the economy in a self-sufficient manner (Lenner and Turner, 2018). In the absence of a viable framework for economic integration, refugees might 'adopt negative coping strategies' and enter a 'cycle of asset depletion' (Kattaa, 2016). In the following, the paper overviews the integration strategies adopted by Jordan and Turkey following the 2016 'Supporting Syria' donor conference in London.

2.2. Strategies of Integrating Refugee Labour

The formal economic participation of refugees can increase economic productivity and facilitate social integration into host communities. However, from a policy perspective, the process might simultaneously drive the displacement of the local labour force (Sak et al., 2018), and it might place immense pressure on the delivery and quality of public services in the short-term. Simultaneously, it should be noted that the phenomenon is one of forced migration and the underlying incentives are not economic. This implies that further legal and logistical problems arise as refugees try to sell assets, use savings or access credit markets (Ruiz and Vargas-Silva, 2013). In the following we observe how Jordan and Turkey have been addressing these challenges. Davis et al. (2017) define four strategies of refugee integration based on historical examples from Jordan and Egypt: providing citizenship; creating special camps with targeted services for refugees; temporary absorption without citizenship; or a complete legal exclusion.

2.2.1. Jordan

At the 'Supporting Syria' donor conference, the so-called Jordan Compact was officially announced. Its aim was set out as transforming the refugee crisis into economic opportunity by opening up EU markets, strengthening Jordanian host communities, and mobilizing additional finance via an Extended Fund Facility programme through the International Monetary Fund (IMF). The scheme pledged to allow Syrians to apply for work permits, set up tax-generating businesses, and to remove restrictions on economic activities within the camps and on commerce outside. Specifically, Jordan aims to issue 200,000 work permits to refugees by relaxing the rules and subsidizing the costs of acquiring such permits (Barbelet et al., 2018, p. 2). The scheme also specified industries where Syrian labour would be incentivized, mainly those with low local participation (construction, agriculture, services, cleaning), or those with a high skills-match with refugees (handicrafts, textiles). Jordan agreed to open eighteen special economic zones (SEZ) to implement this framework. These zones enable companies to operate under relaxed rules of origin to produce exports to the EU if a quota of Syrian refugee labour (15% eventually rising to 25%) is fulfilled (Sak et al., 2018, p. 6). Establishing these designated zones of industrial production, the Compact aims to relocate Syrian workers from the broad labour market, thus sheltering Jordanians from potential dislocation of their jobs. Therefore, the concept of the Jordan Compact attempts to generate formal jobs for Syrians while simultaneously placing host communities under political protection.

In addition to integrating refugee labour, the 'Jordan Response Plan 2016-18' names education as the key area to prevent the occurrence of a Syrian 'lost generation'. In this report, Jordan refers to refugees' returning prospects as 'remote', and the need for a long-term strategy is identified. Two years in, it can be argued that Jordan succeeded in turning the refugee influx to its advantage by using 'hosting capacity' as a leverage to 'promote state-centric agendas' (Rawan, 2017). Meanwhile, the Compact faces its own hardships. For instance, the attempt to formalize Syrian labour shed light to a wider local problem of informal economies in Jordan, requiring a larger structural shift than previously expected (Lenner and Turner, 2018). Further, although 13% of the eligible Syrians possess work permits, this falls short of the 200,000 target (Barbelet et al., 2018). Obtaining a work permit through the Ministry of Interior has significant bureaucratic obstacles such as reclaiming previously confiscated documents (Lenner and Turner, 2018). Moreover, as the permits require annual renewal, employers might attach hidden future costs that augment the uncertainty about Syrian labour. In spite of the Compact making vital progress in the integration of Syrian labour into the Jordanian market, only less than ten companies pass the formal criteria to export to the EU.

2.2.2. The EU-Turkey Deal

Similarly, Turkey faces the economic dilemma between providing direct, short-term treatment of the crisis and developing long-term economic prospects. Nonetheless, the Turkish handling of the refugee crisis does not display the same degree of segmentation. Instead, the refugees are integrated or (temporarily) absorbed into Turkish society.

Announced in March 2016, the EU-Turkey action plan aims to develop a more permanent strategy to regulate the flow of irregular migrants and asylum seekers. In accordance to the deal, the EU agrees to resettle one refugee residing in Turkey for every Syrian refugee that Turkey admits from the Greek islands. In this way, the deal aims to place migration under stronger state control and create a stable policy environment (European Parliament, 2017; Koenig and Walter-Franke, 2017). The agreement involves six billion euros of funding being disbursed to Turkey in two phases to be invested in projects specifically approved and designed by the European Union (Reno, 2017). In the first phase, three billion euros are used to directly tackle humanitarian causes (1.4 billion) and to promote economic development (1.6 billion) (European Commission, 2018). For this purpose, the deal incorporates an 'Emergency Social Safety Net' - a monthly subsidy of 120 lire to strengthen social security and provide the basic means necessary for the refugees in their daily lives (European Commission, 2018; World Food Program, 2017). So far, 1.2 million refugees benefitted from this scheme. However, refugees with formal jobs are not eligible for such assistance. The agreement further mandates the provision of conditional cash transfers in order to allow the most vulnerable families to finance their children's education. To date, approximately 266,000 children have benefitted from this programme (European Commission, 2018, p. 8). Furthermore, Turkey established twelve physical rehabilitation and mental health consultation centres within the framework of the agreement (European Commission, 2017).

The 'non-humanitarian' strand of the agreement emphasises the socio-economic integration of refugees. For example, by extending the programme to support education, Turkey aims to ensure that 500,000 children can access formal education in more than 170 newly established schools. Meanwhile, the Ministry of Education distributes 300 million euro worth of grants to facilitate the integration of Syrian children into the Turkish educational system (European Commission, 2018). The same strand of the agreement finances cash for work programmes, vocational training and language classes, thus directly promoting the labour market entry of refugees (Refugee Studies Centre, 2018). The scope of these programmes is limited and they fail to facilitate the formal integration of refugees on a larger scale (European Commission, 2018). Nonetheless, the fact that these programmes aimed to increase Syrian employability exist points out to other factors as a cause of these skills being insufficient to enter formal employment.

2.3. The Case of Gaziantep

It is important to note that informal market activities are not a novelty to the Turkish economy. In the area surrounding Gaziantep, approximately half of the total labour force had been employed informally prior to the refugee inflow (Tumen 2016; Schneider, 2012). However, with only a negligible fraction currently possessing work permits, informal labour disproportionately characterizes Syrians, implying that market barriers are often directly tied to their identity as refugees.

The ‘quasi-experiment’ of the refugee shock wave has important implications for the dynamics between official and unofficial markets in Turkey. As Syrians mostly access informal markets, the likelihood of Turkish citizens finding unofficial jobs has reduced, whereas their presence in formal employment has increased (Del Carpio and Wagner, 2015). This poses a risk of unemployment to some informal Turkish workers, primarily women, young people and the less educated (Ceritoglu et al., 2017). Therefore, policy initiatives should also target various domestic groups exposed to economic insecurity. Simultaneously, a 11% price increase in high quality housing rents suggests the existence of another group of Turkish citizens more clearly separated after the inflow (Tumen, 2016). This pattern reinforces the view of some economic and residential segregation between refugees and skilled local workers, even if the two groups conduct their daily lives in the same social setting.

Prior to the refugee inflow, the informal economy in Easter and South-Eastern Anatolia was characterised by low institutional integration and widespread employment in agriculture (Karaarslan, 2016). At the same time, the region was home to a significant proportion of industrial investments, ranking fourth in the whole of Turkey. The gradual arrival of refugee workers allowed firms in Gaziantep to gain a competitive edge by employing refugees informally and reducing labour costs. Thus, a new low-cost production environment emerged, with refugees accepting lower wages and firms lacking legal obligations to provide social security payments.

According to recent statistics by the Ministry of Labour and Social Security, in June 2018 in Gaziantep 34% of Turkish employees were working informally. Between 2009 and 2017, the informal labour force of Turkish citizens has clearly declined. In the cities of Gaziantep, Kilis and Adiyaman combined, the informal employment of Turkish citizens stood at 59,32% in 2009, decreasing to 38,71% in 2018. In Turkey overall, the informal employment of Turkish citizens has dropped from 43,83% to 33,97% over the same period of time (Social Security Institution, 2017). The three cities have relatively higher rates of informal employment in comparison to the Turkish average, partly due to the increased labour market competition following the refugee inflow.

Despite the initial quantitative data which facilitates an understanding of this structural shift in informal markets, it is problematic to present a comprehensive overview due to difficulties in data collection. Overall, while economic analysis supports the formalization of refugee labour, there are clear short-term economic and political costs, especially as the absolute extent of the informal refugee workforce remains unknown. The next section presents the most likely barriers and tensions preventing formalization, while considering the motivations and interests of various economic agents.

3. MAPPING ECONOMIC AND ADMINISTRATIVE BARRIERS

Following an overview of informal economies and strategies of accommodating refugee labour, the paper now turns to predict the most significant barriers to the formal economic integration of refugees in Turkey. Successful formalization efforts are expected to produce a net developmental benefit for the host country. Therefore, it is important to ask how the economic incentive structure of private owners, workers and the state may facilitate or hinder this process. This section strives to understand why the host nation may enter a development path where refugee workers lack a formal economic identity.

3.1. Structural Inefficiencies

The majority of Syrian labour is employed in low-skilled sectors such as seasonal agriculture, textile, construction and manufacture. Furthermore, many highly trained Syrians have left Turkey due to the slow pace of the work permit procedure (Icduygu and Diker, 2017). Moreover, it is estimated that between 20 to 30 percent of Syrians in Turkey are illiterate (International Crisis Group, 2018). Therefore, a mismatch between the skills of refugees and formal labour market requirements emerges as one of the barriers to formalization. This problem might further enlarge with local workers having more extended knowledge and experience in Turkish industry. Nonetheless, production in the South-Eastern provinces of Turkey has traditionally relied on low-skilled local workers, questioning whether a skills mismatch is the primary reason why Turkish citizens find it easier to enter the formal sector (Refugee Studies Centre 11, 2018).

Even when Syrians possess the professional skills necessary for a formal job, due to the precarious aftermath of the civil war they often lack formal documentation to demonstrate the value of

their labour (Del Carpio et al., 2018). This problem is exacerbated by bureaucratic hurdles: Syrian professionals are required to complete an equivalence procedure to have their certificates recognized by the Turkish Higher Education Board (International Crisis Group, 2016). Further, refugees under temporary protection can be employed with a formal permit only in the area of application and obtaining the right to work elsewhere is a long and costly process (Diker and Icduygu, 2017; Del Carpio et al., 2018). In Jordan, these obstacles are inherent in the legal system which excludes Syrian labour from eighteen sectors (Lenner and Turner, 2018). In Turkey, most sectors are legally open to refugees, yet complex bureaucratic requirements often tend to exclude them.

It is crucial to examine how central governmental funds might be employed to shift the current deadlock towards formal labour conditions. Although by 2017 Turkey has spent 11,4 billion lire to handle the refugee crisis (European Commission Humanitarian Aid, 2017), some policy initiatives are criticized as over-centralized and inefficient. For example, municipalities lack a clear mediatory role in ensuring that central finance targets key problems of the refugee population under their supervision. For instance, according to the current framework, the number of refugees living in a municipality has no impact on the amount of funds received from the central government (Betts et al., 2017). Therefore, areas with many refugees such as Gaziantep are negatively affected – the lack of funds hinders their ability to ensure the efficient operation of hospitals, waste collection, public transport, and vocational training programmes (ORSAM, 2015). Unlike in Lebanon and Jordan, in Turkey it is primarily local party politics shaping refugee economic outcomes (Betts et al., 2017). Consequently, institutional organization might emphasize central governing authority without harnessing key institutional resources on the micro level.

3.2. The Motivations of Private Owners

Refugees in Turkey earn on average half of the minimum wage. Thus, formal work permits signify a substantial increase in labour costs for firms that currently organize part of their production process informally (Sak et al., 2018; Korkmaz, 2017). Further, Barbelet and Wake (2017) show that the legal requirement of social security payments is a key factor discouraging employers from employing Syrians formally. There are often additional costs associated with Syrian labour, for instance, to close the experience gap with the local workforce or to finance Turkish language training. In fact, the language barrier is one of the major challenges preventing the assimilation of refugee workers, impeding the capacity of Syrians to utilise their skills in formal professions (eg. Ceritoglu et al. 2017). Therefore, the minimum costs of formal Syrian labour become relatively higher than the cost of the local workforce. It is important to note that many small Syrian firms exist in the informal market, which makes it impossible for them to register for formal permits. It is estimated that 70% of Syrian businesses (14,000) created in 2017 were informal and that they employ 9,4 Syrians on average (International Crisis Group, 2018). Although a study conducted by an Ankara-based think tank ORSAM (Centre for Middle Eastern Strategic Studies) demonstrates that business owners generally support the formal integration of Syrian labour in the long-run (ORSAM, 2015), these immediate costs and the current infrastructure of informal economies in Turkey are likely to hinder the process.

In addition to these direct obstacles, cultural and behavioural differences might further impede employability of Syrians in the formal sector. For example, Syrian cultural attitudes to female labour market integration significantly vary from the Turkish. Before the crisis, female employment in Syria constituted less than 14% of the labour force; currently, it is estimated that only 7% of Syrian women between the ages 30-44 are employed in Turkey (Rohwerder, 2018). In families where this cultural attitude imposes a single caretaker economic model, children might take up certain forms of informal labour. According to UNICEF, up to 10% of Syrian children in Turkey might be periodically employed (Diker and Icduygu, 2017). In the medium-term, this model might lead to a decrease in the educational attainment of Syrian children, further undermining their future economic potential. Nonetheless, the presence of close ‘kinship ties, social and economic networks’ with Syria (Betts et al., 2017, p. 25) might mitigate these cultural barriers. Therefore, it is problematic to fully understand the economic significance of cultural differences in the case of Gaziantep.

In addition to these practical obstacles, the subjective judgement of employers might further hinder the process of formalization. Previous research has shown that many employers believe that Syrians are in Turkey temporarily and that they would prefer to either return home or to move to Europe

in the near future (Korkmaz, 2017). This contributes to a misconception that Syrians do not want to work formally under binding contracts. However, private companies might wish to formalize Syrian workers in order to build a more permanent working relationship and to be able to plan ahead and make long-term investments. There are no reports of violent tensions in the workplace and host communities are often welcoming, especially in the areas with cultural ties to Syria. However, in recent years cities including Gaziantep have experienced an increase in social frictions (International Crisis Group, 2018; ORSAM, 2015, pp. 21-22). Thus, the fear of possible workplace tensions might prevent certain firms from employing Syrians.

3.3. The Motivations of Refugee Workers

While having formal status can extend the freedoms and opportunities of refugee workers, certain factors might dissuade Syrians from seeking work permits. For example, when applying under temporary protection status without a Turkish national ID document (*kimlik*), refugees can only obtain permits in the area of registration, which constitutes a burden for seasonal workers. Applying for an official residence permit and ID card can involve ‘risky and expensive steps’ (Barbelet and Wake, 2017). In the current economic infrastructure, many employers have little incentives to formalize refugee labour and asking for a permit might jeopardize current jobs performed by Syrians and put their families at financial risk. This fear of losing major sources of income might prompt many Syrians to accept their precarious working conditions and retain their positions (Icduygu and Diker, 2017). On the other hand, the International Migration Institute suggests that a minority of skilled refugees might earn a higher salary in informal markets as firms can avoid social security payments and the income tax (Korkmaz, 2017).

Apart from these direct disincentives, confusion amongst refugees is widespread with regard to the work permit procedure. For example, based on the example of Jordan, some Syrians might fear a future policy reversal in terms of accommodating refugees in Turkey. In this case, refugees under temporary protection status might believe that formal registration in the host country could facilitate their involuntary return to Syria (Barbelet et al., 2018). Moreover, for refugees who live inside of refugee camps, the formal employment procedure might seem precarious. Thus, they might decide to work informally while simultaneously relying on the camp facilities.

3.4. Political Incentive Structure

As the research has explained, the majority of the refugee labour force does not fall under official state legislation. As an immediate response, formalizing refugee labour is likely to produce social tensions between refugees and the local population. Therefore, political considerations might push the public administration to hold the *status quo* as the best available alternative.

In January 2016, the Turkish state passed a ‘Regulation on the Work Permit of Refugees Under Temporary Protection’ (2016/8375), limiting the proportion of formal refugee workers in a given workplace with a maximum quota of 10% of Turkish workers at the same firm. No more than one foreigner under temporary protection is allowed to be employed in workplaces with fewer than ten employees (Ministry of Family, Labour and Social Services, 2016). Although the quota can be somewhat extended if there is an insufficient number of Turkish applicants, this regulation currently places a legal limit on the number of refugees who can attain work permits. Further, when the work permit application is made, a refugee must have been registered under ‘temporary protection’ in Turkey for at least a six month period (Ministry of Family, Labour and Social Services, 2016). While it is clear that these legal requirements majorly contribute to the current structure of the unofficial economy and the informal identity of refugees, they still allows for a larger proportion of Syrians to be employed formally relative to the *status quo*.

While the quota signals the limit to which official authorities are willing to take the political risk of integrating refugees, there are active government programmes in place to increase Syrian employability. The Turkish Employment Service (ISKUR) assesses the technical, linguistic and cognitive skills of refugees, aiming to pair them with relevant job opportunities and provide additional training to those who require further assistance. Moreover, ISKUR actively subsidizes wages for on-the-job training and cash for work programmes (Refugee Studies Centre, 2018). Nonetheless, Syrian employment is facilitated primarily in the informal sector. As stated previously, the EU-Turkey action plan also involves various initiatives focused on the education and employability of Syrian refugees. However, the humanitarian and non-humanitarian strands of the agreement seem to have a more

immediate focus on improving the lives of refugees and assisting their social integration. Here, integrating refugee labour within the long-term development path of Turkey is not a direct priority.

It is important to consider whether the approach taken in the Jordan Compact might have a viable application in Turkey. There is a number of existing initiatives aimed to increase the formal employability of Syrians. Babal, Ilcan and Rygiel (2016) show that the Syrian Economic Forum (SEF), a think-tank focused on rebuilding post-war Syria, has established a small special zone in Gaziantep where firms can formally employ Syrians outside the regular quota limit. Further, 85% of the produced export goods within this zone are tax-free when exported from Turkey. Here, Syrians can acquire formal work permits without interfering with the employment structure of Turkish citizens, thus eliminating the political costs and the need for quotas. This means that Syrians can access economic opportunities more freely, with the potential for escaping the ‘position of limbo’ where some citizenship rights are granted but in many ways the legal environment remains restrictive (Babal, Ilcan and Rygiel, 2016).

4. METHODOLOGY

The empirical contribution of our research is a normative test of the hypothesized barriers to the formalization of refugee labour in the micro-environment of Gaziantep. As reliable data on the economic activity of refugees is scarce, our analysis aims to provide high-level-of-detail qualitative insight into the nature of the phenomenon. Gaziantep and its surrounding area is home to the largest refugee population within Turkey, and the informal-formal duality strongly characterized the region prior to the refugee inflow. Therefore, we aim to infer generally applicable conclusions for host communities facing the dilemma of integrating refugee labour in a transition economy.

It is useful to perceive our hypothesized barriers as processes, as they result from the interaction between the different motivations of various economic agents. Therefore, a process tracing method is used to test the explanatory power of the theorized factors on the low proportion of refugee workers with formal work permits. The empirical objective of this technique is to understand the processes by which ‘initial conditions are translated into outcomes’ (George and Bennett, 2005; Vennesson, 2008). The initial condition we observe is the 2016 pledge to boost the economic integration of refugees, and the empirics scrutinize why issuing formal work permits had not been a key pillar of this process. Therefore, our process tracing approach fits in a positivist category, with the purpose of *establishing* the link between potential explanatory variables and a defined outcome (Vennesson, 2008).

The theorized processes were tested on the basis of 27 face-to-face interviews conducted in Gaziantep, Islahiye, Sanliurfa and Harran in September 2018. We followed a semi-structured or general interview guide approach, relying on both a pre-constructed question set and follow-up conversations to gain additional insight (Turner, 2010). This method substantiates process tracing by gauging the ‘preferences and perceptions of actors, their purposes, goals, values and their specification of the situations that face them’ (Simon in Vennesson, 2008). Moreover, interviews suit our research as the formalization of refugee labour is a sensitive issue that many wish to discuss individually rather than in a group environment (Gill et al., 2008). Interview subjects were selected using non-probability sampling with the underlying motive to ‘identify the key political actors (...) who have had the most involvement with the processes of interest’ (Tansey, 2007). While an independent sample would have increased the robustness of our findings, the aim of process tracing is not to produce representative results, but to collect the descriptions and impressions that the most relevant actors deem important to share (Tansey, 2007). Over the course of our interviews we followed principles of autonomy, beneficence and justice (Orb et al., 2000).

In this manner, our interview subjects were chosen to include six private owners, both Syrian and Turkish (construction, education, mining, textile, energy, agriculture); nine manual and administrative workers (mechanics, agriculture, services); three state officials each from Sahinbey municipality and the Harran refugee camp; four officials from Gaziantep’s Chamber of Commerce and the Syrian International Businessmen Association (SIBA); and two officials from Syrian and Turkish non-governmental organizations (NGOs). The interviews included a standard set of 14 key questions and three to four additional questions tailored according to the interviewee. The questions aimed to decipher what subjects perceive as the largest barriers to formal refugee labour; how they evaluate the current

legal framework, institutional quality and the work permit procedure; what is their opinion of Syrian labour and cultural differences; and whether they generally see formalization as desirable. Our aim was to identify central themes, agreements and disagreements as well as the less relevant aspects.

There is a number of limitations associated with non-probability sampling. Our questions were reasonably neutral and open to capture the motivations of the interviewees. However, the reliability of our findings is not guaranteed. It is possible that another non-probability sample would produce a different set of normative findings, particularly in the case of small samples. Although our sample consists of both economic and political actors with extensive insight into the problem, expanding the sample and conducting interviews over a longer period of time would enhance the relevance of our findings. Furthermore, our sample covered a relatively wide geographical area. This could be an advantage, yet due to the specificities of each region, our conclusions might contain location-specific biases. Finally, there is a possibility that some of the interviewees chose to conceal the truth out of fear or to protect their personal interests.

Overall, therefore, the empirics provide an important approximation of the main barriers to formal refugee labour in Turkey. Nonetheless, due to the tentative findings for the reasons outlined above, we wish to promote additional qualitative and quantitative research in the region.

5. FINDINGS

Bureaucracy

The majority of our interviewees noted that the procedure of obtaining work permits is not overly complex. Nonetheless, one Syrian worker reported bureaucracy as an obstacle to gain formal economic recognition. Similarly, a skilled Syrian engineer noted that the required equivalence exam for his profession is only available in Turkish. Further, Syrian entrepreneurs noted that refugee workers often lack the legal documents to work in the formal economy. Even under temporary protection status but without a residence permit, refugees can only work in the area where the permit is issued. Syrian interviewees explained how this creates a congestion problem with very few jobs available in the formal sector. Moreover, even if an employer initiates the procedure of applying for a 1-year formal permit, this is often delayed and can take up to three months to finalize, as explained by a business association representative. Overall, however, the majority of interviewees found that bureaucratic hurdles are best understood as a projection of the underlying motivations of firms and the state, which are more relevant than administrative difficulties alone.

Skills and experience

A minority of Turkish entrepreneurs confirmed that Syrian workers are often under-qualified, and lack of literacy can be a problem. Furthermore, some of the manual work processes in Syria are automated in Turkey, thus making the experience of workers from those sectors less relevant in the new setting. Interviewees from the Harran refugee camp noted that most Syrians from high-skilled professions have left to other parts of Turkey or the EU. However, the majority of interviewees expressed a positive view of Syrian labour in Gaziantep. The officials from Sahinbey municipality explained that prior to the refugee inflow, there was a shortage of labour in the construction sector. Private owners from agriculture, mining and construction highlighted that the refugees have unique experience that could not be replaced. As one Turkish entrepreneur explained, the Turkish labour force is often either over-qualified (university level), or has basic qualifications only, whereas Syrians can be easily trained to work in specialized areas with 'intermediate' qualifications (*ara eleman*). Additionally, Syrian workers generally speak foreign languages better than their Turkish counterparts. Overall, our findings suggest that the skills of Syrians suit the Gaziantep economy *at least* to the same extent as those of the local population.

Central funds

Interviewees from Sahinbey confirmed that the local institutional capacity might be better utilised to ensure that central funds efficiently support the integration of refugees. In regard to the NGO landscape, there is a congestion problem with more than 2000 civil societies registered just in Gaziantep. This suggests that funds from the civilian sector might be overly fragmented. In fact, one NGO official confirmed that many humanitarian agencies treat the sector more as a 'business', and a large proportion of these organisations does not substantially contribute to the integration of refugees. At the same time,

in most cases the state appears to be willing to cooperate with humanitarian bodies. While these insights do not provide the full picture, it is possible that public spending is over-centralized and the use of civilian funds not targeted enough.

Costs for the firm

Turkish private entrepreneurs confirmed that the cost disadvantage from the (hypothetical) formal refugee labour force would erase the competitive edge of the firm if the structure of the informal sector remained unchanged. The fact that all of the manual workers in our interview sample were paid below the minimum wage further confirms this argument. Moreover, small-scale Syrian firms seem to have insufficient resources to afford the current net wage level in a formal setting and cultural factors further amplify this problem. As argued by the SIBA, Syrians prefer to rely on their own capital rather than borrowing to finance their business. Nonetheless, an entrepreneur made two individual comments providing an economic incentive for formal labour. First, with social security payments, the firm would not have the same legal responsibility for workplace accidents. Second, formal permits tie the worker to the company in the long-term, building a more stable relationship. However, in sectors where labour mobility is required such as seasonal agriculture, only refugees with residence permits would be able to gain legal recognition, as Syrians under the temporary protection can work only in their area of registration.

Culture

All interviewees emphasized the language barrier as an important barrier to formalization. On the other hand, the findings are conflicting about cultural differences in the workplace. Whereas in some firms Syrians are reported to work longer hours to support their families, in some cases refugees are said to leave their job suddenly or be less punctual. Women who did not work previously are seen as more likely to quit their current jobs. Generally, however, there is no obvious pattern which implies that cultural differences form a relevant barrier to formal permits.

Misconceptions

Interviewees from the Gaziantep Chamber of Commerce confirmed that many employers are uncertain about the future of Syrian workers and thus believe that obtaining formal permits is not an immediate priority with the existing welfare assistance scheme. However, all of the interviewed Syrian workers stated a clear preference for formal permits, with a narrow exception of the Harran refugee camp where some refugees were reported to have a different preference. Further, employers clearly stated their preference for Syrian labour due to its informality, cheap production and few responsibilities attached. Therefore, even if some misconceptions exist, there are other, more relevant disincentives to formalization.

Costs for the Worker

All of the interviewed refugee workers, Syrian entrepreneurs and the SIBA official stated that refugees wish to obtain formal permits. As most workers reported to earn below the minimum wage and there are no direct costs for Syrians in the application process, they unequivocally expect a higher net wage following the procedure. Based on the interviews, the only case where Syrians do not have a clear preference for permits (outside refugee camps) is when they are not informed about the relevance of such permits for their working status.

Fear of Reprisal

Most Syrian workers were satisfied with their current informal employment, often caring for as many as 10-11 people in their homes or in Syria. Their primary preference was to have a stable income that formal work permits could guarantee. However, the workers argued that there is a lack of established methods to apply for permits within their workplaces and there might be risks attached to launching this process. Our interviews did not directly infer whether workers are reluctant to apply in fear of their supervisors, or if they simply find such efforts futile. However, it is clear that the preferences and attitudes of employers serve as a barrier for Syrians to apply.

Welfare Trap

It is possible that with the existing welfare assistance scheme refugees are less constrained to ask their employers for formal permits. Nonetheless, each of our Syrian interviewees desired formal permits, primarily as an insurance against workplace hazards, and as a guarantee of the minimum wage allowing for long-term economic and family planning. Further, as most Turkish and Syrian

entrepreneurs confirmed that once employed, Syrians are hard workers, they do not seem to rely excessively on welfare. As refugees often provide for their broad families, any additional income above the welfare scheme is valued.

Inadequate Official Bodies

Syrian workers tend to have little knowledge of the operations and opportunities at official bodies (eg. Rizk Ofisi, SIBA). Nonetheless, SIBA provided crucial assistance with relocating Syrian businesses to Turkey and they continue to assist over 300 companies in the sectors of education, plastic management, nutrition, food products, chemicals, IT and construction. 1600 Syrian companies have the membership of the Gaziantep Chamber of Commerce. Moreover, Rizk Ofisi was praised by skilled Syrians for establishing a valuable network of businessmen. Despite these positive examples, most Syrians reported that they almost exclusively rely on their informal social connections when trying to find employment. Therefore, although the quality of institutions seems to be adequate, it is possible that the facilities they provide do not reach a wider population.

Obstructive Regulations

Most of the private entrepreneurs interviewed did not highlight the quota as an obstacle to providing formal permits. On the other hand, the interviewees from the administration, business associations and NGOs highlighted it as a key barrier. It is clear that the quota presents a well-defined legal limit, but the various factors presented in our empirics might deserve more focus in the *initial* stage of the process, before the 10% rule with formal permits becomes normative. Nevertheless, apart from constituting a legal limitation, the quota might also have a symbolic significance for both employers and refugees.

Political Capital

Comments from a number of individuals suggest that Turkish workers might eventually oppose the formal economic integration of refugees. Municipality officials confirmed that the fear of losing political capital is a defining factor for the quota legislation and an expression of the current attitudes towards refugee labour. NGO officials believe that modifying the quota law would turn local tensions against legislators, and that political costs are too high. At the same time, the general picture is not as clear. The municipality reported various examples where official complaints were fined against Syrian businesses exactly because of their informality, arguing that they gain an unfair competitive edge. Overall, while the Turkish responses to the current economic identity of refugees are mixed, it is likely that with current perceptions it is politically unviable to disturb the *status quo* in favour of further refugee integration.

Status quo Preference

Following the previous considerations, it is probable that the state attempts to handle the issue of refugee labour not only through formal legislation but also using unofficial channels. Sahinbey municipality confirmed that public officials generally turn a blind eye to informal refugee labour due to its perception as an important contribution to the Turkish economy, and with lower social tensions attached relative to formal solutions. Fines for informal work are reportedly issued only upon official complaints. NGO officials found that considering the current economic climate in Turkey, it would not be possible to accommodate additional Syrian workers as it is already difficult to employ the current refugee population. Unofficial support for informal refugee labour can also be seen through the existing employment schemes, such as training in mechanics and handcraft at the Harran refugee camp. On this basis, the immediate public aim is to provide *certain* jobs to Syrians, and formal permits have secondary priority. Officials from the Gaziantep Chamber of Commerce confirmed that a major aim is to find informal employment serving as the essential source of income for Syrians. In the case of informal firms, the 10% quota is hardly ever enforced. Overall, the costs of the forgone tax revenues seem to be lower than the short-term social costs of formally integrating refugee labour.

No Special Zones

Turkish officials expressed their fear that special economic zones would create unhealthy segmentation between refugees and the local population. However, in line with central state policy they supported the emergence of special security zones with key economic infrastructure within Syrian border areas. Syrian entrepreneurs and NGO officials noted that special zones might provide an important legal exemption for Syrians, who might apply for formal jobs in these areas without any negative impact on the local labour market. Overall, the interviews showed no opposition to a Jordan-

type solution concept. However, any policy proposal should consider the markedly different context in Turkey.

6. CONCLUSION

From a theoretical perspective, there are ample incentives to promote the further formalization of refugee economic identity in Turkey. However, there are various economic and administrative barriers inhibiting this process. Further, there are clearly defined groups of economic agents with conflicting interests and preferences, which means political dialogue is key to develop a strategy that enjoys popular support.

The preliminary empirical analysis of this article highlighted the key barriers hindering the formalization process. Based on these normative findings, we encourage further research for the more precise understanding of the factors discussed in our interviews. There are various ways to construct our results in order to convey the process of shaping the current informal identity of the refugees. While it is difficult to determine the initial or the most relevant barriers to the formalization of refugee labour, the cornerstones of the argument seem to be well-defined.

Crucially, the commentaries show that the current economic incentives of private firms run against formal Syrian labour. The fact that the legal environment generally does not sanction employing a predominantly informal refugee labour force enables firms to enjoy a short-term productive advantage with no motivation to disturb the status quo. Therefore, in order to encourage formalization, the official policy directives need to consider a long-term economic growth pattern rather than an immediate treatment of the challenges posed by the refugee crisis. However, it is clear that such a policy shift is surrounded by a number of political and social risks. In a precarious environment with refugees fleeing conflict, short-term stability might have higher benefits than long-term economic planning. Nonetheless, there is a need to engage in further discussion on the potential of special economic zones where Syrians could gain formal employment without any legal obstructions.

Apart from this policy dilemma, there is a number of smaller scale factors hindering the formalization of refugee labour. For instance, bureaucratic obstacles are amplified by the language barrier that Syrians experience when having to deal with Turkish administration. In order to ensure the efficient operation of economic and social infrastructure, official state planning might better integrate the resources of local decision-makers. Further, with the lack of an established method for Syrian workers to initiate the process of formalization, it is placed outside of their sphere of influence. Employers' limited understanding of the true economic preferences of Syrian workers further enhances the problem.

The article encourages further field study to improve our understanding of the role Syrian labour plays in informal and formal economies within Turkey. Overall, while our findings have been produced in a limited geographical area, as Gaziantep is one of the most supportive environments for refugees in Turkey, many of the highlighted factors are likely to exist elsewhere. However, since in other areas refugees might face a less welcoming administrative environment, it is possible that the empirical section excluded relevant problems that do not arise in Gaziantep. Therefore, it would be instructive to test whether the normative positions detailed above can be generalized for the whole of Turkey. Further, if the processes outlined prove to be applicable, additional research might be necessary to examine how formal refugee labour can be encouraged in a manner that appeals equally to the incentive structure of private owners, the state and Turkish citizens.

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