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The Economics of De-Escalation: Structuring Interdependence on the Lebanon-Syria Borderline

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This policy brief is part of Phase II of the Friedrich Naumann Foundation series “Stability Under Fire,” which examines how wartime dynamics reshape economic systems and create new policy entry points. Along the Lebanon-Syria border, years of conflict, sanctions, and institutional fragmentation have not eliminated exchange - they have restructured it into informal, low-visibility, and resilience-driven networks. These wartime adaptations now define the baseline political economy of the border. The policy challenge is therefore not to rebuild from zero, but to transition from a conflict-shaped equilibrium toward structured, formalized interdependence.

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Lebanon’s recurrent border tensions with Syria are not isolated insecurity failures. They reflect a political economy that systematically underprices conflict. Because production, investment, and trade networks remain shallow, disruptions - military, political, or informal - do not threaten a large enough stock of shared assets to discipline behavior. Instability persists because of this weakness, not despite it - a pattern shaped by wartime dynamics that pushed the border economy toward informality and fragmentation.

The policy challenge is not to manage instability, but to reprice it. This requires building interdependence that makes even limited escalation materially costly for those who currently absorb or exploit it.

This requires moving beyond declaratory cooperation toward a targeted architecture of interdependence, anchored in credible state-backed commitments on both sides of the border. The goal is not integration for its own sake. It is to build shared economic stakes through production systems, co-investment, value chains, and coordinated regulations. These create mutual exposure to disruption.

Trade facilitation and border reforms are necessary starting points, but insufficient. What matters is steadily deepening linkages across capital, labor, and supply networks. This requires aligning investment regimes, standardizing rules, and mobilizing public and private capital. Tools include joint industrial zones, investment protection frameworks, blended finance, and public-private partnerships. These measures shift activity out of fragmented and informal systems and into structured channels where instability carries higher costs.

The strategy should focus on four tightly sequenced priorities. First, policymakers should formalize corridor-based integration in sectors with cross-border complementarities - particularly agriculture, construction inputs, and light manufacturing by scaling and regulating existing informal exchange. Second, they should concentrate state capacity in a limited number of high-compliance border nodes, where simplified procedures, pre-clearance, and fast-track licensing can quickly build credibility and reduce transaction costs. Third, they should move beyond trade facilitation toward production-based interdependence. This includes joint industrial zones, coordinated value chains, and blended investment. Fourth, they should embed labor and logistics integration, including the structured incorporation of Syrian labor and the repositioning of Tripoli as a production and logistics interface. The sequencing should be explicit: formalize and simplify first; concentrate and demonstrate results second; deepen production linkages third; and scale interdependence through labor and logistics integration thereafter.

This policy brief advances a phased strategy of reintegration as a process of constructing interdependence under constraint. Rather than broad liberalization, it focuses on a limited set of corridors - agriculture, reconstruction inputs, and light manufacturing - where complementarities are strongest. These corridors are not just trade routes; they are platforms for production, investment, and labor linkages.



Sequencing is central. It begins with regulatory alignment, fast-track licensing, and pre-cleared procedures at key nodes such as Masnaa. It then expands into production systems linking firms, labor, and capital. These arrangements can scale into broader supply chains and factor markets. By concentrating reforms within defined channels, the strategy limits veto points and generates early gains. It shifts activity from facilitating exchange to structuring interdependence.

These reforms must operate within binding political economy constraints. Authority over trade, borders, and labor mobility remains fragmented. Overlapping veto players operate in systems that reward opacity and rent extraction. Enforcement is uneven and often negotiated. Key intermediaries - customs brokers, transport unions, and politically connected operators - benefit from the current system.

Policymakers should avoid system-wide shocks and move through coalition-compatible increments. Targeted measures should generate gains for formal actors through clearer rules, faster clearance, and better access to finance. Anchoring reforms within existing frameworks increases feasibility by shifting, rather than confronting, underlying incentives.

Policymakers in Lebanon and Syria should prioritize corridor-based integration in sectors where complementarities are strong and resistance is manageable. Agriculture, agro-processing, construction materials, and low-value manufacturing offer immediate entry points. These sectors already sustain dense informal exchange and offer scope for value chain integration.

The objective is not to create new flows, but to formalize and scale existing ones. This should be implemented through regulated corridors, harmonized standards, simplified customs procedures, and standardized transport protocols. Complementary measures - such as pilot industrial zones and targeted investment incentives - can anchor these flows. This approach shifts activity into formal channels while remaining politically feasible.

Given limited enforcement capacity, the goal is not to eliminate informality but to outcompete it. Informal exchange persists because it is faster, cheaper, and more predictable. The response should be competitive, not coercive. This requires concentrating capacity within a small number of high-compliance nodes, where procedures are simple, coordination is credible, and access to finance and logistics improves. These nodes anchor production and investment. As reliability increases, firms shift into formal systems, gradually displacing informal arrangements.

Lebanon and Syria can leverage complementary assets to embed interdependence within reconstruction-linked value chains. Lebanon's ports, logistics networks, and financial services complement Syria's reconstruction demand and production base. The goal is not only to facilitate transit, but to integrate firms, capital, and services into shared systems. This extends interdependence beyond trade into logistics and investment. It also builds constituencies with a direct stake in stability.

A priority is to establish a Lebanon-Syria interdependence platform anchored in Tripoli as a production and logistics interface. This includes bonded zones, pre-clearance regimes, and standardized documentation. Linking Tripoli to Homs, Hama, and Aleppo would anchor value chains. Enabling contracts, finance, and services across the border would deepen integration. This shifts relations from episodic exchange to structured interdependence.

A critical but underutilized dimension of interdependence is the Syrian population in Lebanon. It can be reframed as a productive asset and labor bridge within cross-border production networks. Policymakers should shift from restriction toward structured incorporation. Sector-targeted work permits in construction, agro-processing, and logistics can reduce costs. Joint enterprises can further reduce frictions and formalize existing markets. These measures embed labor within regulated systems. Targeted implementation can manage domestic sensitivities while transforming a parallel labor economy into a productive component of integration.

Connectivity infrastructure should be treated as the backbone of production systems. The priority should be to reduce the cost and uncertainty of movement. This enables value chains to operate at scale. The focus should be on upgrading key corridors and border nodes - transport links, logistics facilities and crossings - where reduced frictions directly support integration. In energy, limited cross-border arrangements can reinforce mutual exposure. These should be ring-fenced, rules-based, and transparent to limit rent extraction.

The success of this strategy depends on changing incentives. When production systems remain shallow, instability carries low costs. Deeper interdependence expands the number of actors exposed to disruption, turning it into a broader economic shock. Firms, workers, and localities gain a direct stake in stability.

This transition will be contested. Beneficiaries of the current system may resist or attempt to capture new channels. Constraints are structural and require gradualism, negotiated compliance, and selective credibility. Early gains must be visible to sustain momentum.

Stability will not emerge from diplomacy alone. It will emerge from economic structure. The key choice is whether the border remains a low-density system where shocks spread easily, or evolves into a network of interdependence that raises the cost of disruption. This strategy aims to make instability economically costly - and therefore less likely.

