

THE IMPACTS OF THE SYRIAN REFUGEES* ON TURKEY'S ECONOMY (2011-2016)**

Res. Asst. M. İhsan Kuyumcu
Hasan Kalyoncu University
ihsan.kuyumcu@hku.edu.tr

Hülya Kösematoğlu
The Hill School
hkosematoglu@thehill.org

ABSTRACT: The Middle East is undergoing a profound geopolitical and economic restructuring. Since 2010, the region has transitioned from a region with expectations for democratization, emanating from the 2010 wave of revolutions, headed back to fragility and insecurity. Of the Middle East conflicts, Syrian Civil War has the greatest impact on Turkey. The aim of the study is to reflect the economic impact of Syrian refugees on Turkey's economy. This article evaluates this impact by analyzing Turkey's economy from three separate fronts: Economic growth, international trade, and unemployment and factor markets. The concluding discussion examines how these aspects affected Turkey's relations with European Union and Russia. It affirms that Syrian Civil War and the refugee crisis deviated Turkish economy.

Key Words: Turkey's Economy, Syrian Refugees, Economic Growth, International Trade, Unemployment and factor markets

SURİYELİ MÜLTECİLERİN TÜRKİYE EKONOMİSİ ÜZERİNE ETKİLERİ (2011-2016)

ÖZ: Ortadoğu bölgesi derin bir jeopolitik ve ekonomik yeniden yapılanma içerisinde. 2010 yılı ile birlikte başlayan süreçte demokratikleşme umutları, beklentileri; yerini çözümlenme, güvensizlik ve kırılganlık sarmalına bırakmıştır. Ortadoğu Bölgesi'ndeki çatışmalardan biri olan Suriye İç Savaşı, en çok Türkiye'yi etkilemiştir. Bu çalışmanın amacı, Suriyeli mültecilerin Türk ekonomisi üzerine etkilerini yansıtmaktır. Bu çerçevede Türk ekonomisi üzerindeki etkiler üç farklı noktada ele alınacaktır: Ekonomik büyüme, uluslararası ticaret, işsizlik ve factor piyasaları. Ardından bu üç boyutun Türkiye'nin Avrupa Birliği ve Rusya ile ilişkilerini nasıl etkilediği incelenecektir. Nihai olarak da Suriye İç Savaşının ve Savaşın neden olduğu mülteci krizinin Türkiye'nin ekonomisini olumsuz etkilediği ileri sürülecektir.

Anahtar Kelimeler: Türkiye Ekonomisi, Suriyeli Mülteciler, Ekonomik Büyüme, Uluslararası Ticaret, İşsizlik ve Faktör Piyasaları

* Turkey retains a geographic limitation to its ratification of the 1951 U.N. Convention on the Status of Refugees. Turkey has not granted Syrians official refugee status. Syrians accepted as "guests" under the 2014 Temporary Protection Regulation. In this study, on the behalf of to avoid concept confusion, we prefer to use concept of "refugee".

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1. INTRODUCTION

Since its beginning in the March of 2011, Syrian Civil War has been majorly impacting Turkey's Economy. As Syria's northern neighbor, Turkey has received a large influx of refugees, been a participating member in the war zone, and is constantly altering its relationships with foreign powers. This research paper explores the effects of the Syrian Civil War on Turkey's economy, focusing on one particular outcome: Syrian refugees as well as the terrorism in Turkey. The main problem that the Syrian refugees in Turkey face is integration. There are three types of integration: economic, cultural, and social. In order to create economic integration, one must first understand the economic impact of the Syrian refugees. Over 2.7 million refugees that flew to Turkey and the political uncertainty that has been going on in Turkey that aroused from the terrorism have severely impacted Turkey's economy. In order to evaluate this impact, in this paper, Turkey's economy is analyzed from three separate fronts: economic growth, international trade, and unemployment and factor markets.

In this paper, the changes in Turkey's economic performance before and after 2011 are examined using factors such as the Gross Domestic Product, extreme and moderate poverty rates, business and household confidence, and access to health, education and municipal services. The research goes on to further explore the changes in the unemployment rate, changes in the informal and formal labor markets, and changes in the wages with a particular focus on child labor. Finally, the research concentrates on the relationship between Turkey and two of its main export and import markets: The European Union and Russia. This paper attempts to distinguish the facts that surround the effects of the Syrian Civil War and the refugee crisis from the exaggerated fiction, offering another perspective on the controversial and multifaceted crisis that declined Turkish economy's positive course.

2. ECONOMIC GROWTH

According to the United Nations, a refugee is someone who has been forced to flee his or her country because of persecution, war, or violence. A refugee has a well-founded fear of persecution for reasons of race, religion, nationality, political opinion, or membership in a particular social group (UNHCR, 2017, What is a Refugee?). Currently, there are 4,815,868 Syrian refugees registered with UNHCR (UNHCR, 2017, Syria Regional Refugee Response). 95% of these Syrian refugees are registered in only five countries: Turkey, Lebanon, Jordan, Iraq, and Egypt. Out of these five countries, Turkey has the most Syrian refugees with 2,973,980 refugees registered by UNHCR in Turkey in March 2017 (UNHCR, 2017, Syria Regional Refugee Response).

Turkey was first involved in the Syrian refugee crisis on 2011 and after this date refugee flows intensified into Turkey (European University Institute, 2011, Timeline). Because of its geographic condition and accessibility, Turkey attracted more and more Syrians. Turkish government adopted the "open-door" policy and created camps for the refugees to stay in, The effects of these refugees can most clearly be seen by analyzing Turkey's economic growth.

Between 2000 and 2012, Turkey was economically flourishing. In less than a decade, per capita income in the country almost tripled and in 2012 reached approximately \$10,500, which made Turkey an upper-middle-income country. Poverty incidence dropped in half over the time period (World Bank, 2017, Turkey Overview). "Between 2002 and 2012, extreme poverty fell from 13 to 4.5% and moderate poverty fell from 44 to 21%, while access to health, education, and municipal services vastly improved for the less well-off" (World Bank, 2017, Turkey Overview). Since the global financial crisis ended in 2008, Turkey had created 6.3 million jobs, although increases in the labor force, including a rise in the participation of women, had kept unemployment at around 10% (World Bank, 2017, Turkey Overview). This increased the consumption of the bottom 40% dramatically. "In addition, Turkey, opened up to foreign trade and finance, harmonized many laws and regulations with the European Union (EU)

standards, and greatly expanded access to public services,” (World Bank, 2017, Turkey Overview) while also recovering from the financial crisis successfully.

Developments that have been happening since 2012 have staggered the economic flourishing Turkey had previously been going through. Since 2012, economic growth has slowed down, per capita income and standard of living dropped, there is more competition in the labor market, and business and individual confidence have dropped. The inflow of refugees created new social, economic, and political demands in cities and municipalities where most refugees stay. Political developments in 2015 and 2016 and series of terrorist attacks that weakened tourist arrivals have also presented further challenges to Turkey’s Economy.

One of the biggest indicators of the Syrian refugees’ impact on Turkey’s economy is Turkey’s Gross Domestic Product (GDP). Between 2012 and 2014, GDP grew an annual average of 3% compared to 5% in previous years. After growing 4.2% in 2013, the economy slowed to 2.9% in 2014 (Candemir, 2016). However, “Turkey’s economy grew by 4% in 2015, beating forecasts and joining the world’s best-performing emerging markets despite political turbulence and rising security threats”(Candemir, 2016). GDP in 2015 rose to 1.95 trillion Turkish Liras. This was the highest yearly expansion since 2013. “This significant increase in GDP is said to be fueled by 5.7% growth in the last quarter of 2015, which exceeded a 3.9% forecast and is the strongest expansion since the third quarter of 2011”(Candemir, 2016).

“The Turkish economy has been fairly resilient to the jitters on geopolitical and global fronts. This has indeed tempered the worries of subpar growth at the moment,” said Sertan Kargin, chief economist at Istanbul-based Global Securities (Candemir, 2016). Economists in Turkey base this long-run growth in Turkey’s GDP on the increase in domestic demand caused by 6.7% growth in government spending, and a 4.5% rise in private consumption due to an increase in population, in 2015. While the economic growth has stagnated since the end of 2012, the population of Turkey has been expanding rapidly. In 2011, the population of Turkey was 74.2 million; however, by the end of 2015, this population had reached 77.7 million, with the large influx of refugees from Syria.

Some economists believe that Syrian refugees had a big role in this expansion. In a recent report on the issue, Morgan Stanley economist Ercan Erguzel (2017) wrote, instead of consumer loans or increases in gross wages and salaries, they believe that “at least some part of this strong domestic consumption can be explained by the huge refugee influx in the last two years, reaching almost 3 million Syrians currently meeting their basic needs from Turkey. This can also be confirmed from agricultural sector growth, which, at 7.6%Y (4Q trailing), was the strongest rate since 2005 (as cited in Karakaya, 2016). CLK Bogazici Elektrik, one of Turkey’s largest electricity supplier, is now training Arabic call centers for their “new” customers. In addition, the refugee influx in 2015, with one million people, has been the greatest since the beginning of the war in 2011.

Refugees are also boosting Turkey’s economy through business. As of June 2015, the number of Syrian firms in Turkey was 2,827, asserted on a report entitled “Perspective, Expectations, and Suggestions of the Turkish Business Sector on Syrians in Turkey” arranged by academicians. “More than 60% of the firms are registered with the chambers of commerce and industry in Istanbul,” the report stated (as cited in Karakaya, 2016).

According to the Economic Policy Research Foundation, an Ankara-based think-tank, 1,600 firms were established in 2015, followed by 590 more in the first three months of 2016 (Financial Times, 2017). Guven Sak, the think-tank’s head, stated “now [there is] enough evidence that they are now doing something positive and contributing to the Turkish economy. It’s not just people on the street; many people came with some funding, and have figured out ways to invest it” (Financial Times, 2017). A report by Standard & Poor’s state that the refugees, who now account for almost 4% of Turkey’s population, have boosted Turkey’s economy especially because the corporate and consumer borrowing in previous years had been slowing down. The author of the report, Frank Gill, stated that the recent inflow of

refugees increased the attraction of Turkey to foreign investors because it portrays Turkey as a “country with a young, economically active population.”

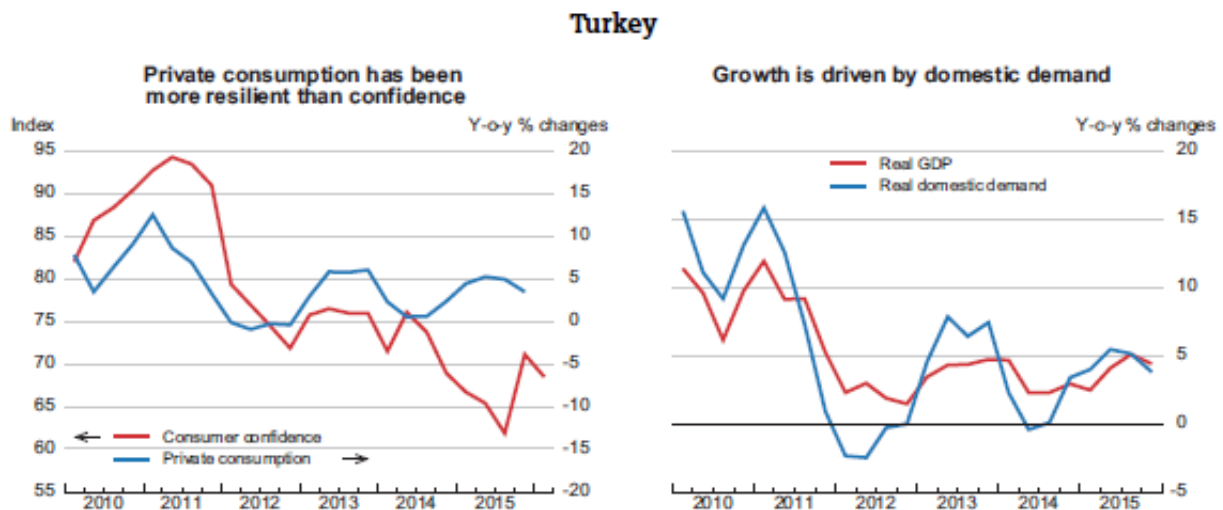
In addition, as refugees’ expectations towards the Syrian Civil War changes, they start searching for ways to start a new life in Turkey. “The deposits by the Syrian refugees in Turkish banks surpassed 408 million US dollars in the first quarter of 2016, showed data released by the Banking Regulation and Supervision Agency. The figure for 2015 was 409 million dollars, a sharp rise from 106 million dollars in 2012, according to the Haberturk daily” (Orient, 2017). Despite this sharp rise, due to the uncertainty of their status, many refugees are still unwilling to take out their savings from “under the mattress” and keep their savings in dollars or gold in order to be prepared for any unexpected changes in their circumstances. According to Oytun Orhan, an analyst at the Center for Middle Eastern Strategic Studies, Syrian business owners and investors are offsetting Turkey’s declining exports by using their vast knowledge of the Middle East and by distributing products (Orient, 2017).

However, cons of the large inflow of Syrian refugees outweigh the pros, and the government must try to solve these problems in order to continue a positive long-term trend in GDP growth. “Many of the Syrian newcomers lack Turkish language skills, unemployment is already at 11%, and some Turkish workers complain they are being undercut by the newcomers, particular in the country’s large informal economy” (Orient, 2017). An increase in GDP does not necessarily correlate to an increase in the standard of living in Turkey. “Per capita income dropped from \$9,261 in 2015 compared with \$10,395 in 2014, declining mostly because of the sharp lira depreciation” (Candemir, 2016). This is even though the government is putting forth expansionary policies to alleviate Turkey’s economy.

Although there was an unexpected expansion in GDP in 2015, 2016 did not continue this positive trend. “The consequences of July’s coup attempt, numerous terrorist attacks, a weak currency and heightened political uncertainty took a toll on the Turkish economy in the third quarter of 2016” (FocusEconomics, 2017). Upsetting the markets, Turkey’s GDP contracted for the first time in seven years (FocusEconomics, 2017). “Private consumption dropped on an annual basis, and the external sector’s net contribution to growth deteriorated. Even the impressive double-digit expansion in government consumption was not enough to prevent the economy from contracting” (FocusEconomics, 2017). The lira that had been depreciating hit a new low on January 9th, 2017.

However, while the government is trying to lift the economy, private investment stays depressed in a deteriorating business climate. One of the biggest factors that affect the economic growth in Turkey is business and household confidence which continues to remain weak in Turkey due to regional geopolitical tensions and a difficult domestic political climate. Turkey’s Prime Ministry announced an Action Plan for transparency and anti-corruption that would be implemented during the 2016 to 2019 period. The implementation of the 2016 Action Plan would improve confidence in both national and international scale. According to an article by Maroglu Arseven, the Action Plan aims to develop a fair, accountable, transparent and credible management mentality, as well as prevent corrupt approaches, by increasing social awareness of anti-corruption (Arseven, Ersin and Çetinkaya, 2017). In addition, Arseven stated, “the Action Plan envisages preventative measures, legislative amendments, as well as measures to implement sanctions and increase of social awareness” (Arseven, Ersin and Çetinkaya, 2017). According to the below graph presented by the Turkish Statistical Institute, even though the consumer confidence remains low, driven by election uncertainty, growth in real GDP has been mainly caused by private consumption. Economist allot this to the Syrian refugees, real wage growth, decline in oil prices, and the wealth effect that is caused by the currency depreciation (Arseven, Ersin and Çetinkaya, 2017). However, the drop in business and household confidence directly affects the private consumption and is a crucial factor when considering Turkey’s future economic growth. There is no guarantee that these factors will balance out a further drop in individual and business confidence.

Graphics 1: Consumer Confidence and Domestic Demand



Source: OECD Economic Outlook 99 database, and Turkish Statistical Institute.

StatLink <http://dx.doi.org/10.1787/888933368148>

Increase in the productivity of the nation is a primary factor that shifts the Long Run Aggregate Supply curve rightwards or the Production Possibilities Frontier outwards. However, in Turkey, government regulations, as well as the gaps in the business sector that aroused from the unexpected arrival of approximately three million refugees into Turkey, are negatively affecting productivity. “Efficient firms cannot grow at full potential due to inadequacies in the regulations. At the same time, low-productivity entities, which employ a significant share of the low-skilled, survive due to the incomplete enforcement of rules and regulations” (OECD, 2017). This growth of low-productivity entities adversely affects the economic growth as well as the standard of living both for the Syrian refugees and Turkish citizens.

3. THE MARKET FOR LABOR

With the inflow of Syrian refugees, the level of unemployment in Turkey has been changing rapidly over the years. The unemployment rate in Turkey increased from 10.30% to 11.3% in September of 2016. Non-farm unemployment also rose 1.3%, and the jobless rate among those aged 15 to 24 went up 1.4%. Refer to the below graph to see the increases in the unemployment rate since 2011.

Table 1: Turkey Unemployment Rate 2005-2017

	2011	2012	2013	2014	2015
Unemployment Rate	9.2	8.4	9.1	10.0	10.3

While there are established refugee camps, 85% of the Syrian refugees in Turkey have left the camps and found work in the formal and informal markets (Cato Institute, 2016). Until January 2016, Turkey did not allow refugees to work legally. Since most of the Syrian refugees were viewed as foreigners under temporary protection, they did not have the required work permits to work in formal industries. Especially refugees who had highly specialized occupations when they were backing in Syria -

such as doctors or lawyers- had to seek low-skilled jobs in the informal market that pay less than the minimum wage because they didn't have a license to practice their occupations. "Low-skilled Syrians in the informal market have displaced similarly skilled Turks and increased unemployment in areas where they are concentrated by approximately two percentage points" (Cato Institute, 2016). The government's restrictive work permit policy that issued regional permits that bound refugees to work only in their own community concentrated the increase in the supply of labor to a particular area instead of letting the workers spread out to different markets and sectors. Refugees that were not employed in their own area had to rely on government's aid or find illegal jobs. This caused the government to allocate 5 billion dollars for the Syrian refugees (Cato Institute, 2016).

The lack of work permits provided for the Syrian refugees, especially before January 2016, made their arrival a positive supply shock on informal labor and a competition for low-skilled Turkish workers in the informal markets. This caused around six natives to be displaced for every ten refugees (Del Carpio and Wagner, 2015). Displacement is not secluded to a single age, gender, or education group. However, this displacement is especially prominent among Turkish citizens without any formal education, who, in August 2015, made up 14% of the private sector (Del Carpio and Wagner, 2015).

The net impact on the demand for formal labor, however, is ambiguous. If one assumes formal and informal labor are substitutable, the increase in the supply of informal workers will lower wages, lead more firms to employ informal workers, and decrease the demand for formal labor. On the other hand, lower production costs will lead to a higher demand for formal workers. This is because with the newly lowered price there would be more demand for that particular product which would give rise to a need for more supplies and, as a result, more formal workers. "On average [World Bank's] IV estimates suggest a positive impact of refugees on the propensity of Turkish to be formally employed, around three additional for every ten refugees. These increases in formal employment all accrue to men without a completed high school education" (Del Carpio and Wagner, 2015). Women and high-skilled workers can't take advantage of this situation.

Table 2: Industry Distribution and Informality by Gender for Private Sector, Paid Employment, Pre-Refugee 2011 (in%)

	Male		Female	
	(1) Industry Share	(2) Share Informal	(3) Industry Share	(4) Share Informal
Agriculture	17.3	67.5	18.4	95.5
Mining	0.7	11.0	0.1	0.0
Manufacturing (textiles, clothes, leather, food, wood)	14.6	26.7	22.2	48.0
Other Manufacturing	9.6	9.8	5.0	10.5
Construction	11.7	53.5	1.4	13.0
Wholesale, Retail	18.0	33.0	15.7	29.6
Transportation (land)	5.3	44.4	0.6	18.9
Accommodation, Food, Beverages	6.3	41.3	4.7	35.2
Education	0.8	18.0	3.3	13.6
Household work	0.2	35.5	6.1	92.7
Other services	15.5	24.3	22.5	20.6

Note: Data from the Turkish Household LFS. Employment is defined as private sector, paid employment. The columns "Industry Share" report the distribution of private sector, paid employees across industries, by gender (the columns each sum to 100). The columns "Share Informal" report the fraction of employees in each industry who are employed informally (by gender).

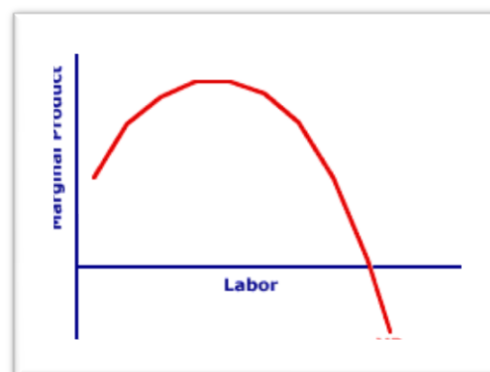
Those who are high skilled cannot capitalize on this situation because their industries don't have a high informality rate. This disadvantage also holds true for women who do not prefer to work in certain industries such as construction that have a high informality rate. "There are also a lot of women in industries that employ refugees, most importantly in agriculture. Agriculture accounts for nearly 20% of female's private sector paid employment. However, the female informality rate in that industry was an astonishing 96% (pre-refugee shock), while that for men was 67%. Any formal jobs generated in agriculture are therefore unlikely to go to women" (Del Carpio and Wagner, 2015). According to the table below, "there is no particularly formal female employment in agriculture or construction, two industries in which anecdotally there is a lot of employment of refugees" (Del Carpio and Wagner, 2015). In the end, the net impact on employment is negative for women and the low-educated Turkish. Unemployment stays constant only when the Turkish workers move away from areas widely populated by refugees or when women and the low skilled Turkish workers leave the labor market by actively stop seeking a job (Del Carpio and Wagner, 2015). "Since January 2016, Turkey has taken steps to allow Syrians to work legally. Syrian workers are now allowed to comprise a maximum of 10% of the employees in any firm and are subject to minimum wage requirements" (Cato Institute, 2016). According to an article by Shira Rubin, some Turkish politicians believe that legalizing Syrian workers will likely ensure the further decline of the informal market, which has shrunk almost 7 percentage points between 2011 and 2014 (Rubin, 2016).

On the contrary, "there is a substantial investment of Syrian capital in the creation of new firms in Turkey. Akgunduz, van den Berg, and Hassink estimate that around 40% of the newly established firms are being opened with the backing of foreign capital" (Del Carpio and Wagner, 2015). An increase in population, also, was a positive demand shock for markets for goods and services. Furthermore, the government is spending a large sum of funding to operate the refugee camps, where the aggregate demand is particularly high. Inside the refugee camps, there are opportunities to work in industries ranging from textile to construction. These jobs are not illegal and are only available for Syrian refugees who live in the camps. All of these factors increase the demand for both formal and informal labor.

The impact of the Syrian refugees on wages is hard to measure because Syrian refugees both change the marginal product of a Turkish worker and affect what types of natives are employed in different industries. With the new competition, there is a decrease in informal, part-time, and female employment. "Formal jobs on average pay double as much as informal jobs and men earn more than women, by around 15%" (Del Carpio and Wagner, 2015). As a result, simply analyzing the changes in the wage rate would not give you a full picture of the labor market.

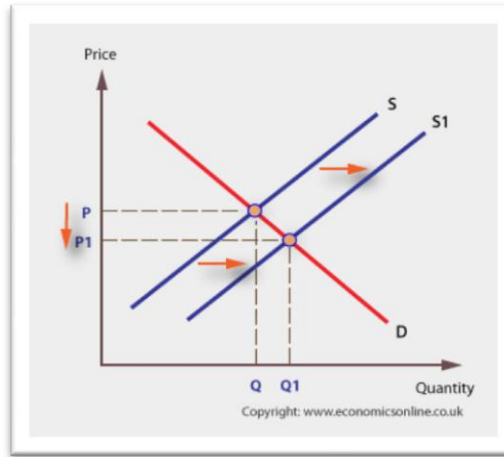
According to the research done by the World Bank Group, prior to 2016, compared with 2011, the marginal product was found to be negative for workers in the informal sector, women, and low educated workers, and close to zero for others (Del Carpio and Wagner, 2015).

Graphic II: Marginal Product and Labor



As you can see from the graph, as the number of employees increases with the incoming Syrian refugees, especially in the informal labor market, the Marginal Product of each worker decreases. There are diminishing returns to each worker as the quantity of workers increases. Even though the marginal product fell, with a lower labor force participation rate, the average wages increased in the informal sector. World Bank Group, prior to 2016, found the general impact of the refugees to be a 42 Turkish Lira per month increase on the average Turkish wage (in a sub region), this is 5% of average wages (Del Carpio and Wagner, 2015). In the informal market there also was an increase in wages by 49 Turkish Lira, 9% of 2011 average wages (Del Carpio and Wagner, 2015). The effect of decomposition and displacement in the labor force explains these results. Women, part time employees, and low educated workers leaving the force accounted for a 128 Turkish Lira per month change in average wages (Del Carpio and Wagner, 2015). As could be seen from the Graph III, an increase in supply of labor due to the refugees will result in lower wages. This would incentivize primarily low-skilled Turkish workers to leave the labor force. Turkish workers who leave the labor force have lower wages than those who remain. As a result, average wage increases (Del Carpio and Wagner, 2015). When one analyzes two workers in 2011 and in 2015 with equal marginal products, the average wage of a Turkish worker in 2015 in the informal sector is lower by approximately 79 TL per month from the average wage of a worker in 2011 (Del Carpio and Wagner, 2015). In the formal labor market, there is no change in average wage, contrary to what would be expected with an increase in demand for workers, because the new workers that are employed have a lower marginal product than those of 2011 (Del Carpio and Wagner, 2015).

Graphic III: Price and Quantity



For women, the same characteristics are observed as the informal labor market. Even though, at the beginning, it may seem like their wage is increasing, when the displacement effects are accounted for, there is a sharp decrease in wages (Del Carpio and Wagner, 2015). This is because women leave the informal labor market and cannot find jobs in the formal labor market. “For men estimated wage changes are positive, but not statistically significant. The same is true for Turkish workers of different ages and those with medium and high educational attainment” (Del Carpio and Wagner, 2015). The average wage of low educated workers is not significantly impacted by the refugees. However, since most work in the informal labor market, they face a large one for one displacement in the informal sector and part-time employment (Del Carpio and Wagner, 2015). “The marginal product for low educated Turkish workers with fixed observed characteristics actually decreases enormously. The marginal product change is a massive 369 Turkish Lira decrease per month, though this likely also reflects a significant decrease in the unobserved productivity of Turkish workers who remain in a sub region” (Del Carpio and Wagner, 2015).

In addition, a 30% increase in the minimum wage was approved in January 2016. According to the Minister of Labor and Social Security Suleyman Soylu, the Turkish government was supposed to cover “some 40% of the cost,” about TL110, of the increase, totaling approximately TL9.7 billion (about US\$3.3 billion). However, this is only true for 2016. “The increase, said to affect 8.5 million employees, is “expected to cost the private sector around 20 billion liras [about US\$6.7 billion], leading critics to warn of job losses” (Global Legal Monitor, 2017).

Some economists take an entirely different path and state that the influx of refugees had impacted the labor market in a positive way by making the Turkish workforce more productive. According to an article by Cato Institute, due to lower production costs for goods, balancing out the increased demand for goods and services, “consumer prices have dropped an average of 2.5% since 2011 because of increased competition at the lower end of the labor market has made goods more affordable for every Turkish consumer” (Cato Institute, 2016). Furthermore, Turks have responded to the heightened competition by industrial upgrading, as the demand and opportunities for higher wage formal jobs increased. Even though there is no evidence that the two are linked, Turks have sought skill upgrades to make themselves complementary to the new Syrian workers (Cato Institute, 2016). The percentage of Turkish citizens in higher education increased from 20% to 23% between 2011 and 2014, as well as, school attendance for Turkish women (Cato Institute, 2016). Furthermore, due to lower production costs for goods and balancing out the increased demand for goods and services, “consumer prices have dropped an average of 2.5% since 2011 because of increased competition at the lower end of the labor market has made goods more affordable for every Turkish consumer” (Cato Institute, 2016). This industrial upgrading, however, didn’t extend to children.

According to data taken from UNHCR, 47.4% of the Syrian refugees in Turkey are children under 18 (UNHCR, 2017). A portion of these children cannot go to schools because they have to work to support their families, especially if they’re male. If they’re female, they are married off at an early age. Children have been a part of Turkey’s labor force for a long time, a problem Turkey has been working to improve. However, with the influx of approximately 1,420,000 refugee children into Turkey, this issue only deteriorated. “In 2012, the last year for which data was available, Ankara said almost one million Turkish children aged between 6 and 17 worked. Many of them help make clothing, textiles or shoes, industries that contribute \$40 billion a year to Turkey’s economy and employ 2.5 million people – more than half of them as casual labor, according to unions” (Afanasieva, 2017). However, it is not simple to find work as a child. There is competition between Turkish children and Syrian children. In the southern city of Gaziantep, near the border with Syria, a 30-year-old Turk who gave his name as Selim stated that Syrian children were undercutting pay. He gave his textile business as an example of a business that now exclusively employs Syrian children (Afanasieva, 2017).

In May, the Turkish education ministry reported that 665,000 Syrian children living in Turkey – a majority of school-age Syrians in the country – were not in school. In addition, less than 15% of 6 to 11 year-olds who live outside camps, as Turkey’s Disaster and Emergency Management Authority has said, are in school (Afanasieva, 2017). There are no data to report how many of these children are working. However, according to a survey held by Turkish Charity Support to Life, of 125 households, one in four households with children said at least one child could not go to school because the family depended on their pay. Half of those children worked in textiles (Afanasieva, 2017).

4. OPEN ECONOMY: INTERNATIONAL TRADE AND FINANCE

Conflicts between foreign nation over how to proceed in the Syrian Civil War, politics of the territory, and controversies regarding the Syrian refugees severely impacted Turkey’s relationship with its main export and import markets. Turkey’s main exports markets are the EU, Iraq, Russia, USA, United Arab Emirates and Iran, while the import markets are the EU, Russia, China, USA, Iran and South Korea (European Commission, 2017). This paper mainly focuses on two key markets: Russia and the EU.

On November 2015, when a Turkish jet fighter shot down a Russian bomber along the Syrian border, Ed Ballard, a Wall Street Journal economist, wrote about the tension that disrupted the Black Sea wheat trade (Ballard, 2015). Black Sea wheat trade is one of the world's biggest grain routes, and following the incident, some firms delayed new deals to ship wheat from Russia to Turkey, citing fears that Moscow may impose an export ban. Since wheat is a main trade item between the two countries, this news was alarming. "Russia is the world's third-largest wheat exporter and, alongside Egypt, Turkey is its biggest customer. Turkey bought around 4.1 million metric tons of Russian wheat in the 2014-15 marketing year" (Ballard, 2015). Following the incident, economists inferred that if the supply of wheat from Russia were cut off, they would expect at least a short-term spike in prices for Turkey.

Russia held on to its plans and established sanctions on trade with Turkey following the dispute over the Syria conflict. These sanctions were harmful to both countries. According to SovEcon's data, Turkey was the number one exporter of Russian wheat, corn, sunflower oil and sunflower meal in the 2014-2015 (exports valued at \$1.5 billion). On the other side of the spectrum, Russia's boycott of the EU products had forced it to rely on imports of fruits and vegetables from Turkey (Ballard, 2015). Russia had banned the import of Turkish fruit and vegetables, poultry, and salt; the sale of charter holidays for Russians to Turkey; construction projects with Turkish firms in Russia unless a special exemption is granted (Girit, 2016). In addition, there were limitations placed on Turkish workers who were employed in Russia.

Turkish Agriculture Ministry states that the Russian ban on imported Turkish food would cost Turkey \$764m. "There was an initial shock in the sector but we have recovered from it," said Muhittin Baran, deputy head of Turkey's Fruit and Vegetable Markets Association. "Turkey produces 45-50m tons of fruit and vegetable each year. We export only 5-6% of that. The crisis with Russia might affect citrus growers especially, but the government has promised to help them out with subsidies," he said (Girit, 2016).

As part of the sanctions, work on TurkStrem – a new Black Sea pipeline that was supposed to lift Russia's gas exports to Turkey – had also been delayed until further notice was given from the two countries. Economist Erhan Arslanoglu believed that \$3.5bn will be lost annually from Russian tourists, and another \$4.5bn annually through the cancellation of construction projects. He didn't suppose that Russia will let go of the gas trade with Turkey due to this political conflict. According to Arslanoglu, Turkey relies on Russia for 55% of its annual natural gas needs, and "if Moscow stops or delays the natural gas flow, that will definitely have a serious impact on the Turkish economy. But I don't expect such a big change" (Girit, 2016).

Textile was another industry that was hit hard following the political conflict between the two countries. After the Russian jet was shot down, in an Istanbul neighborhood that exports clothing, shopkeepers complained about the plunge in the trade with Russia and lack of customers, 80% of whom are said to be Russian (Girit, 2016). The head of Laleli Industry and Business Association Giyasettin Eyyupkoca stated that the traders would leave Turkey and seek other countries if the disagreement continued since following the 60% drop in their revenues in 2015, the conflict between Russia and Turkey had decreased their profit by another 20% between November 2015 and January 2016 (Girit, 2016).

The strained relationship between Turkey and Russia did not last for a very long time. Both Erdogan's cleverly worded apology letter and Putin's willingness to cooperate following the coop attempt in July enabled "Erdogan to save face and meet Putin's demands for the lifting of sanctions" (Kirişçi, 2016). In early October, "the Turkish and Russian leaders strengthened their rapprochement by emphasizing new trade deals that boost their ailing economies while minimizing their deep tensions on security matters" (Coker, 2016). Two presidents signed a deal to revive The TurkStrem natural gas project that had been delayed. In return, Putin lifted the trade sanctions that he had imposed in 2016 following the jet conflict over Syria.

In an interview with Sputnik Turkey in December 2016, Turkish Trade and Customs Minister Bulent Tufekci said the following concerning Russia-Turkey relations, “In particular, sanctions have been lifted for Turkey supplying oranges, mandarins, apricots, peaches and plums to Russia. A spate of deals was clinched in the energy field. So we see the two countries' political accommodation adding to the development of their economic relations. In line with these developments, we expect a significant increase in bilateral trade turnover” (Sputnik, 2016).

Tufekci described the relationship between Russia and Turkey as that of “the most intense and profitable.” He also stated that the development of the food sector, tourism, construction and the automotive industry were held at utmost importance for Turkey’s economy. Dwelling on bilateral trade ties, Tufekci also “expressed hope that the two countries will manage to reach the goal of up to \$100 billion in trade turnover through the implementation of joint major projects” (Sputnik, 2016). The trade turnover in 2015 had been \$23.3 billion, according to the Russian Federal Customs Service (Sputnik, 2016). If all these goals are accomplished, the positive change in the Russia-Turkey relationship and the positive political dialogue will seriously boost Turkey’s Economy.

Syrian Civil War also impacted the relationship between Turkey and the European Union. The EU is Turkey’s largest economic partner, accounting for around 40% of Turkish trade. Turkey has benefited significantly from deepening integration with the EU through the growing sophistication of both exports and imports and access to financing before the Syrian Civil War started (World Bank, 2017). The conflict between Turkey and EU regarding the Syrian refugees had put a strain on their relationship and had altered their trade partnership.

Instead of the Syrian Civil War, EU-Turkey relationship was altered specifically regarding the Syrian refugees. “On 18 March 2016, EU Heads of State or Government and Turkey agreed to end the irregular migration from Turkey to the EU and replace it instead with legal channels of resettlement of refugees to the European Union” (European Commission, 2016). As part of this deal, The EU promised to speed up the disbursement of €3 billion under the Facility for Refugees in Turkey. After these resources have been used, the EU promised to provide Turkey with additional funding for the Facility up to an additional €3 billion to the end of 2018 (European Commission, 2016). This money could be very beneficial in alleviating Turkey’s increasing deficit after the high government spending on the Syrian refugees.

However, this deal was stalled due to a conflict of interest between the EU and Turkey because of the proceeding of the deal as well as the European Parliament’s urge to freeze ascension talks with Turkey. The consequences of the Syrian Civil War, tension regarding the Syrian refugee deal, and Turkish government’s reactions to the terrorisms in the country has led to the ending of the accession negotiations between Turkey and the EU. According to an article by Sabina Frizell, “Turkish and EU economies are deeply intertwined despite mounting political tensions. In considering membership negotiations, the EU must take trade into account, as ending talks would undermine these mutually beneficial economic linkages” (Zenko, 2016).

For the EU, Turkey became an important trade partner since the establishment of the Customs Union. Especially Germany heavily relies on exports that are coming from Turkey. Germany’s metal, chemical, and automobile sectors all draw heavily on Turkish imports (Zenko, 2016). However, Customs Union is an unequal agreement that deprives Turkey of the ability to govern its own trade future. According to Frizell, “the union was intended as an interim step toward full membership. But if the EU takes membership off the table, it is hard to imagine that Erdogan would continue to accept these debilitating conditions indefinitely” (Zenko, 2016).

This would significantly affect the economies of Turkey and the EU, more so Turkey. The manufactured goods of the EU would be affected since many of the inputs are imports from Turkey. However, for Turkey the effects would be very significant. “About 60% of its exports are to Europe, representing 12.5% of GDP” (Zenko, 2016).

Since the beginning of the Syrian Civil War in 2011, Turkey's exchange rate, as well as its current and financial accounts have been majorly impacted. According to a report made by Cenk Sidar and Emre Tuncalp, two prominent Turkish Economists, one of the biggest structural problem of Turkey is its reliance on foreign investment. In addition, Turkey's excessive dependence on capital inflow and its high current account deficits has left it deeply vulnerable to external factors (Tuncalp and Sidar, 2017). As a result, the Syrian Civil War and the terrorism in Turkey have several impacted Turkey's international trade and finance.

In December 2015, the United States Federal Reserve Bank raised the interest rates. This affected the Turkish Lira and US Dollar's exchange rate tremendously. This was "a move that fueled global financial volatility throughout 2015, stoking selloffs in emerging markets, pushing the Turkish lira down 25% to record lows against the dollar and exacerbating Turkey's high inflation" (Candemir, 2016). After the large GDP growth in Turkey in 2015, the lira rose as much as 0.7% to 2.8148 against the dollar—the Turkish currency's strongest level since early November.

Graph IV: Current Account Deficit Since 2011

	2011	2012	2013	2014	2015
Current Account (% of GDP)	-9.6	-6.1	-7.7	-5.5	-4.5

In the graph above, you can see the changes in Turkey's current account deficit since 2011 (Focus Economics, 2017). As could be seen from the chart, "moderate growth and a weaker lira narrowed the current account deficit (CAD) to 5.7% of GDP in 2014 from close to 10% in 2011" (World Bank, 2017). In 2015, "in a sign of the headwinds facing the Turkish economy, exports fell 0.3 percentage points from last year amid weak demand from the European Union—Turkey's biggest trading partner and destination for about half of its exports" (Candemir, 2017).

In addition to exports that slowed due to lower demand from EU, economic crisis in Russia, and geopolitical developments in MENA, "real exchange rate depreciation triggered a shift from foreign goods to domestic goods, which led to a decline in imports and a positive contribution of net exports to growth in 2015 (Candemir, 2017).

According to the economic forecast summary of Turkey in November 2016, firming activity in the EU is helping exports, but net exports should turn negative as imports recover due to a stable lira, stronger consumption, and eliminated sanctions that were placed in 2015. This would decrease the next exports, increase the current account deficit and lower the GDP (OECD, 2017). "Russian sanctions, disappointing global growth, and geopolitical problems made export growth remain weak in 2016. However, low oil prices are expected to stabilize the current account deficit at around 4.6% of GDP in 2016" (OECD, 2017). "These lower oil prices have significantly slowed down external adjustment, as tourism revenues have fallen. Although Turkey's energy bill shrank, the 12-month current account deficit declined by only US\$2.8 billion to US\$29.4 billion by June 2016" (World Bank, 2017).

Turkey's current account deficit in September 2016 was 1.7 billion, an increase from a \$167 million surplus in September 2015. Turkish Central Bank on November 11, 2016, stated the cause of this increase to be a decline in income from tourism and an increase in imports. "An increase in the deficit in goods items by \$686 million to \$3.2 billion, as well as a \$1.16 billion decrease in the services surplus to \$2.3 billion and a \$42 million increase in primary income deficit to \$927 million affected the current account negatively" the Bank said (Hurriyet Daily News, 2016). Travel items under the tourism sector had decreased by \$888 million in November 2016, compared to the same month last year. "The Bank also states that the Turkish revenues from tourism fell by 32.7% to \$8.28 billion in the third quarter of the year,

official figures showed on Oct. 31. The country's total revenue from tourism was over \$17.3 billion from January to September, \$7.6 billion less compared to the same period last year" (Hurriyet Daily News, 2017). In addition, due to the erratic food prices that resulted from various trade sanctions, headline inflation in Turkey has been unstable. "A stable lira eased the pressure on prices of imported goods so that 12-month core inflation declined from 9.5% in December 2015 to 8.4% in August 2016" (World Bank, 2017).

5. CONCLUSION

Since the beginning of the Syrian Civil War in 2011, Turkey's economy has been greatly affected due to the consequences of this war and the increasing unrest in the Middle East. The inflow of refugees, terror attacks, and changes in Turkey's relationships with foreign powers have affected Turkey's economy in a negative way.

Even though Turkey's Gross Domestic Product has been growing since 2012, the growth rate slowed down. Except, Turkey's economy grew by 4% in 2015, beating predicted forecasts. When you take a closer look at the factors that increased the GDP, it is evident that this is not due to an increase in productivity in Turkish population but due to the increase in population that resulted from the influx of refugees which was at its peak in 2015. "Per capita income dropped from \$9,261 in 2015 compared with \$10,395 in 2014, declining mostly because of the sharp lira depreciation." This is happening despite the expansionary policies of the government.

However, besides buying their necessities, these large influx of refugees are boosting Turkey's GDP by establishing firms. The number of Syrian firms stood at 2,827 across Turkey by June 2015. This figure could add up 10,000 if you count the unregistered businesses. Unfortunately, this is not enough to increase Turkey's standard of living or keeping GDP per capita in an increasing trend. In 2016, when the political climate in Turkey worsened, Turkey's GDP contracted for the first time in 7 seven years. The lira that has been depreciating hit a new low on January 9th, 2017. This is also due to a drop in business and household confidence. Turkey's regional geopolitical tension, as well as the tough domestic political climate, is heftily affecting its foreign capital inflow.

The most obvious effect of the Syrian refugees on Turkey could be seen clearly in the market for labor. Since 85% of the refugees have left the camps and are seeking work in both small towns and large cities, they have resulted in a rightward shift in the supply of labor in the factor market. With the new additions to Turkey's labor force, the unemployment rate in Turkey have been increasing since 2011.

The lack of work permits provided for the Syrian refugees, especially before January 2016 made their arrival a well-defined supply shock on informal labor and a competition for low-skilled Turkish workers. The net impact on the demand for formal labor is ambiguous. The reduction in the cost of informal labor lowered the cost of production, and as a result, increased the demand for that particular product. This led the firms to hire more formal workers to produce more products. The marginal product change was negative for the informal sector, women, and low educated Turkish citizens. However, the other groups were not affected. Average wages for Turkish workers is decreasing by 79TL a month, according to the data found in early 2016. On a positive note, some economists believe that the Syrian refugees have made the Turkish labor force more productive by forcing them to go through occupational upgrading, seeking skill upgrades, and creating opportunities for higher wage formal jobs.

Finally, the Syrian refugees had a severe impact on Turkey's international trade and finance. Conflicts between foreign nation over how to proceed in the Syrian Civil War, politics of the territory, and controversies regarding the Syrian refugees severely impacted Turkey's relationship with its main export and import markets, especially the EU and Russia. Following the disputed over the Syria conflict, Russia established sanctions on trade with Turkey in 2016 that extended to many sectors including agriculture, construction, textile, and the Turkish workers in Russia. However, with the recent agreement between Russia and Turkey concerning Syria, the situation is in a positive light for Turkey. The EU-

Turkey relationship was altered due to a conflict that began with an agreement concerning Syrian refugees. Throughout the conflict that puts Turkey's membership into the EU into jeopardy, the Customs Union is threatened which would greatly disturb the economies of both the countries in the EU, especially Germany, and Turkey itself.

Turkey's current account deficit in September 2016 stood at 1.7 billion, an increase from a \$167 million surplus in the same month of 2015. Turkish Central Bank on November 11, 2016, stated the cause of this increase to be a decline in income from tourism and an increase in imports.

In the future, to boost the Economy, the government would need to strengthen various markets of Turkey. "The government will need to take strong measures to address continuing structural vulnerabilities, revitalize private investment, boost growth, and resume Turkey's convergence with Europe" (World Bank, 2017). In addition, the government would have to establish new fiscal policies to improve the quality of education and access to education. This would boost the productivity in Turkey's labor market and lower the unemployment rate. This is crucial since the supply of informal labor has increased with the incoming flow of refugees into the labor market. The only way Turkish labor can differentiate themselves is by increasing their specialty training. In addition, the 30% rise in the minimum wages in January 2016 have said to affect the private sector heftily in 2017. Following the coup attempt in July, Turkey's economy regained back its moment. However, all these factors, the political unrest, and the lira depreciation, have dropped business confidence and negatively affected private and foreign investment. Foreign direct investment which directly influences Turkey's economic growth "fell 68% in the first seven months of 2016 to \$2.5 billion, down from \$7.5 billion in the same period 2015," statistics from the Turkish Treasury reveal (Macbride, 2016). "The Turkish currency has lost nearly 20% against the dollar this year, a large enough drop to declare a currency crisis," said Steve Hanke, Director of the Troubled Currencies Project at the Cato Institute. In mid-December, the lira fell more than 1%, and Turkey's economy shrunk for the first time since 2009 by 1.8% in the third quarter of 2016 (Macbride, 2016).

"The key concern for foreign investors relates to the erosion of the rule of law" (Macbride, 2016) stated Sinan Ulgen, managing partner at Istanbul Economics and a visiting scholar at the Carnegie Endowment for International Peace. "Turkey is going through exceptionally difficult domestic conditions following the botched military coup of last July." In addition, President Erdogan has been implementing unconventional policies against the depreciation of the Turkish Lira. Instead of increasing the interest rate, which the Turkish Central Bank would do, Erdogan relied on Turkish citizens. He asked Turks to buy gold and Turkish Lira, which would, in turn, increase the demand for Turkish Lira in the money market that would result in a higher exchange rate for the Turkish Lira.

U.S. companies that have their regional headquarters in Turkey – such as Microsoft, Intel, Coca-Cola – fear the political and economic unrest in Turkey. Another one of these companies is General Electric (GE). "In 2012, GE announced a three-year \$900 million investment program that supplies turbines for wind farms, builds locomotives and manufacturers engine blades." By the end of 2016, the company was supplying 26% of Turkey's electricity. Interviewed on an annual trade mission to the U.S. in November 2016, Canan Ozsoy, CEO of GE in Turkey, stated that it had been an "interesting" year to pitch Turkey as a trade destination (Macbride, 2016).

While the currency crisis in addition to the political unrest is keeping away some foreign investors, some such as PepsiCo and GE are continuing with their expansion plans. "PepsiCo is building a sixth factory for \$120 million, and GE Health announced it would be part of a group financing a \$668 million health campus in Izmir, according to the Investment Support and Promotion Agency of Turkey" (Macbride, 2016). Some investors are hopeful of Turkey's economic future and want to take advantage of the financial volatility. "For instance, Abraaj Group, created a \$526 million Turkey Fund that is betting on the long-term growth of the Turkish economy" (Macbride, 2016).

The Turkish government is seeing Turkey's economic future in foreign investment and is trying

to lure in investors to boost country's financial account and revalue Turkish Lira by keeping the interest rates low. In a speech on July 4, 2016, Prime Minister Binali Yildirim made an announcement concerning an economic package with 25 reforms to get more foreign capital into Turkey (Hurriyet Daily News, 2017). The reforms will include tax exemptions for big businesses and policies that will encourage Turkish citizens living abroad to bring their assets back to Turkey (Macbride, 2016). These tax exemptions will include a corporate tax exemption to any foreign company that established its regional management hub in Turkey and that the hub's worker's wages would also be exempted from taxes if they are transferred from abroad. Yildirim added, "There will be regulations that will decrease the stamp tax and other costs for investors" (Hurriyet Daily News, 2016).

"We will offer whatever it takes to create global giants, to secure our material and energy future and to encourage several strategic investments in key areas," Economy Minister Nihat Zeybekci earlier said in an interview in June 2016 (Hurriyet Daily News, 2016). "The phrase included offering specialized incentives and a 20-year tax holiday, to make it possible for strategically crucial investments to be realized in a number of sectors" (Hurriyet Daily News, 2016).

Another threat to Turkey's economic future lies in its deteriorating relationship with the EU. As Turkey's fifth biggest trade partner, with a trading volume accounting to 140 billion euros, the EU is a crucial part of Turkey's economic growth. "The start of a new round of trade liberalization talks with the EU is expected for early 2017. The goal is to help Turkey to upgrade law standards and provide sound guarantees for overall investment protection" (Hurriyet Daily News, 2016).

There is a way to take advantage of Syrian refugee to both help these people and benefit the economy of Turkey. Some economists advise the Turkish government to take advantage and capitalize on the entrepreneurial drive of Syrian refugee and keep the wealthier and more specialized refugees in Turkey to boost country's economy. There are also middle-class refugees who have savings and ability to borrow. This middle-class group, if correctly utilized can have a positive impact on Turkey's economic growth. In addition, Turkey's geographic location between the Middle East, Europe, and Asia makes it ideal energy and trade location. Now, Turkey has to create and establish the correct policies in order to benefit from the outcomes of the Syrian Civil War, especially the Syrian refugees, to improve upon its economy.

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