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THE ECONOMIC CONSEQUENCES OF ETHNO-NATIONAL
CONFLICT IN CYPRUS: THE DEVELOPMENT OF TWO SIEGE
ECONOMIES AFTER 1963 AND 1974.

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ABSTRACT

This thesis examines the economic aftermath of ethno-national conflict in a small European economy. Events in 1963 and 1974, led to the *de facto* division of a small nation-state, ethnically and geographically. Since the conflict, the different communities have remained on a war footing, having had no normal communications. For each, one of these watersheds is perceived as an economic catastrophe. The effect of arbitrarily dividing an already small economy was significant. It has been argued, however, that the large-scale uprooting of one community was seized on as a development opportunity, so the thesis examines the recovery mechanisms employed by both communities and assesses their relative economic impact. In a comparative context, economic growth and development are compared before and after *de facto* division, both across the ethnic division and with similar small and regional economies that have, in the period, largely retained conflict within the political process. Despite problems, economic growth both sides of a UN Buffer Zone compare favourably with all of the selected peer economies. However, with both communities having a clear perception of the cost of division, a dynamic model has been created to determine a benchmark for all-island, integrated economic growth. How would the economy have performed, if growth had not been disrupted by ethno-national conflict? How sustainable are two competing, non-communicating economies, sharing one small Mediterranean island?

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CHAPTER 1. Introduction

Defining the subject

"Economic theorists have generally traditionally defined their subject so as to exclude analysis of the use of violence. One of the tasks of economic history is to overcome that exclusion." ¹

"For all our interest in the desired outcomes and unintended consequences of many government programmes, war remains the least evaluated of public policies... We do not fail to study wars' effects because wars are rare... Nor is it the case that we find wars consequences trivial. Recognising that wars are an important agent of political, economic, and social change, scholars often use them to mark major turning points in human history, to separate one historical period from another." ²

In 1963, three years after gaining independence from Britain, the new and partially implemented constitution of Cyprus broke down, communal fighting erupted and much of the Turkish-Cypriot population withdrew into fortified enclaves. In 1974, following a mainland Greek engineered *coup d'état*, mainland Turkish troops acted to effectively divide the island ethnically north and south, the latter retaining control in the north. Since then, the two communities have had no normal communications.

¹Lane F.C. 1958. "The Economic consequences of Organised Violence", Journal of Economic History, Vol. 18, No. 4, p.402. Quoted by Winter J.M. (ed.) 1975. War and Economic Development. Cambridge: CUP.

²Stein A.A. 1980. The Nation at War. Baltimore: John Hopkins University Press.

This thesis will examine the economic consequences of this organised violence in Cyprus. While most of the island's two communities, Turkish-Cypriots and the Greek-Cypriots, experienced their major economic shocks as a consequence of different violent episodes, the most significant economic change for the island occurred with *de facto* division in 1974. Clearly, the beginnings of two distinct non-communicating economies are earlier and will be explored below.

Economic history is an eclectic discipline, even more so when applied to Cyprus. Its political and economic history places it both in Western Europe and the Third World. The tremors from previous imperial impact: Ottoman, British, East-West, still reverberate. An analysis of recent Cypriot economic history requires more than the simple application of mainstream economic theory (developed in and perhaps most usefully applied to advanced industrial societies). As a developing country with a recent history of organised violence and political discord, a study of structural and institutional development is important for illuminating economic policy and performance, shedding new light on some of the political stances taken in Cyprus.

Economics has its roots in political economy. For much of its history, political economy used historical examples as empirical evidence. In Britain, Marxist economists more recently monopolised the term "political economy", however, this research also draws on the example of other classical economists (Smith, Ricardo, and Mill) to rehabilitate a more general use of a wider perspective.

"The separation of economics from politics and political motivation is a sterile thing. It is also a cover for the reality of power and motivation. And it is a prime source of misjudgement and error in economic policy."³

This thesis is a work of political economy, set loosely to commence with the breakdown of the new independent Cypriot constitution in 1963. It traces a beleaguered Turkish-Cypriot minority from the barricades of fortified enclaves, to the establishment of a proto-nation state and the successful marketing of resources through the creation of their own multi-national company. This study also follows the progress of the Greek-Cypriot community from economic and political dominance, through virtual economic collapse in 1974, to around 1988 when the (Greek Cypriot) Republic of Cyprus became, by some estimates, a "high income economy"⁴. This deliberate trough to peak analysis is designed to illuminate the economic consequences of political failure on the two communities, their different approaches to economic recovery, the relative success of those recoveries and ultimately, to assess sustainability in both *de facto* economies.

It would have been preferable, however, to follow the lead of others writing on the development of the Cypriot economy following independence : Meyer and

³Galbraith J.K. 1991 (Penguin edition). A History of Economics. London: Penguin, p.299.

⁴Both Christodoulou's (D.) claim (1992. Inside The Cyprus Miracle, Minnesota: University Of Minnesota, Modern Greek Studies Yearbook Supplement, Vol. 2, pp. xli, 280, 287) and by simple calculation of official income data, (Rep. of Cyprus, UN, IBRD) the Republic of Cyprus became what the World Bank describes as a "high income economy" in 1988. "The main criterion of country classification is gross national product (GNP) per capita." (Technical notes to the 1991 World Bank Development Report, p.270, see also table 1 "Basic Indicators" p. 204.) Perhaps taking a wider view of development criteria, some Government publications contradict this. In a 1993 Press and Information Office publication: Cyprus, the chapter "Development Planning and Economic Development" (pp.43-66) begins by stating that Cyprus "is classified as a middle income economy".

Vassiliou's classic work⁵ published in 1962, Hald's 1968 study⁶ and Kaminarides more theoretical work⁷ published, with unfortunate timing, in 1973. Such an approach deals exclusively with economic development in a single political and economic entity, within internationally recognised and largely natural boundaries⁸. Unfortunately geo-political reality intervened, leaving subsequent researchers one of two options. Research can continue this intellectual tradition by dealing exclusively with one political and economic entity as Christodoulou⁹, Dodd¹⁰ and, to a slightly lesser extent, Wilson¹¹ have done. Alternatively, again following the earlier approach, research could deal with the island as a whole, necessitating analysis of two very different economic realities. In a speculative and more legalistic sense, Andreas Theophanous alone has recently done this¹². The current thesis attempts to offer some background and some more analysis along the road to justifying contrary conclusions to those offered by Theophanous. However, Theophanous has opened the way to viewing Cypriot economic development in a comparative context, asking

⁵Meyer A.J. & Vassiliou S. 1962. The Economy of Cyprus, Cambridge: Harvard University Press.

⁶Hald M.W. 1968. A Study of the Cyprus Economy. Nicosia: Printing Office of the Republic of Cyprus.

⁷Kaminarides J.S. 1973. The Cyprus Economy: A Case in the Industrialisation Process. Nicosia: Socrates Publishing Company.

⁸The Treaty of Establishment provided that Britain retain perpetual sovereignty over 256 sq. kilometres of the island's territory (British Sovereign Base Areas - SBA's) and reserved rights over 15 other areas including water sources and off base radar and intelligence gathering installations. The SBA's are British Dependent Territories and the Commander of British Forces in Cyprus has executive and legislative authority.

⁹Christodoulou 1992. *op. cit.*

¹⁰Dodd C.H. (ed.) 1993. The Political, Social and Economic Development of Northern Cyprus. Huntingdon: Eothen Press.

¹¹Wilson R. 1992. Cyprus and the International Economy. Basingstoke: Macmillan.

¹²Theophanous, A. 1996. The Political Economy of a Federal Cyprus. Nicosia: Intercollege Press.

how and why development followed the path that it did within the respective communities of the island, speculating on the possibilities for and of re-unification.

Cyprus is the third largest Mediterranean island, about the size of the English counties of Norfolk and Suffolk combined. Much of its history has been as a consequence of its location, 40 miles south of Turkey and 60 miles west of Syria. It has, however, benefited from more than its fair share of academic interest, given its small size, partly because of its recent turbulent political history. Unlike other locations nearby, that recent history posed few risks to outsiders. Perhaps, above all, Cyprus has played host to much academic interest because of its attractive and welcoming ambience. The British connection has contributed to the quality and relative accessibility of archival material. Consequently the island has found itself as something of a laboratory for social scientists. The Republic is a perfect empirical base for economists interested in development, macro-economic phenomena being relatively small-scale and reasonably well documented. Government Departments and commercial institutions use dominant international statistical standards and British accountancy practices respectively, maintaining generally open access to researchers. Access to some economic data is, however, influenced by increased political tension¹³ and always more difficult when contemplating pan-Cypriot research.

¹³ 6/4/1998 *Financial Times* reported that "Because he [Denktash] contests the legality of the Greek Cypriots' EU application, Mr Denktash says he will refuse to let the Commission in Brussels gather any data on northern Cyprus, just as he did in 1992 when commission officials were preparing their initial "opinion" on Cypriot membership." p.30, column 5.

As many questions raised by economic historians are politically sensitive in Cyprus, some basic political background is necessary. Cyprus gained independence from Britain in 1960 after a brief but violent guerrilla war waged by the extreme right of the (82%) majority (Greek Cypriot) population¹⁴. They fought, not for independence, but to annex the island to Greece. Cyprus had previously been annexed by Britain in 1914 and expected to go the way of other Mediterranean islands with sizeable Hellenic populations¹⁵. From 1878, Britain occupied the island, though technically it remained part of the Ottoman Empire. Following the Treaty of Lausanne, Cyprus became a British Crown Colony in 1925. Britain increasingly sought to thwart self-determination in Cyprus, which would then have meant annexation to Greece. Considering what had happened to other Muslim Mediterranean islanders following annexation with Greece, the (18%) Turkish-Cypriot population were understandably hostile to such a move, so had been recruited by the British to assist in preventing such an outcome. An independent constitution was eventually hammered out at two conferences in 1959 (Zurich and London), specifically preventing self-determination and only grudgingly accepted by the majority community¹⁶.

Separate economic development began with the breakdown of the new constitution in 1963, which led to communal fighting and the withdrawal of much of the

¹⁴Republic of Cyprus, 1960. Census of Population and Agriculture. Nicosia: Ministry of Finance , Dept. Statistics and Research.

¹⁵For example, in 1913 Crete unilaterally proclaimed its union with Greece, this was legalised by the Treaty of London, of the same year, following Turkey's abandonment of her suzerainship.

¹⁶Xydis, S.G. 1973. Cyprus: Reluctant Republic. The Hague: Moulton.

Turkish-Cypriot population from co-operation in the Cypriot state. In 1974 a foreign sponsored *coup d'état*, and foreign military intervention led to further regional segregation and the *de facto* division of Cyprus into two non-communicating, ethnically homogenous areas. Military intervention attempted to resolve a constitutional and political crisis with the imposition of new frontiers. Most academic shelf space is occupied by the political and legal implications of "the Cyprus problem". For many that "problem" is encapsulated into a few months of the summer of 1974. At its most polarised, opinion on this varies as to whether the large scale military intervention, which took place then, represented an act of premeditated aggression by a powerful, territorially ambitious neighbour, or a "peace operation"¹⁷ in defence of a beleaguered minority of fellow nationals, threatened by forces under the command of a foreign right-wing military junta. Historical analogies differ from Sudetenland¹⁸ to something akin to the Falklands war.

Local interpretations of recent history tend to coincide with the main ethnic and political fault lines on the island. Papadakis has simplified these in chart and tableau form¹⁹ and they have been reproduced below in Figure 1.1 and Table 1.1.

¹⁷Referred to as this by Turkish and Turkish Cypriot authorities.

¹⁸Attalides M.A. 1979, *Cyprus: Nationalism and International Politics*. Edinburgh: Q Press, p.90.

¹⁹Papadakis, I. 1993. *Perceptions of History and Collective Identity: A Study of Contemporary Greek Cypriot and Turkish Cypriot Nationalism*. PhD thesis, Trinity College, Cambridge, pp. 89 & 161.

Figure 1.1 *The structure of recent history as viewed by the Greek and Turkish-Cypriot authorities.*

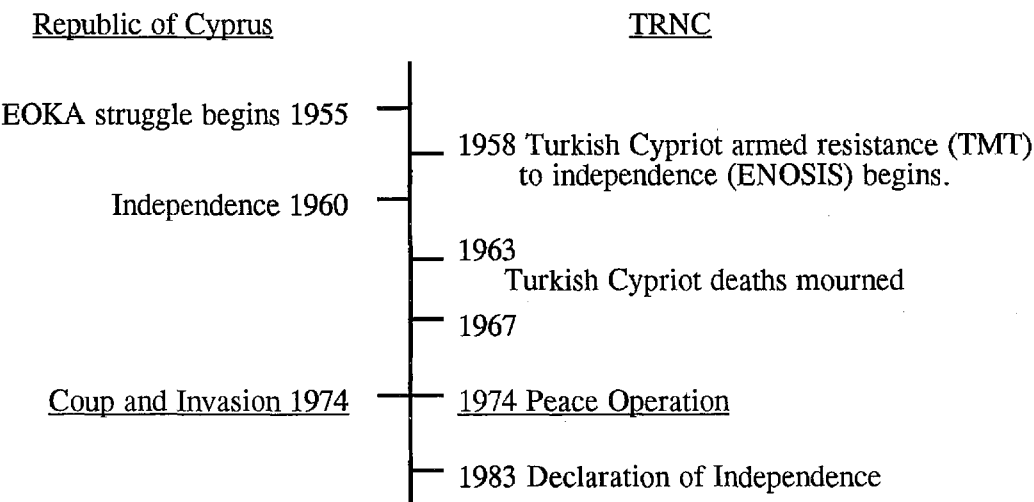


Figure 1.1 above reproduces Papadakis’ chronology of the “Years commemorated in Annual Rituals”, which usefully simplifies the divergence between the different official interpretations of recent history. The dates celebrated in rituals represent what each community views as the major ruptures in recent Cypriot history, some of which were profound enough to have had major economic ramifications (and two of which, 1963 and 1974, are the main concern of this thesis).

The major political divergence amongst the majority Greek-Cypriot community, in the interpretations of the recent past, is almost as great as the dominant ethnic interpretations (shown above, Figure 1.1). A simplified view of the different Greek-Cypriot interpretations of recent history can be seen in Table 1.1 (below), adapted from Papadakis’ work²⁰. Contemporary perceptions of the recent past, are delineated by this representation of the views of the extremes.

²⁰*ibid.*, p.161.

Table 1.1 *Greek-Cypriot interpretations of recent history*

Political Party	Context of 1974 War	Belligerents
AKEL ²¹ (communist party of Cyprus - 33 % of vote in 1996 parliamentary elections).	History of Cyprus	Insiders : Cypriots Outsiders: Greeks and Turks
DISY ²² (centre-right party of the President: 1993 & 1998 - 34 % of vote in 1996 parliamentary elections)	History of Greece	Insiders : Greeks Outsiders: Turks

As the voting strength indicates (Table 1.1, above), these "extremes" represent the political interests of the overwhelming majority of the electorate in the Republic of Cyprus, particularly their views on the most pervasive issue in Cypriot politics: the "Cyprus Problem". The views of the smaller parties, DIKO and EDEK, largely conform with either a nationalist or an international socialist interpretation of recent history (not necessarily in that order). It is therefore, relevant to present Table 1.1 as a rough representation of the dominant cleavage in Greek-Cypriot historical perceptions. The Table illustrates that Greek nationalism and even perceptions of 'Greekness' are far from monolithic. A Cypriot identity exists amongst the left (on both sides) which plays down ethnic arguments and emphasises the role of geopolitics, playing on cultural differences.

²¹AKEL: Anorthotikon Komma Ergazomenou Laou (Progressive Party of the Working People).

²²DISY: Dimokratikos Synagermos (Democratic Rally).

In terms of the topic of this thesis, a clear distinction can be drawn between the economic effects of organised violence in Cyprus before 1974 and after. From April 1955 there was spasmodic organised political violence in Cyprus, commencing with a right-wing guerrilla war not for independence, but to unite the island with Greece (Enosis). Ethnic conflict followed, causing increasing numbers of Turkish-Cypriots to concentrate into defensive enclaves between 1956-58 and, again after independence and the breakdown of the power-sharing constitution, in 1963. After intermittent, inter and intra-ethnic conflict, violence amongst Greek-Cypriots was spurred by the fall of democracy in Athens in 1967. Between 1968 and 1973 political violence in Cyprus was mostly intra rather than inter-communal. The political right used violence, intimidation and acts of terrorism to further a perceived nationalist cause and, in the (majority) Greek community, the socialist left (EDEK) responding by arming and training its supporters. As the Greek junta imploded, (particularly after the overthrow of Colonel Papadopoulos in Athens by the more hard-line Brigadier Ioannidis), acts of intra-communal organised political violence increased. In 1974, violence and intrigue reached a crescendo, resulting in the Athens sponsored coup against the Cypriot President, Archbishop Makarios. Brief, intense, open civil war began between the Athens controlled National Guard supported by EOKA B terrorists on one side and lightly armed police and EDEK (Socialist Party) units, loyal to the now almost exclusively Greek-Cypriot government of the Republic of Cyprus,²³ on the other. This inter-Greek fighting

²³30/6/1970 *Cyprus Mail* reported that President Makarios had appointed a Turkish Cypriot, Dr Ihsan Ali, as his personal advisor. Less controversially (at least for the Greeks) there was an

was curtailed by large-scale, mainland Turkish military intervention, when violence reached total war proportions²⁴ and resulted in the permanent division of the island between Greek speaking and Orthodox Christian Cypriots and mainly Turkish speaking Muslim Cypriots²⁵.

After the long term, clandestine, illegal intervention of one guarantor power (Greece), another guarantor power (Turkey) intervened decisively. However, neither acted to restore the Constitution, their only legal justification for intervention as guarantors. In retrospect, Turkey's actions seem similarly unconstitutional, so that intervention must also be viewed as illegal, as no attempt was, or has been made to restore the 1960 Constitution; in this sense "intervention" becomes "invasion"²⁶. The hypothesis to be tested here, however, is not concerned with constitutional niceties but proposes that the "short, sharp, shock" of "total war" released economic potentials, that prolonged internal conflict may have neglected or destroyed. Whilst in no sense justifying the action taken by external forces, the period surrounding the *de facto* division is analysed, to see whether this

Armenian Auditor.

²⁴The Shorter Oxford English Dictionary (1993) has two definitions for "total war": a war in which all available weapons and personnel are employed; a war conducted without scruple or limitation." It is more the latter definition which is implied here with the figurative use of the term "total war proportions" and the contradictory juxtaposition of "short, sharp..." with "total war". The aim is to contrast the level of conflict in a war with a major NATO power, with the internal conflicts that preceded it.

²⁵The definition of Turkish and Greek Cypriotness seems to be entirely religiously based, as members of both communities spoke each others language, sometimes exclusively. (This was the case in and around Ayios Simion, in the Karpas, where exclusively Muslim villages spoke only Greek.) Though the conflict does not appear to be religiously based, as like the Bosnian Muslims, Turkish Cypriots were and are very liberal Muslims.

²⁶For a more sophisticated approach to these concerns see Hunt D. "Three Greek islands and the development of international law", in: Koumoulides, John T.A. (ed.) 1986. Cyprus in Transition 1960-1985. London: Trigraph.

political landmark coincides with a long term developmental shift. How different was the structure of the Cypriot economy after 1974? Clearly, these questions are likely to be controversial in Cyprus.

Amongst economists, the period represents a challenge. Following the events of 1963 and 1974, in the Turkish and Greek-Cypriot community respectively, people did not always appear to act as rational economic agents²⁷. The market was not always considered the most efficient mechanism, nor perceived to be the most legitimate distributor of Cypriot resources. More variables than the simply quantifiable need to be taken into consideration if data from the period is to be adequately understood. By doing so, this period of Economic History in Cyprus can be removed from the periphery of social and economic research and viewed in the light of a wider European experience. Clearly war and reconstruction have played a decisive role in recent European economic history. Economic integration and reconstruction went hand in hand, and both correlated with a period of unsurpassed economic growth. So it is worth re-evaluating the possible causes and the extent of

²⁷"I know about those government schemes for getting 'restarted'...The government people said they would give me a card and put my name down for any work I wanted to do...What do you want to do sir? they ask me...I said to them I don't want to do a thing." Interview with middle aged former farmer, quoted by Loizos, (P. 1981. *The Heart Grown Bitter*. Cambridge: CUP, p.123). "Other men repeated these sorts of things in discussion...Many insisted they were not disposed to start up a new enterprise, or hunt for a job. In April 1975 many of them proposed to 'wait and see' (p.123)". Looking closely at one particular village, Argaki, this time between April - December 1975, Loizos argues that over and above micro-social circumstances ("age, family size, capital assets, education and marketable skills") "...they could be divided roughly into those whose pre-war [economic] lives had mainly been turned inwards towards the village [farmers, tractor drivers, coffee shop owners, tailors and some other skilled workers; a majority of Argaki villagers] and those who had faced outwards...As refugees, without their land or the support of their fellow villages [the former] were badly disadvantaged, and were in general slower to start rebuilding their personal fortunes" (p.159).

the economic "miracle in half an island",²⁸ to determine the extent to which this assessment is still valid, and whether it can be applied to both sides of the 16th August 1974 cease-fire line, or even the island as a whole? Has reconstruction without re-integration left the people of Cyprus richer or poorer?

Ignoring the politics and focusing on simple comparative economics, much understanding of recent Cypriot development would be lost. However, in terms of the current *de facto* situation, one economy began land-scarce, the other land abundant. The latter had abundant fixed capital assets, but found new investment and sufficient human capital to fully utilise, let alone develop, those resources, difficult to find. Both economies had severe infrastructural bottlenecks after 1974 but the rump of the Republic in the south, found new investment funds relatively easy to find. Skill and labour shortages after 1974, were a problem for both economies, though the immediate consequence of the war in the south was a short term problem of labour abundance. After another round of inter-communal redistribution, per capita income, the most important indicator of future growth prospects, begins the period of geographic and ethnic division looking similar (see Figure 7.1). Subsequent economic growth rates were not only influenced by different constraints but by other factors: the role of government, investment levels, levels of human capital development and the part played by the private sector. What

²⁸Christodoulou (1992. *op. cit.*) has credited the labelling of the Greek-Cypriot recovery from war in 1974 as an economic "miracle" or "Wirtschaftswunder" to the "German press". *The Economist* (27th August 1977, "Miracle in half an island", pp. 50-51) applied the accolade to Cyprus in August 1977. Hudson J. and Dymiotou-Jensen M. in (1989 *Modelling a Developing Country*. Aldersot; Avebury) used the term again, this time in inverted comas, though failed to credit earlier uses of the accolade.

were the mechanisms which encouraged private investment confidence in one economy and constrained it in the other? One economy increasingly adopted the language of neo-liberal economics, the other (which succeeded in maintaining high levels of private investment), remained unrepentantly Keynesian. These clinical facts may intrigue the economist, studying them in Cyprus, however, requires a more inter-disciplinary approach.

Sketching the thesis

This chapter offers a broad introduction; an overview of themes explored throughout the thesis. When referring to the Republic of Cyprus after 1963, it can be assumed that reference is to what is effectively the Greek-Cypriot economy. After 1974 that Greek-Cypriot economy was concentrated in the south, so reference may also be made to the south, meaning the Greek-Cypriot economy. When referring to the Turkish-Cypriot economy, which from 1967 to 1971 was administered by the "Provisional Turkish Cypriot Administration", from 1971-74 by simply the "Turkish Cypriot Administration", from 1974-75 by the "Autonomous Turkish Cypriot Administration"²⁹, from 1975-83 by the "Turkish Federated State of Cyprus", and from 1983 to date by the "Turkish Republic of

²⁹As in the "Legislative Assembly of the Autonomous Turkish Cypriot Administration", Rustem, K. (editor) 1987. North Cyprus Almanac. London: Rustem K. & Bro., pp. 20-21.

Northern Cyprus"³⁰, the Turkish-Cypriot economy will be referred to as such, or simply as the north or northern Cyprus after 1974.

The Republic of Cyprus will be considered first because there is more and better data, and some secondary literature available to researchers in London. This chapter serves as a broad introduction to the literature, the region and the period, whilst the next chapter concentrates on developments in the internationally recognised Republic of Cyprus and the (Greek Cypriot) Government controlled parts of the island. The following two chapters depend on more primary research and look at developments beyond the scope of the Republic, that is the development and growth of a separate Turkish-Cypriot economy.

Chapter 5 begins with simple hypothesis testing, the use of primary data to test the conclusions of other research; who or what provided the recovery mechanism for post (1974) war growth. This chapter will combine sectoral analysis with a preliminary examination of the role of the state in the re-establishment of private investment confidence. Though seemingly incongruous, the link between the construction industry in the south and export agriculture in the north is more than simply blind theoretics; the State is said to have re-allocated human resources displaced from the latter to the former in the south. In many ways, this historical process picks up the threads of long term themes addressed in earlier chapters,

³⁰Because the Republic of Cyprus (the Greek Cypriot, southern part of the island) is the only internationally recognised government of the island (by the UN, IBRD, IMF etc.) it is customary to refer to the northern, Turkish Cypriot "state" within inverted commas.

however, Chapter 5 concentrates on the short run, how was confidence re-established and how successfully, while earlier chapters (2 & 4) map out longer term trends.

The implementation of a Keynesian, deficit financed policy, designed to restore confidence and exploit the income multiplier, could have been employed across the island as a whole by the separate and distinct *de facto* administrations. If so, was this policy or necessity, politics or economics? Keynesian demand management is something of a concomitant of war. There appears to have been a key role to be played by the public sector in re-establishing a full-employment equilibrium, re-establishing perceived key sectors formerly dominated by the private sector and thereby establishing more general economic confidence. However, whilst elements of a Keynesian approach could be applied to developments north and south, policies adopted by the Cypriots always partly conformed to older classical concepts, like comparative advantage. Moreover, there was an explicit shift in official Turkish-Cypriot attitudes along with attitudes elsewhere, away from the old macro economic orthodoxy. Following political changes in Turkey, northern Cyprus attempted a quasi-privatisation strategy, one that was contemporary with the earliest, tentative experiments further west.

Chapter 6 examines the possibility of determining a dynamic model to estimate the economic costs to the island as a whole of its *de facto* division into two non-communicating parts. In the light of various static estimates of the costs to each

community of the other's sins³¹, can the economic consequences of war be viewed with sufficient detachment for possible alternative growth trends to be constructed and compared? Can dynamic models be used to estimate the costs *of de facto* division? Can these costs be disaggregated in terms of the inter-communal distributional consequences of war and ethnic division?

Once the tools are in place to offer some rough benchmarks, growth projections in an idealised unitary Cypriot economy are extended to 1990. Results are compared with the aggregate Cypriot economic performance and the respective communal performances to 1990. Given the real performance of the economies of Cyprus, how do they compare both with idealised projections and with peer economies over the same period? Has Cyprus' recent turbulent history distorted its economic performance? Given that there has been a recovery in the economic performance of both communities from the trough that followed organised violence, in that neither community is as dependent on foreign aid as it was, Chapter 7 asks how successful and sustainable recovery has been, relative to other similarly endowed economies³²?

³¹Bicak H.A. 1993. "An Evaluation of the Turkish Cypriot Position: Debts of the Greek Cypriot Community", article submitted to the UN Resident Representative of the Secretary General. Republic of Cyprus April 1975. (Unpublished - i.e. "Restricted") "Economic Consequences of the Turkish Invasion and Future Prospects of the Cyprus Economy." Nicosia: The Planning Bureau. Republic of Cyprus 1992. Greek Cypriot Properties in the Occupied Area and the Turkish Cypriot Policy. Nicosia, PIO.

³²Sachs, J.D. & Warner, A. 1995. "Economic Reform and the Process of Global Integration." Brookings Papers on Economic Activity, 1. 1995.

Defining the title

The first priority is to define and justify the use of the terms “ethno-national conflict” and “siege economies” in the title. The term “ethno-national” comes from the title of a ‘C’ Session Workshop at the 12th International Economic History Conference in 1998³³. Ironically, the term fits the historical context of the Cyprus conflict well because divisions were arguably neither ethnic nor strictly national. With the rise and propagation of nationalism in the 19th century, divisions between Muslim and Christian Cypriots began to take on an ethnic stance³⁴. Increasingly, supposed national links triggered, encouraged and enforced division in Cyprus.

The fact that the Cypriot communities are economically distinct and therefore “economies” (plural) is not contested, while it is still politically controversial. There are, however, three meanings ascribed to the word ‘siege’ used in this context. The first meaning is “the act of surrounding a town, building etc., with a hostile force (esp. military) in order to cut off outside communications and supplies and so facilitate capture”. The other meanings of the word derive from its combination with ‘economy’ and ‘mentality’. A “siege economy: in which import controls are imposed and the export of capital is curtailed; siege mentality: a

³³ Session C42: “Ethno-national divides and economic coexistence: historical perspectives”, organised by Metzger, J. (Dept. of Economics, The Hebrew University, Jerusalem) and O’Grada, C. (Dept. of Economics, University College Dublin).

³⁴ Kitromilides, P.M. “From Coexistence to Confrontation: The Dynamics of Ethnic Conflict in Cyprus”, in Attalides M.A. 1977. (ed.) Cyprus Reviewed. Nicosia: The Jus Cypri Association with the Co-ordinating C’ttee of Scientific and Cultural Organisations, pp.35-70.

defensive or paranoid attitude based on the assumption of the hostility of others”³⁵.

As the first definition can be applied literally to recent Cypriot history, the latter two definitions also have some applicability. The above definition of a ‘siege economy’ is relevant when applied to aspects of economic management and the definition of a ‘siege mentality’ is relevant when applied to the dominant social and political structures of the two societies.

With varying degrees of accuracy, both sides of Cyprus can be described as ‘siege economies’. The Turkish-Cypriot enclaved community experienced varying degrees of life under siege between 1963 and 1974. After 1974 their economy in the north conformed closely with the above definition of a ‘siege economy’, while a siege mentality was not entirely absent from the attitude of commentators, administrators and representatives, though this may not necessarily suggest paranoia. Import controls existed from the foundation of the ‘Turkish Federated State of Cyprus’ (1974) and “the export of capital is [still] curtailed” (as the creditors of Polly Peck discovered to their cost). In the north, Turkish military involvement and the Greek-Cypriot sponsored “embargo” are said to provide overwhelming constraints on political pluralism and open market economics. Though the north is possibly, first and foremost a strategic entity, where the rules of accountability, modern economic management and efficiency take second place. This raises the question: to what extent is the north an autonomous, sovereign economy which can be studied as

³⁵Brown L. (ed.) 1993. The New Shorter Oxford English Dictionary on Historical Principles. Oxford: Clarendon Press, p. 2856.

such? Is northern Cyprus simply run as a 'special case' province of Turkey? These questions can only be answered by further research (see Chapters 3 & 4).

The rump Republic in the south is more of an open economy with a siege mentality, though it is far from averse to the imposition of import controls and still maintains currency regulations limiting access to foreign exchange and the export of currency³⁶. It is described here as a siege economy because of the resources it devotes to preventing the status quo being accepted as 'normalcy'. Many physical resources have obviously been tied up in a military and diplomatic capacity³⁷, in the necessary duplication of facilities and provision for refugees. Many government outlays continue to fulfil a strategic, political rather than economic or social role.

In [the (Greek Cypriot) Republic of] Cyprus, the stance of both the government and the refugees is a commitment to 'repatriation'...as the prospects for this recede, and as the material and economic provision designed to satisfy short term needs take on the appearance of a long term permanent solution...[t]he refugees have exploited the ambiguities of the programme to enhance their political profile in a number of ways. Extracting from the government the rights to second (and eventually third?) generation housing is one example. Proposals to charge rent or impose maintenance charges are vigorously opposed.³⁸

³⁶ 6/4/1998 *Financial Times*, p.31, column 5 & 6.

³⁷ "The broader economy suffers from the cycles of tension and uncertainty. Up to last year it was the government's proud boast that Cyprus was set to qualify for the European single currency. But higher defence spending and lower bookings from tourists, put off by a couple of clashes along the Green Line in 1996, helped to increase the budget deficit from 3.4% of GDP to 5% in 1997. *ibid.*, p.29, column 7 & 8.

³⁸ Zetter R. 1991 "Labelling Refugees: Forming and Transforming Bureaucratic Identity", *Journal of Refugee Studies*, Vol. 4, No.1, p.56.

In this example, the growth potential in costs cannot seriously be challenged until refugee status has been removed, either by repatriation or a change in government and/or public attitudes. As the growth of the permanent refugee population has grown from 162,000 in 1974 to 209,000 in 1990³⁹, it has proved difficult for a political party to sell waiving the right to return. As long as there are refugees and a refugee lobby, no party could afford tampering with refugee provisions when definitions of refugee status cover a third of the population. Democratic constraints are not the only barrier; with no refugees there is less of a Cyprus problem. Officially described as “displaced persons” (UNHCR)⁴⁰ the 40% of the population made “refugees” by Turkish military intervention, represent the most powerful argument for the re-unification of the island.

An important element of the ‘siege mentality’, this time from perceived threats from within, was alluded to by Peter Loizos⁴¹. He argues that “institutionalised generosity” was necessary to prevent mass social unrest. The events of 1974 necessitated a rapid expansion of welfare provision. “Welfare-socialist” policies⁴² were drawn up to prevent a recurrence of the consequences of the Asia Minor disaster (mass starvation, the rise of the left) from affecting Cyprus where the left,

³⁹ Republic of Cyprus 1994. *The Cyprus Diary* 1994. Nicosia: Press and Information Office, p.14.

⁴⁰United Nations High Commission for Refugees. Because Cypriot “refugees” (in Greek *prosfijon*) remained within the borders of their country of nationality they are consider “displaced persons”(Geneva Convention and Protocol, 1951 / 1967).

⁴¹Loizos 1981. *op. cit.*, p.135.

⁴²*ibid.*, p.136.

unlike Greece in 1923, were already strong and highly organised. Going by contemporary reports, these policies were successful:

The military bisection of Cyprus and the mass uprooting did not, strangely, cause any political upheaval. People voted in the post-invasion election in much the same way as in the one before. The social consequences have been much more marked.⁴³

Politically, the 'siege mentality' predates Turkish intervention. Because of the dominance of the "national issue", before 1978 there was only one contested multi-party presidential election, and that was the one supervised by a departing British colonial administration⁴⁴. In the nominally contested 1968 presidential election, the extreme nationalist, "protest" candidate, Takis Evdokas, received 3.7% of the popular vote. With a voter participation rate of well over 90%, the incumbent President and former popular resistance leader, Archbishop Makarios, was re-elected with 95.45% electoral support. He had secured the support of both communists and nationalists and prevented the emergence of political parties. In fact all the left and an overwhelming majority of the right, had re-elected the amorphous Patriotic Front candidate. The constitutionally scheduled 1973 election was not contested. After the death of Makarios in August 1977, the transitional Presidency of Spyros Kyprianou inherited an increasingly fractious government of "national unity" (the Patriotic Front having been forced to split into political parties in 1969). A decade later, George Vassiliou provided a change from broadly consensus

⁴³*The Economist*, 27th August, 1977, "Miracle in Half an Island", p.51.

⁴⁴Mayes S. 1981. Makarios: A Biography. London: Macmillan, p.143.

government in 1988 being, if nothing else, the final blow to the old Makarios coalition and the pretence of national unity amongst the Greek-Cypriot population. The rhetorical response of the 'Old Guard' (Clerides and Kyprianou) in the 1993 election campaign adds credence to the view that a siege mentality pervades the political process in post-independence Cyprus. An element in Vassiliou's failure to be re-elected was the presentation of his stance on the dominant issue in Cypriot executive politics, "the Cyprus problem" (the post-war, politically correct term for the post-division extension and consequences of the "national issue"). "The Cyprus problem" may not be decisively influential in electoral politics, partly because no candidate wants to be perceived as "soft on the Turks". More influential during elections is ideology, patronage and (family) history but, once in Government, "the Cyprus problem" dominates the executive and the presentation of Greek-Cypriot politics. At a superficial level the 'siege mentality' in the south amounts to nothing more than "the Cyprus problem" having been the first news item almost everyday in all media for twenty years, despite the fact that the "problem" remained practically unchanged.

The idea of two siege economies in Cyprus, is confirmed by the application of political theory to the island's history. "The Cyprus problem" is another case of a double minority (as in Ireland and many of the former Yugoslav Republics). The island lies just forty miles from the Turkish mainland, occasionally visible from St Hilarian in the Pentatactilos mountains. It is inhabited by a majority of Greek speaking and culturally Hellenic people. Whilst the Turkish-Cypriot minority sees

itself as having been literally under siege since the constitutional crisis and communal fighting of 1963, the Greek-Cypriot majority (as a “beleaguered” Hellenic minority in the “Asia Minor” region), perceive themselves as having been surrounded and encroached upon for longer. More prosaically, but more painfully for many Cypriots, both communities feel themselves under siege because both have suffered recently as a consequence of being a relative minority in the midst of an alien and mutually antagonistic culture. This, its political consequences and its economic ramifications, provides the basis for this empirical enquiry.

Partly because of a pervasive ‘siege mentality’, economic development in the island's two economies has never been simultaneously researched. While aspects of social, economic and political life have been researched on both sides of “the Green Line”, they have never been put together in the context of post-war reconstruction. This thesis aspires to construct this, ‘the big picture’ by testing and amalgamating the results of previous research, much of it from other disciplines, along with new primary data to put together a comparative study of the two economies' approach to economic reconstruction behind the barricades. An attempt will be made (in Chapter 6) to evaluate the contribution, if any, of the barricades themselves.

Perhaps it is inescapable that all who are emotionally attached to the island should be susceptible to Christodoulou's most scathing criticism⁴⁵: “...there has been a marked absence of depth in management of matters political, financial, economic,

⁴⁵Christodoulou 1992. *op. cit.* p. 285.

commercial and social..." Until 1993 Cyprus had no university yet it had more graduates per capita than any country other than the US and Canada. But "one is tempted to propound the hypothesis that the signal failure of this massive investment in people, this lack of productivity by the island's intellectual and scientific elite, goes a long way towards accounting for the fortunes and misfortunes of Cyprus since the 1940's. It is also a most decisive issue when one views the island's future."⁴⁶ It is hoped that above all, this thesis will attempt to construct an in depth analysis of the economic effects of the island's recent past, and one that does not shy away from presenting evidence that may offend political orthodoxy on either side of the UN Buffer Zone.

Earlier analysis and the contribution of new research

It is perhaps appropriate that Cyprus, an economy specialising in the leisure industry, should have spawned a leisurely analysis of its own economic history. At least three of the few secondary sources (Wilson 1985 and 1992, and Dodd 1993) began with holiday interests. Rodney Wilson and Demetrios Christodoulou⁴⁷ have concentrated their recent studies on the Republic of Cyprus, and Dodd's (ed.) is one of the only English texts available that attempts some analysis of the development of a Turkish-Cypriot economy. Of the scholars who have considered recent Cypriot

⁴⁶ *ibid.*, p. 284.

⁴⁷ Wilson 1992. *op. cit.*, Christodoulou 1992. *op. cit.*

economic history, Christodoulou's study has been the most comprehensive, though it deals exclusively with developments in the (since 1963, largely Greek Cypriot) Republic of Cyprus. Technically, however, a study of the Cypriot economy must include analysis of the island as a whole and its two major communities. Seemingly all researchers have found the prospects of pan-Cypriot research less than alluring, although many cite a few key indicators from the other side by way of comparison, introduction or conclusion⁴⁸. Even the fact that key government economic statistics omit much (but not all) of the contribution of the Turkish-Cypriot minority to national income after 1963, means that direct temporal comparisons with data prior to 1974 must be viewed with caution. It is hoped, however, that new research, whilst acknowledging these and other difficulties, builds on these significant contributions and attempts to broaden the analysis of economic developments following *de facto* ethnic division, at least in terms of including developments in the island as a whole in one body of research.

Despite the gulf between the interpretations of the recent past, a history of mutual antagonism still means a shared history. Shared experiences whilst little acknowledged in the literature, extend beyond the division of Cyprus. Many institutions have a shared history (see Chapters 2, 3 & 4). Insecurity over property rights affected both Greek and Turkish-Cypriots, though this too is little referred to

⁴⁸Bicak, H.A. (June) 1990. "The Impact of the EEC on the Economic Structure of the TRNC." Leicester University, Dept. of Economics, unpublished PhD Thesis, Christodoulou 1992. *op. cit.*, Olgan, M. E. "Economic Overview" and "Sectoral Analysis" in Dodd 1993. *op. cit.*, Wilson 1992. *op. cit.*

in existing economic analysis. For Turkish-Cypriots moving north into a region where Greek-Cypriots had formerly been in the overwhelming majority, but who had fled south, subsequent property rights problems are perhaps obvious (see Chapter 4). Some Greek Cypriot refugees faced similar potential investment disincentives; they were discouraged from rebuilding their lives because of the imminent possibility of positive or negative future outcomes. Many Greek-Cypriots refugees feared a third round of fighting (see Chapter 5) and/or expected to return to their homes and former economic activity in the north⁴⁹.

Insecurity for private investors, obviously stemming from the undermining of property rights that was a consequence of the war and the loss of territory, arguably necessitated a role for government. Seemingly, only government can allow the future to be fully discounted, and all resources to be fully applied to political and economic survival regardless of cost. The discount rate facing governments is quite different from that facing private investors due to the different risks and constraints. Capital remains relatively mobile, whilst the sovereignty of government is restricted to a specific territory. Any future, even one characterised by high levels of national debt, is better for the state, the Government, than no future. A war economy can offer significant short-term economic advantages which counteract the losses

⁴⁹"Such a person was Sophia Paphiti, who before the war had made a good living by baking ...superior bread...[which] she sold to the wealthier families who preferred to pay a few coppers more for home-made bread...[I]n April she said she was wondering whether to set up an oven where she was and start again. 'But supposing we go back?'...By winter she had still done nothing...'I simply pray that nothing worse happens. Surely we've had the worst? We won't find anything there if we do go back. We've lost so much." Loizos 1981. *op. cit.*, pp.165-7.

incurred as a result of conflict. However, most benefits accrue as a result of Government spending taking the place of private consumption and investment, which decline as a result of disruption, destruction, rising insecurity and displaced investment. Seemingly the war economy persisted far longer in the north, a concomitant of strategic concerns, "embargo" and international, legal and administrative considerations. To what extent did economic performance represent different policies or different constraints? What were the main policy differences between the two economies, comparing the different institutional responses, the different monetary policies and trade policies? New research must attempt to answer these questions and explain the differentials in recovery rates north and south, at least challenging dominant local explanations. The view in the north is that its performance, relative to the south's, results from the latter's monopoly of international recognition. Its consequent access to aid and ability to manipulate international opinion, restricts trade with the area⁵⁰. In the south, cultural differences are the dominant lay explanation for economic divergence⁵¹.

Whilst it would be interesting to assess the Turkish sector's response to apparent windfall gains of securing the, allegedly, most productive and developed parts of the island, it would also be useful to look at the situation that prevailed before this,

⁵⁰Bicak 1990. *op.cit.*

⁵¹Scott, (J. 1995. Identity, Visibility and legitimacy in Turkish Cypriot Tourism Development, University of Kent at Canterbury, Dept. of Social Anthropology, PhD Thesis, submitted March 1993, p.97), quotes the head of the Cyprus Tourism Organisation, A. Andronicou as saying: "The Greek Cypriot culture may... be described as competitive and individualistic... The Turkish Cypriot culture differs in not attaching such great importance to achievement and wealth, and the Turkish community was therefore relatively less well represented in the business and economic life of the island."

which is not only a critical, though infrequently acknowledged part of the island's political history, but also an important part of the island's economic history. Prior to 1974 much of the Turkish-Cypriot community spent ten years in fortified enclaves and inter-communal trade was limited by persistent, periodic Greek-Cypriot embargoes and a Turkish-Cypriot boycott of the Greek-Cypriot economy (see Chapter 3). So, in theory, the Turkish-Cypriot community went from one extreme to the other; from extreme scarcity in spatially highly limited, scattered and militarily insecure enclaves, to abundance in a militarily secure region that amounted to nearly 40% of the island's territory. It is perhaps obvious, with a subsequent large scale immigration policy, that no housing shortages faced newly displaced Turkish-Cypriots in the north after 1974; rather the problem was the reverse, under-utilisation of newly controlled fixed capital assets (see Chapter 4). So researchers are faced with very different economic conditions, north and south, at the juncture of *de facto* division, faced by two communities with very different economic experiences immediately preceding their respective migrations. Given these circumstances, how important was uncertainty over property rights, the opposition of the international community, the so called "embargo"⁵², organisational and distribution problems, as barriers and bottlenecks to the efficient management of the resources available to the Turkish-Cypriot community after 1974?

⁵²"So called" because most of the regions key exports continued to be traded with existing international customers, see Chapter 5, particularly Figures 5.24 to 5.26.

Christodoulou has concentrated his analysis on the Greek-Cypriot economy, arguing that Turkish-Cypriots were largely involuntary parties to the "TRNC": "...re-unification depends on what the genuine will of the Turkish-Cypriots turns out to be, which hitherto has never been expressed freely...The Turkish-Cypriots will not agree to anything which Turkey does not want..."(pp 291). It is this Turkish dominance, particularly Turkish military dominance, negating political and economic independence, which removes the requirement and denies the possibility, for Greek-Cypriots to study the region as part of Cyprus.

Christodoulou has, however, developed a clear snap shot of what is effectively southern Cyprus, on a background of an orthodox view of the Cyprus problem. The main strengths of his significant recent work derive from his personal depth of knowledge of recent Cypriot history and his access to official sources (having been a former government minister). If there are weaknesses, they may lie in a lack of analytical debate and critical argument and in the failure to confront inter-Greek (Greek-Cypriot) conflict and the reality of economic division, both in the 1960s and after 1974. Christodoulou seems to rely heavily on a narrative, descriptive view of recent Cypriot economic history, when what is needed is a more circumspect approach to acknowledge and illuminate controversy. There is very little use of theory in Christodoulou's analysis. Any criticism of post-1974 government policy is either vague or veiled and coded, following or followed by flattery and so lost on the uninitiated reader. The lasting impression after reading Christodoulou is that "Inside The Cyprus Miracle" is a book about the development of the Greek-Cypriot

economy following catastrophe. It makes a useful and valuable contribution, though Cypriot history is more complicated and the writing of history (even economic history) more politically costly.

If the resilience of the virtuous is worth study, so are the wages of sin. The problem with Cyprus is that the two visions are transferable. Christodoulou's recent work sometimes appears too closely aligned to one of those visions, defined by the atmosphere of an island under siege. Much of the political economy of Cyprus is still a mystery because the role of the political process, the nature of private investment, the planning process, the role of dissent and the role of Turkish-Cypriots before, after and during the retreat to enclaves is hardly referred to and not analysed⁵³. Answers to some of these questions will be attempted here. What was foremost in the research objectives, however, was a first attempt at a bi-communal study, particularly a study of the economic effects of Cyprus' recent history on the Cypriots themselves, all Cypriots, and the whole island. The endeavours here owe much to what Christodoulou has done, and can not hope to better his coverage of the Greek-Cypriot economy; its objectives are more circumspect whilst its social subject matter is wider.

Interestingly though, Christodoulou has challenged the term "economic miracle", credited to Cyprus in the post-invasion period by foreign journalists. He argues that

⁵³Turkish Cypriots receive a mention in approximately 3% of the book, much of which is devoted to their unwelcome exploitation of Greek Cypriot owned assets in the north since 1974. Christodoulou 1992. *op. cit.*, p.xlii-xlx, 5-6, 33, 35, 266-269, 272-273, 277, 290-291, 298.

any credit for successful economic performance should be backdated to the pre-war independence period⁵⁴. In the short interlude that followed British withdrawal and preceded Turkish invasion, Cyprus, he argues, transformed itself into a diverse, dynamic, rapidly modernising economy, more able to cope with massive shocks. If Cyprus did rapidly modernise itself, however, it did this despite constitutional stalemate and consequent political discord, the latter of which features little in Christodoulou.

For a tiny economy external trade is hugely important. If a rapid recovery is to be viewed, perhaps it can be seen first and foremost in the export sector? And if Christodoulou's argument about the seeds of the "economic miracle" having been planted after independence but before *de facto* division, then that too may be visible in export data. Once freed from the colonial yoke did the Cypriot export trade boom?

An export led recovery (which earlier development priorities, projects and investment may have inadvertently prepared Cyprus for), can be seen in the rise in the proportion of domestic output exported. In the thirteen years that followed independence and preceded *de facto* division (1961-1973), exports averaged 18% of GNP; in the ten years after 1974 they averaged 25%, an impressive performance and one that must have made a contribution to recovery. The latter performance, however, almost exactly matches the export performance of pre-independence

⁵⁴*ibid.*, p.xxxii-xxxiii.

Cyprus, in the ten years that preceded independence, 1950-59, Cypriot exports averaged 25 % of Cypriot GNP⁵⁵.

Data on the composition, rather than the proportion, of domestic output exported (presented in Figure 2.1, Chapter 2) tends to contradict Christodoulou's time frame also. Clearly the diversification of exports and export markets came only after 1974, as a consequence of the loss of a region specialised in export agriculture. It will be argued here that diversification of production, and particularly production for external markets, was an important indicator of economic development. This occurred as a direct result of the war in 1974 and the necessary restructuring it engendered.

Christodoulou gives a generally optimistic description of the social effects of economic growth against a pessimistic background of the role of planning, economic management and the sustainability of economic growth. Implicitly, economic growth has benefited almost all of society, seemingly compensating for gross political failures. In 1981 34% of the labour market earned a salary whilst in 1989 that had risen to 45%. "...the figures seem to point to a tendency towards the embourgeoisement of Cyprus labour, and helps underscore the striking middle-class character of Cyprus society as a whole⁵⁶". This argument ignores changes in

⁵⁵Republic of Cyprus 1995. Statistical Abstract 1993. Nicosia: Ministry of Finance, Dept. of Statistics and Research, pp.529-531.

⁵⁶ Christodoulou 1992. *op. cit.* p. 215. It is assumed that "Cyprus Society as a whole" refers to Greek Cypriots only.

banking technology, administrative convenience, and Cyprus' relatively advanced banking system⁵⁷. Social class is not determined by method of payment, nor by the trimmings of consumer society. The Cypriot Communist Party has had more electoral support than any other in Western Europe. In the 1996 elections to the House of Representatives, the party polled 33% of the vote (2% more than in the 1991 parliamentary election). Discussing grants and subsidies to the agricultural sector, reflected in public investment elsewhere in the economy, favouring the rich and well connected, Christodoulou argues: "The surprising thing is that this state of affairs appeals to all, if one is to judge from rhetoric. The milking of the state by the better-off seems to be universally acceptable. Here is middle-class ideology if one is looking for it"⁵⁸, as Christodoulou clearly is.

Behind the statistics demonstrating rapid economic recovery, behind the significant social achievements of the refugee resettlement and reintegration, the contradictory implication is that the war accelerated the concentration of wealth. Christodoulou argues, the state was keen to promote and develop the entrepreneurial class as the medium of reconstruction and it is acknowledged that the richer entrepreneurs benefited most⁵⁹. It is unclear from his text whether there were losers in the post-(74)-war dash for growth (other than the environment which he acknowledges), to what extent they suffered and, if and how they expressed that politically. The

⁵⁷ 6/4/1998 *Financial Times*, quoted Solon Triantafyllides, chairman of the Bank of Cyprus, the largest banking group in Cyprus accounting for over 40% of the business: "Technologically, we are well advanced. We don't have to be jealous of any of the European banks", p.31, column 1.

⁵⁸ Christodoulou 1992. *op. cit.*, p.70.

⁵⁹ *ibid.*, p. 216

Republic of Cyprus experienced the 1980's zeitgeist, with its "yuppies" and its real estate boom, but has inequality widened? "By applying the Gini coefficient for gross household income, it was suggested that Cyprus had an inequality of incomes comparable with European countries, with a hint that perhaps Cyprus taxation reduces inequality a little more than in European countries"⁶⁰. This begs the question, which European countries? The UK, with a top rate marginal tax of 40% or France with a rate of 62 %⁶¹? Christodoulou's argument appears to be based on data from the Household Income and Expenditure Survey, conducted between 1984 and 1985 by the Department of Statistics and Research, the results of which were published by the ILO/UNFPA⁶². In that publication the author, William House, states of Cyprus in the mid 1980s⁶³:

...at the level of the household, the size of the Gini coefficient of inequality is about what we might expect it to be in a middle-income developing country such as Cyprus [0.37]. It is lower than in relatively underdeveloped countries such as Kenya (Gini of 0.59), Zambia (0.56), Philippines (0.46) and Sudan (0.44) but higher than in some industrialised countries such as Denmark (0.30), Sweden (0.30), the United Kingdom (0.32) and Ireland (0.32).

Does Christodoulou's "hint" at slightly more progressive taxation, than has been the general European practice, take into account the negative taxation of the "middle class ideology" (cited above) and the relatively high dependence on indirect taxation

⁶⁰ *ibid.*, p. 223.

⁶¹ Stewart M. 1993. Keynes in the 1990's. London: Penguin Economics, p.93.

⁶² House, W.J. 1988. Socio-economic and Demographic characteristics of income distribution in Cyprus. Geneva: ILO/UNFPA.

⁶³ *ibid.*, pp. 7-8.

(which usually has a regressive impact)? It also sits uncomfortably with later conclusions. The Inland Revenue and Social Insurance derived data⁶⁴ presented “tentative[ly]” by Christodoulou, appear to reveal that: wide income disparities exist between male and female workers, that income disparities are widening in rural areas, and between rural and urban areas⁶⁵. Significantly, between 1973 and 1983, Christodoulou found that income disparities in the private sector widened⁶⁶. The extent to which these disparities widened and whether they increased more rapidly since *de facto* division in 1974, is not discussed by Christodoulou or any of the other authors cited here. Because of the lack of publicly available data prior to the ILO/UNFPA sponsored study, many questions regarding social mobility and economic disparities, before and after the major social upheavals in Cyprus, remain unanswered. However, House's findings, some of which are cited by Christodoulou⁶⁷, demonstrate that by the mid 1980's the risks of poverty were concentrated amongst rural communities, women and the old⁶⁸. The implication from what follows below is that these trends were accentuated by the kind of development that occurred after 1974 in the south: rapid urbanisation, the decline in the role of agriculture and an initial boom in labour intensive export manufacturing.

⁶⁴ Not publicly available.

⁶⁵ Christodoulou 1992. *op. cit.*, Chapter 15: "Income levels and distribution: tentative readings", pp. 221-237.

⁶⁶ *ibid.*, p.230.

⁶⁷ *ibid.*, pp. 226-227.

⁶⁸ House, W.J. 1988. Socio-economic and Demographic characteristics of income distribution in Cyprus. Geneva: ILO/UNFPA, pp. 9, 16-21, 26.

Another writer who has analysed recent Cypriot economic history is Rodney Wilson⁶⁹. Wilson's brief analysis of the effect of the various exogenous shocks on Cypriot trade in 1985 was expanded in 1992, the former of which forms a chapter in the latter. In the 1992 publication, he outlines three almost simultaneous shocks: the subdivision of an already small economy, the second oil shock and the disruption to its trading relations when its main trading partner (the UK.) joined the EC. Having twice tackled essentially the same question: the effects of exogenous shocks on the Cypriot economy, he has helped to highlight some important questions for future research. A question that remains vague throughout the Wilson research is the extent to which the war itself resulted in the restructuring of the economy, the re-routing of trade, increases in productivity and economic modernisation generally. What have been the changes in economic priorities and the level of communal and inter-communal redistribution?. What has been the extent and cost of rebuilding or constructing from scratch, and then (in most cases) running two separate infrastructures⁷⁰. What were the physical and sectoral costs of relocating labour and what was the extent of strategic shortages, the extent and effect of the so called "brain drain", i.e. the high levels of skilled workers who left Cyprus in large numbers during and after the upsurges of violence? What

⁶⁹Wilson R. 1985. The Impact Of Exogenous Shocks Of 1974 On Cypriot Trade. University Of Durham, Centre For Middle Eastern & Islamic Studies, Economic Research Paper No. 13 and Wilson 1992. *op. cit.*

⁷⁰Sewage, and now neurological health services in the Capital and to a lesser extent and more controversially, water and electricity supplies are run on a pan-Cypriot basis. Most of these co-operative ventures have more to do with external relations (funding and constitutional anomalies) than local pragmatism or economic rationality.

contribution did labour remittances make to economic development?⁷¹ Considering that the Cypriot economy expanded most rapidly as the violence escalated before independence, was recovery from the war in 1974, a result of a military multiplier? Put succinctly, has the war (and the other exogenous shocks that Wilson is concerned about) stimulated or retarded the Cypriot economy?

Seemingly Wilson sees flexibility to changing supply conditions, rather than access to scarce and valued resources and/or changing consumption patterns, as an explanation for the recovery and growth of the Cypriot economy. However, there is little institutional analysis, little on the role of the firm, the public and quasi-public sector. Perhaps important for Cyprus, north and south, particularly in the late 1970s, was the role of the state, co-operative institutions and religious organisations. Wilson has not attempted to explain their role in any recovery. In the light of the theories of strategic investment and trade⁷² and the role of demand management in the restoration of business confidence⁷³, the role of the public and quasi-public sector may have been important, though not always immediately obvious.

Roger Zetter⁷⁴ has argued that 1974 represented a "development opportunity" in the south which was exploited through strategic public funded investment, particularly

⁷¹Paine S. 1974. Exporting Workers: The Turkish Case. University Of Cambridge, Department Of Applied Economics, Occasional Paper 41.

⁷² Krugman P.R. (ed.) 1986. Strategic Trade Policy and the New International Economics. Cambridge: The MIT Press.

⁷³Stewart M. 1993. Keynes in the 1990's. London: Penguin Economics, p.93.

⁷⁴ Zetter R. (Spring) 1992. "Refugees and Forced Migration as Development Resources: The Greek-Cypriot Refugees From 1974", Cyprus Review, Volume 4, No.1, pp.7-39.

in the construction industry. The government secured investment for a rapidly collapsing domestic construction industry, simultaneously providing relief for the most acute physical and political need (mass homelessness / displaced persons). Large scale public investment in both public and private housing projects in the immediate post-war period, restored the battered confidence of a sector which was to replace fixed capital and provide (mostly indirectly) much necessary foreign exchange. It also triggered complementary consumption patterns (a replacement of lost household goods and furnishings, with [some] domestic products), with wages (a multiplier) provided by utilising costs (displaced persons) as resources (labour in the construction and manufacturing sectors).

The economic performance and social mobility of refugees versus non refugees may be an important variable, both in the context of refugees being key economic resources and in the more general sense of offering an alternative explanation of the post-war recovery. Zetter, perhaps of necessity, does not include Turkish-Cypriot refugees in his analysis and also does not disaggregate refugees into social classes. Where human capital is concerned, Greek-Cypriots had more recently successful entrepreneurs amongst their "refugees" to apply new capital to. The differences between the "refugees" from the north and those from the south may be a factor in explaining subsequent divergence in recovery rates; differences in "human capital" resources (experience, skills and education), rather than "culture" and differences in the ability to secure new investment in a relocated economy. These questions,

having been inspired by Zetter's incisive research, have floundered on the difficulty in obtaining empirical data, north and south.

Whilst there may be a few doubts about his analysis (outlined in Chapter 5), Zetter has provided one of the only direct answers to the problem of economic recovery in the south. It is for this reason, and to examine more closely some of the assumptions that support his approach, that the role of the construction industry in the post-war development of the south, will be considered in more detail in Chapter 5. In their different interpretations of the post 1974 recovery, Zetter and Christodoulou have inspired further investigation of the Keynesian / classical schism in the context of post-74 reconstruction in Cyprus. Zetter does this explicitly ("only the public sector, in conditions of risk and uncertainty, had the power to generate confidence")⁷⁵, whilst Christodoulou implicitly introduces the interventionist versus deregulated approach to a Cypriot context, bringing the period and the region more into the mainstream of economic historical debate.

Admittedly, Christodoulou⁷⁶ fits less comfortably into the role of a classical George, slaying the dragon of a pro-active state, than Zetter⁷⁷ does as an advocate of government intervention. In the context (of war), even the most ardent classicist perceives an economic role for the state. Given the preconditions for a free market

⁷⁵*ibid.*, p. 22.

⁷⁶Christodoulou 1992. *op. cit.*

⁷⁷ Zetter 1992. *op. cit.*

(developed and secure property rights, freedom of movement and exchange) the state may not have had such a key economic role to play.

Was it a disaster utilised as a "development opportunity", a triumph of planning and government intervention, or a series of fortuitous events following catastrophe, which strong extended families, dynamic and versatile firms, assisted by some pragmatic public policies, were able to exploit?

"...at issue is whether a retrospective coherence and comprehensiveness has been attributed to successful policies and actions, which at the time were essentially pragmatic responses to a highly constrained situation. Was massive population dislocation perceived and articulated as a development opportunity? ...the evidence, principally from the Emergency Action Plans, suggests that action was, by and large, purposive rather than idiosyncratic." ⁷⁸

If this precondition for Zetter's conclusion is correct, then the Government of Republic of Cyprus was aware of and responded to, the developmental opportunities that the apparent disaster of war gave rise to, while, it could be argued (see Chapters 3, 4, 5, 6 & 7), the Turkish-Cypriot leadership concentrated on political objectives. Although Zetter understates the political dimension and ignores the Turkish-Cypriot economy, he argues that the Greek-Cypriot Government used the dispossessed as the engine of economic growth. Forced mobilisation briefly removed the labour constraint from the Greek-Cypriot economy. Perhaps as important, by splitting rural communities in *ad hoc* mass urbanisation,

⁷⁸ *ibid.*, p.30.

reconstruction also provided a means of labour pacification⁷⁹ and modernisation, at once creating a more flexible labour market and a more sophisticated and acquisitive urban demand structure. The population under the Turkish-Cypriot leadership moved in the other direction, becoming more rural and agricultural as a consequence of *de facto* division. It is to determine the extent to which the Cypriot economy, both Turkish and Greek-Cypriot, was able to exploit economic opportunities that arose as a consequence of political disasters, that this thesis develops some largely implicit themes, as the logical consequence of earlier research.

There has been even less international research into Turkish-Cypriot economic history. A further barrier discouraging greater understanding seems to be a lack of objective interest. Of the few to tackle the region in any depth, Dodd⁸⁰, Bicak⁸¹, Ioannides⁸² do so exclusively. All can be clearly associated with the dominant political presentation of the Turkish and Greek-Cypriot case. The name of the region used by writers, usually determines their respective position, whether referred to as the "Turkish Republic of Northern Cyprus" or the "occupied area"

⁷⁹ Results of which are in some way reflected in Figure 2.22. However, the political, and arguably more important, pacification was the more literal one: the determination to cease the Greek on Greek violence which had been on an open civil-war footing since the beginning of the 1970's. Loizos 1981. *op. cit.*, p. 137) alludes to another reason for the deliberate segregation of refugee communities, this time as a lobbying body: "If, as seemed likely, whole areas of former Greek residence remained in Turkish hands, then a club (lobbying organisation) based on such an area might make itself felt in opposing...any particular settlement between Greek and Turkish Cypriots."

⁸⁰Dodd 1993. *op. cit.*

⁸¹Bicak 1990. *op.cit.*

⁸²Ioannides C.P. 1991. In Turkey's Image: The Transformation of Occupied Cyprus into a Turkish Province. New Rochelle, NY: Aristide D. Caratzas.

without the inverted commas. Moreover, the *de facto* division seems to have pervaded academic discourse to the extent that interest is focused in one place or the other, rarely both⁸³ and is overwhelmingly concentrated on the internationally recognised Republic of Cyprus (the south). The middle ground is occupied exclusively by more general work, published for reasons of intelligence and utilising, presumably, more extensive information networks than those available to most academic researchers⁸⁴.

This analysis of economic development in the island as a whole, hopes to establish a more modest place for economic historians in the middle ground, because of its proximity to the economic realities of the recent past in Cyprus. The south can not be viewed except with the spectre of the north as a constant backdrop, and the north cannot be viewed except within the context of the regions comparative economic divergence since 1974. This work attempts to make these themes explicit.

⁸³Seemingly, and perhaps appropriately, geographers are able to get around the barriers that deter other researchers. The late Richard Patrick's work (Patrick R.A. 1976. A Political Geography of the Cyprus Conflict: 1963-1971. Ontario: University of Waterloo, Dept. of Geography Publication Series, No. 4 - based on his LSE PhD Thesis) is perhaps the most comprehensive on the background of two political economies in Cyprus, dealing with the period before the coup and invasion in 1974. Douglas Lockhart, another geographer, deals with both parts of Cyprus as part of a comparative analysis of the development and utilisation of tourism potential: Lockhart D.G. (1993) "Tourism and Politics: the example of Cyprus", in Lockhart D.G., Drakakis-Smith D. and Schembri J. (eds.) The Development Process in Small Island States. London: Routledge, pp.228-46 and in Lockhart, D. G. 1997. "Tourism to Malta and Cyprus" in Lockhart, D. G. and Drakakis-Smith D. (eds.) Island Tourism: Trends and Prospects. London: Pinter, pp.152-178. As mentioned above Wilson, 1992. *op. cit.*, though not a geographer, deals briefly with developments in the Turkish Cypriot economy, although nearly 30% of the 24 pages he devotes to these issues are concerned with Asil Nadir and Polly Peck and another nearly 30% on prospects and possibilities.

⁸⁴Solsten, E. 1993. "Cyprus: A country study". Washington: Federal Research Division, Library of Congress (Area Handbook Series).

Conclusion

In analysing the extent to which development was accelerated by war, and assisted or constrained by government intervention, this research depends on official and "official" sources. Of necessity research encounters access and data limitations, and the effects of a possible "siege mentality" affecting information systems. Whilst there is an undeniable resistance to counter-cultural understanding, current political realities can not stifle a natural Cypriot warmth, openness and generosity to outsiders.

Peter Loizos⁸⁵ talks of "supercharged aspirations" encouraged by the new wealth, which began to trickle down through some of the villages of Cyprus (particularly around the citrus groves and new tourist destinations of the pre-1974 north of the island), with access to export earnings, in the 1960's. With new riches came new prospects for the people of the new Republic, but also new political tensions:

"Men make their own history, but they do not make it as they please... The tradition of the dead generations weighs like a nightmare on the minds of the living. And just when they appear to be engaged in the revolutionary transformation of themselves and their surroundings... they timidly conjure up the spirits of the past to help them; they borrow their names⁸⁶, slogans and costumes so as to stage the new world historical scene in this venerable disguise and borrowed language."⁸⁷

⁸⁵Loizos 1981. *op. cit.*, p.48.

⁸⁶ "Dighenis" was a Byzantium soldier "the legendary hero who guarded the outposts of empire in late Byzantine times and whose name George Grivas adopted". (Grivas founded EOKA - translated as the National Organisation of Cypriot Fighters - commanded the Cyprus National Guard from 1964 to 1967, when Turkey demanded his recall. In 1971 he secretly re-entered Cyprus as leader of EOKA B, which he led till his death in January 1974.) Also "Akritas" - as in plan - means frontiersman - and "was the epithet of the original Dighenis" Mayes 1981. *op.cit.*, pp. 60, 161).

⁸⁷ Karl Marx, "The Eighteenth Brumaire of Louis Bonaparte" (in Tucker R.C. (ed.) 1978. Marx-Engels Reader, (2nd edition) London: W.W. Norton, pp.595).

The early period of independence had shown something of the economic promise that awaited the island freed from the constraint of colonial rule⁸⁸. Within three years of independence from Britain, Cyprus, an island whose communities had lived peacefully for generations (so much so that it was at first doubtful as to whether Cypriots themselves could be recruited as "liberation fighters"⁸⁹), looked to be again, seriously at war with itself.

Christodoulou has argued that the "economic miracle", if it occurred at all, did so in the post-independence period. Christodoulou's argument is backed up by Peter Loizos' "supercharged aspirations" (referred to above). But often, the ambitions of newly independent states flounder on prolonged internal conflict. In the immediate post-independence period, Cyprus conformed with post-colonial norms by conducting a series of typical post-independence internal battles, both "ethnic" (colonial roots) and ideological (accentuated by the cold war which, arguably began with the Greek civil war). Turkish military intervention may have prevented the application of the stereotypical view of third world poverty from being applied to Cyprus. Civil war proved to be economically disastrous to many post-colonial states further south. So in some senses the rhetoric of the Turkish invaders is justified: the "peace operation" did result in a long term cessation of violent conflict and a return to developmental objectives. The then premier, Archbishop Makarios, used military terminology to describe the economic struggle that followed military defeat. More,

⁸⁸Wilson 1992. *op. cit.*, pp. 29-31.

⁸⁹Mayes 1981. *op.cit.*, p.52.

he drew distinct analogies with the conflict which would, he suggested, be continued on the economic front⁹⁰. Now southern Nicosia flaunts its nouveau wealth in much the same way as West Berlin used to. The neon lights of its new car showrooms, night clubs and restaurants stretch out along the mine-fields and barbed wire of Nicosia's "Green Line". The facade of an open market economy stretches out towards the now exclusively UN used "Nicosia International Airport", as much as to say the laws of economics have restored what international law failed to protect. Ironically the economic success of this part of the island seems to have been consolidated by Turkish intervention. Perhaps what civil war may have gradually undermined, a short and costly, all-out-war seems to have sustained.

Seemingly, even in the north, the advantages of economic autonomy (at least from the "Greeks") have proved to be one of the greatest barriers to progress in the inter-communal talks. Until the collapse of Polly Peck and worsening monetary conditions in Turkey, stagnant economic conditions seemed to give way to a longer term structural convergence (see Chapter 3). As Olgun suggests⁹¹, with economic convergence the sticking point of property rights could possibly be overcome. This is perhaps the crucial factor: economic development has been successful despite political failure, so economic objectives could override political ones if either party is willing to recognise the mutual benefits of co-operation and conform more closely with dominant economic models (ignoring game theory) and utility maximise. This

⁹⁰*The Economist*, 27th August, 1977, "Miracle in Half an Island", pp. 50-51.

⁹¹Olgun M.E. "An Economic Overview", in Dodd 1993. *op. cit.*, pp. 270-298.

seems to be the logic behind the long stalled UN sponsored Confidence Building Measures (CBM's). These advocated the initial steps of a process of German reunification in reverse, though in a climate of mutual hostility. The CBM's offered the possibility of some mutual benefits from currently derelict and abandoned infrastructure, some mutual trade, some re-integration; they did not attempt to lay the foundations for the creation of a unitary Cypriot state. However, even the former has proved too ambitious.

Perhaps war in Cyprus accentuated changes already occurring in the social and economic life of the island (though much Greek-Cypriot opinion argues the reverse). Urbanisation, which had been accelerating in the twenty years prior to 1974⁹², experienced an immediate upward shift (in the Republic of Cyprus) as the overwhelmingly rural population from the north was displaced south. This was consistent with the decline in significance of the primary sector (both in terms of GDP contribution and as a major employer) and the subsequent meteoric rise of services, after the brief but seemingly crucial manufacturing boom of the late 1970s (see Chapter 5). Generally, the literature on recent Cypriot economic history is sparse and not comparative, missing interesting questions. This thesis attempts to examine the economic consequences of systematic and sustained organised violence

⁹²Between 1960 - 1974 the urban population grew by 31%, over the same period the rural population grew by only 0.4% (Pearce R. 1981. "Part-Time Farming in Cyprus", University of Reading, Dept. of Agricultural Economics & Management, Development Study No. 21).

in Cyprus. The main objective is a comprehensive analysis of the different and separate economic developments in the island's two communities; why do they have such different economic backgrounds and conditions yet similar systems, economic structures and institutions? Did economic performance predominantly represent different constraints or different policies? How did the two separate and non-communicating economies adapt to inter-communal redistribution and new factor proportions? To what extent did war and *de facto* division result in the restructuring of the economy, the re-routing of trade, increases in or a lowering of productivity and economic modernisation or distortion? What have been the changes in economic priorities as political stagnation followed political turmoil? The hypothesis to be tested here is whether war released economic potentials which may have been neglected or destroyed by peace or prolonged internal conflict. How much and how well were the events of 1974 exploited as a "development opportunity"? Put simply, has war stimulated or retarded the Cypriot economy as a whole and the Greek and Turkish-Cypriot economies individually?

CHAPTER 2. The impact of war on the economy of the Republic of Cyprus.

Introduction

Popular wisdom assumes that governments attempt (symbolic) foreign policy successes to compensate for economic failures, such as slow growth and/or prolonged high unemployment. When domestic policies are not producing popular results, governments may attempt to divert attention to the international arena. However, the world has directed its gaze (and the Government of the Republic of Cyprus has acted to sharpen its focus) on this area of public policy, where Greek-Cypriot policy makers have clearly failed. Until recently, little interest has been directed to the policy areas that have succeeded. Domestic policies have facilitated sustained increases in living standards. The Republic of Cyprus rapidly regained growth rates comparable with some of the world's fastest growing economies, despite the loss of an estimated two-thirds of its resources,¹ following war and *de facto* territorial losses in 1974. Yet this rapid recovery has received only cursory academic examination. The object here is to widen the academic argument, contributing research which assesses some of the positive elements of the recent past.

¹Wilson R. 1992, Cyprus and the International Economy. Basingstoke: Macmillan, p.32.

The war proved a watershed in many senses: causing major structural change, with the immediate decline in the significance of agriculture; changing the direction and composition of visible trade and changing the macro economic and financial position of the Republic's economy. From becoming an international bad boy in political terms², the Republic of Cyprus was increasingly perceived as an international victim. In economic terms, Cyprus had largely maintained fiscal propriety until 1974, government spending was matched by government revenue, borrowing was low. An open market economy dominated by the private sector, Cyprus conformed with policy perspectives of mainstream capitalist economies. After the 1974, as macro-economic fashions began to change in response to supply shocks, persistent inflation and structural change, Cyprus began to look like a centre of counter culture, still carrying out a conscious policy of full-employment, demand management, and systematic economic planning. In economic terms it began to look like an international bad boy again, maintaining strict financial controls, high tariff walls and high borrowing and international debt. Yet because of the turn around in its political fortunes, because Greek-Cypriots were no longer perceived as aggressors but as victims of aggression, let down by the West, unique political circumstances allowed the Republic of Cyprus, with its monopoly of international recognition, to be credit worthy beyond rational risk (discussed in Chapter 5). Following Turkish intervention, the (Greek Cypriot) Republic of Cyprus was able to get away with what other developing countries were not: increasing deficits (trade and budget), increasing debts (public and private), and increasing access to international finance. By the time anyone started worrying about it (a small country with large debts is very different from a large country with large debts) Cyprus was looking like a safer recipient of aid and international finance. A number of other

² "On the Greek Cypriot side they have preferred the fighting to continue, leading to the extermination of the Turkish Community." *The Times*, 4/1/1964; "On Christmas eve many Turkish people were brutally attacked and murdered in their suburban homes..." *The Manchester Guardian*, 31/12/1963.

favourable circumstances: industrial peace, the Lebanese influx, a booming Middle Eastern market for Cypriot manufactured goods, a good harvest enhanced by good international prices for (the much curtailed Greek) Cypriot food exports, were exploited by the well developed human capital resources and turned into a rapid recovery.

This chapter draws a rough sketch of the economy of the (mostly Greek Cypriot) Republic of Cyprus, before and after 1974, attempting to draw a distinction between these two long term developmental phases. Generally it argues that, whilst war was a personal tragedy for many, and perhaps the island as a whole, many favourable circumstances (exogenous or otherwise) contributed to the recovery and war ultimately acted as an economic accelerator. After the immediate consequences of war had abated, war and the *de facto* loss of territory led to the concentration of more Greek-Cypriot resources, in more dynamic areas of the economy.

A snap-shot of the economy as it grapples with independence; an overview of the economy of the Republic of Cyprus 1960-1970.

When Cyprus gained independence in 1960, it is thought to have done so as an under-developed British colony³. If the World Bank had produced a "World Development Report" in 1960, and Cyprus had been included, it would have been ranked above Spain, Lebanon, Greece, South Africa and Singapore and below

³"Cyprus is a less-developed country only in the sense that much of its present production is not based on modern techniques, that it needs more capital investment, and that its level of living is low. It is certainly not underdeveloped in the sense that... vast natural resources [are] idly waiting to be utilised. To some extent, Cyprus may be regarded as over-developed in the sense of being exhausted. The present problems of drought, soil erosion, and water shortage are in part the product of past errors in the protection and preservation of natural resources." UN. Programme of Technical Assistance, 1961. Cyprus - Suggestions for a Development Programme, (the 'Thorp Report'). Prepared by Willard L. Thorp. NY: UN, page 1, paragraph 1.

Uruguay, Japan, Trinidad and Tobago, and Argentina, respectively⁴. Using purchasing power parity estimates, the Penn World Tables⁵ have per capita income estimates, in current international prices, for 125 countries in 1960. On the basis of its per capita income of just over \$550⁶, Cyprus would be ranked 41st out of the 125 countries in 1960. By the same measure, Summers and Heston have estimated that per capita income in Cyprus in 1960 was nearly 20% of US per capita income in the same year, slightly less than Greece and slightly more than Turkey⁷.

In many ways Cyprus looked like a typical newly independent country, with serious structural imbalances, most obviously manifest in pervasive underemployment, particularly in the agricultural sector. In 1960 two thirds of its 573,000 population were still rural; 18% of the total population (over the age of 7 years) and 27% of women, were illiterate, which is understandable when 25% of the overall population and 36% of women, 20 years of age or over, had never attended school⁸. So in 1960, it is perhaps not surprising to discover also that 44% of the gainfully employed were in agricultural sector, producing under 16% of GDP (see Figures 2.1 and 2.2). Out of the three main sectors of economic activity, primary, secondary and tertiary, only the tertiary sector looked very productive in Cyprus in 1960.

⁴ Ranking per capita income for all economies listed in the first "World Development Report", published in 1978, plus Cyprus (which was not included because it had a population below 1 million), but excluding the centrally planned economies. Data for per capita income in this comparison derives from IBRD, World Tables 1971, World Bank Publications, Baltimore: John Hopkins University, table 4, and is in US\$1964.

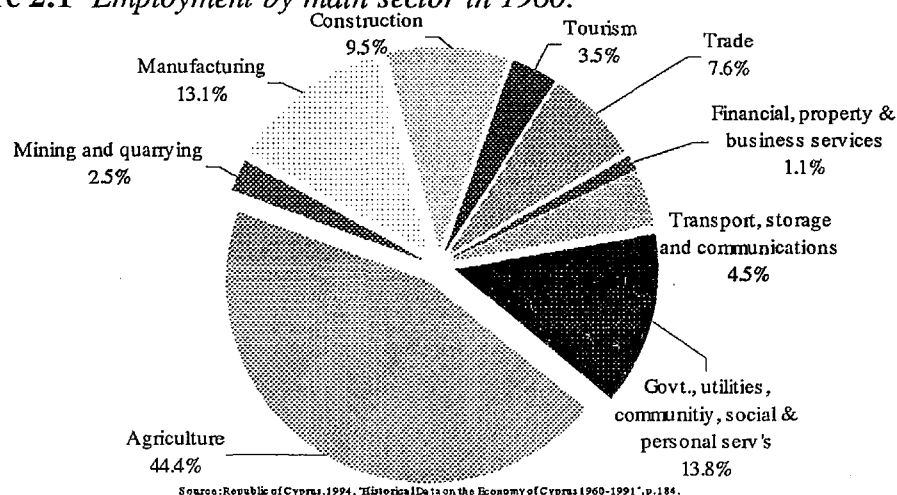
⁵ Summers, R. & Heston, A. 1994. "Penn World Tables, version 5.6". Cambridge MA: The National Bureau of Economic Research (<http://nber.harvard.edu/pwt56.html>).

⁶ International \$s at 1960 international prices.

⁷ Summers, R. & Heston, A. 1994. *op. cit.*

⁸ Republic of Cyprus 1997. Statistical Abstract 1995. Nicosia: Ministry of Finance, Dept. of Statistics and Research, pp. 36, 84.

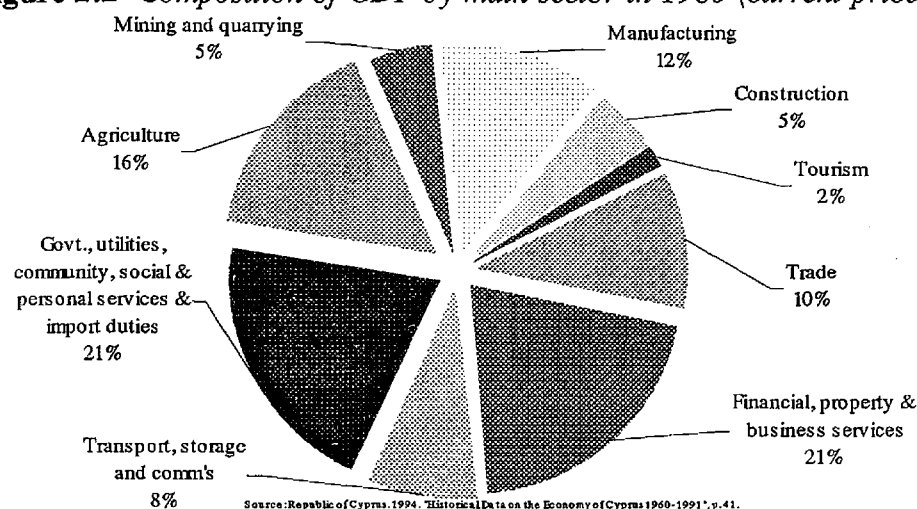
Figure 2.1 *Employment by main sector in 1960.*



While no other sub-sector under-performed like agriculture, few looked particularly productive. Using the same data as in Figures 2.1 and 2.2, (and 1960 current market prices) construction exhibited signs of low productivity, 9.5% of labour producing just 5% of GDP. Manufacturing in 1960 did not look much like a modern sector able to productively absorb surplus labour from agriculture. Being essentially dominated by agricultural processing and small scale craft based industries, manufacturing exhibited signs of low productivity, over 13% of labour employed in the sector produced 12% of GDP. Income and employment in the tourist industry was low in 1960. If income and employment in restaurant and hotels can be used as a rough proxy for the size and performance of the tourist industry, it also reveals signs of under-employment, 3.5% of labour contributing less than 2% to national income. Only in the small, mining, transport, financial and property services industries, was under-employment entirely absent. Mining and quarrying employed 2.5% of labour and produced 5% of GDP. Transport storage and communications employed 4.5% of labour and produced 8% of GDP, while the

financial, property and business services sector⁹ was the economy's star performer with 1 % of labour producing over 20 % of GDP.

Figure 2.2 *Composition of GDP by main sector in 1960 (current prices).*



So while the service sector as a whole looked the most productive part of the economy in 1960, this was true for only a very small part of it. The largest single service sector employer was government, employing approximately a third of tertiary sector workers¹⁰, but producing less than 20% of the sector's income. The

⁹ Figures 2.1 and 2.2 both use the 1968 ISIC categories. For reasons of brevity, "Finance, insurance, real estate and business services" have been called "Financial, property and business services", "Agriculture, hunting, forestry and fishing", has been labelled merely agriculture, particularly as it is only really the latter that matters much in Cyprus in terms of employment and income generation. Similarly, "Restaurants and hotels" are labelled "Tourism", "Wholesale and retail trade", has been called simply "Trade". The category "Electricity, gas and water" is referred in the charts as "Utilities" and being small employers and contributors to national income in 1960 and part of the public sector, are merged with the Government's share of employment and income. Govt also includes "Community, social and personal services" as well as utilities for similar reasons. In Figure 2.2, the Govt sector also includes import duties and all sectors include inputted (sic) bank service charges. For clarity, Figure 2.2 excludes unspecified "Other producers", who generated 0.21 % of GDP.

¹⁰ Until 1976 Republic of Cyprus, official statistics employment category "Community, social and personal services" included "Producers of government services", however, in that year "Community, social and personal services" represented just over 20 % of "Producers of government services". On the basis of future trends "Community, social and personal services" would have been even smaller in 1960 and "Producers of government services" would have been larger. Therefore, if the categories together represent nearly half of all service sector workers in 1960, "Producers of government services" must account for over a third of them.

next largest service sector employer was trade, "Wholesale and retail trade", employing a quarter of the sector's workforce though producing only 20% of the sector's income. When examined more closely, tourism, or restaurants and hotels particularly under-performed in 1960, employing almost 12% of service sectors workers but producing only just over 3% of the sector's income. The service sector's productivity saviours in 1960 were financial, property and business services, the ISIC category: "Finance, insurance, real estate and business services". Employing just 4% of service sectors workers, financial, property and business services reportedly produced a staggering 39% of the sector's income.

If that is a rough sketch of what made up the domestic economy in 1960, what were its external relations and how important were they? Prior to World War Two, external trade mattered little to the Cypriot economy. The "healthy" trade balance that was maintained until then reveals something of the lack of colonial development. It also reveals the very low domestic purchasing power and the autarchic nature of the Cypriot's economy.

During the 1930's the economy was basically self-sufficient, with imports adding relatively little to the consumption pattern. The majority of the population derived their livelihood from dry-land farming – a livelihood which fluctuated widely depending on weather conditions. During that decade the imports of goods varied between £1.5 and £2 million, while exports fluctuated between £1 and £2 million. There was normally a small balance of trade deficit covered by net invisible receipts and capital movements. It is probable that neither exports nor imports exceeded 10 per cent of national income, although no official estimates are available prior to 1950.¹¹

¹¹ Republic of Cyprus 1966. The Second Five Year Plan 1967-71. Nicosia: The Planning Bureau, pp. 19-20.

By 1960 exports represented over 20% of GNP, whilst imports were twice that value. Domestic exports were dominated by a primary sector offering few opportunities for vertical specialisation and increasing value added. In 1960 nearly 95% of the value of visible exports derived from the sale of primary products, 61% of which was from the mining sector¹², dominated by one US multi-national company, the Cyprus Mines Corporation¹³. The economy's earlier boom, in the 1950s, was mostly due to military expenditure by Britain¹⁴, although favourable prices for its mineral and agricultural exports (copper and citrus) played an important part too. However, after UK military expenditure declined and export prices fell, Cyprus experienced a severe recession between 1957 and 1960, when GDP fell by 10%¹⁵. Even ignoring invisible receipts, in 1960, the UK was Cyprus' most important trading partner, accounting for over a third of visible imports and nearly a third of visible exports (not counting NAAFI imports to the British Sovereign Base Areas)¹⁶. Most exports to the UK were agricultural products, West Germany being the main recipient of Cypriot mineral exports.

¹²Republic of Cyprus 1994. Historical Data on the Economy of Cyprus 1960-1991. Nicosia: Dept. of Statistics and Research, Ministry of Finance, p.167.

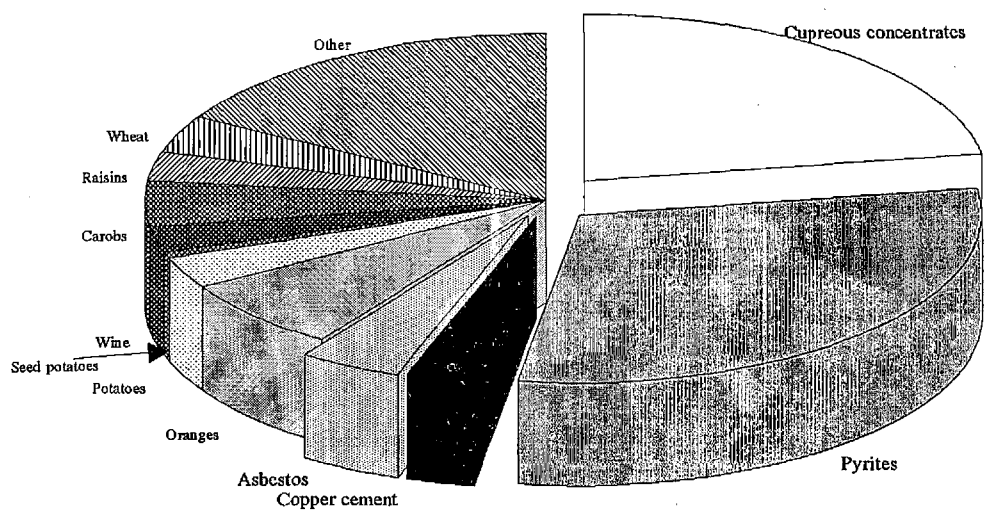
¹³ Although it pulled out of Cyprus in 1974, following Turkish military intervention, the Cyprus Mines Corporation is now part of the Cyprus Amax Minerals Company, with assets in 1997 of US\$6 Billion, (source: www.cyprusamax.com/about/history.htm).

¹⁴ The construction and operation of UK military bases in Cyprus made a contribution equivalent to approximately 90% of all export earnings in 1960. Republic of Cyprus 1966. The Second Five Year Plan 1967-71. Nicosia: The Planning Bureau, p.20. Republic of Cyprus 1993. Historical Data on the Economy of Cyprus 1960-1991. Nicosia: Dept. of Statistics and Research, Ministry of Finance, p.155.

¹⁵Republic of Cyprus 1966. The Second Five Year Plan 1967-71. Nicosia: The Planning Bureau, p.2.

¹⁶ Republic of Cyprus. (December) 1960. Statistics of Imports and Exports. Nicosia: Ministry of Finance, Dept. of Statistics and Research, pp. 3-5.

Figure 2.3 *Principal exports as a proportion of the total value of domestic exports in 1957.*



Source: The Colonial List 1959, London: HMSO.

The mineral extraction industry peaked during British rule, when it represented a large proportion of the export sector. Profits accrued to international companies and rents were absorbed by the colonial exchequer. Figure 2.3 above identifies the principle mineral exports just prior to independence: pyrites, cupreous concentrates, asbestos and copper cement, as well as other key exports. The dominance of the sector in 1957 (Figure 2.3) is underlined by the proportion of exports it assumed. Mining in Cyprus was a typical enclave activity, with weak forward and backward linkages, creating few positive externalities. Due to very low wages and the location of most mining activity (in the north west, away from major population centres), mineral extraction also had a low multiplier effect.

Table 2.1 Domestic Exports FOB in 1958 by S.I.T.C. category:

	SITC code	in Cyprus £'s	% of total exports
Food.....	0	£5,000,065	31.10%
Beverages & Tobacco.....	1	£1,314,158	8.17%
Crude materials, inedible, excluding fuel.....	2	£9,549,634	59.39%
Mineral fuels, lubricants & related materials.....	3	£0	0.00%
Animal & vegetable oils & fats.....	4	£40,554	0.25%
Chemicals.....	5	£10,631	0.07%
Manufactured goods classified chiefly by material.....	6	£27,093	0.17%
Machinery and transport equipment.....	7	£30	0.00%
Miscellaneous manufactured articles.....	8	£47,498	0.30%
Miscellaneous transactions & commodities, n.e.s.....	9	£88,732	0.55%
Total exports.....		£16,078,345	100.00%

Source: Govt. of Cyprus. (Dec.) 1959, Statistics of Import & Export,

Nicosia.

Nearly all manufactured output exported just prior to independence in 1958 was processed agricultural goods, mostly wine and other alcohol products. And of the £1.3 million worth of beverages and tobacco exported in 1958 (SITC category 1, in Table 2.1 above) only £200,000 were tobacco products (representing 1.2% of exports).

With independence, the Republic of Cyprus looked to the international community (the UN) and international trade to break out of both political and economic dependence. On the political front, the 1960 constitution was a compromised political solution which limited sovereignty, replacing British control with shared rights of intervention for Greece, Turkey and the former colonial power¹⁷. The

¹⁷Although technically the shared rights of intervention by the guarantor powers was envisaged only to occur in the event of an emergency, clause 1 of section 4 of the 1960 Constitution is enlightening as to limitations of sovereignty which were enshrined in that document: "Notwithstanding that the Dhekelia Power Station will stand on territory of the Republic of Cyprus, if the Power Station fails... to provide adequate supplies of power to the United Kingdom authorities, authorised service organisations, United Kingdom personnel and their dependants, and contractors, the United Kingdom may consult with, or in cases of urgency on notification to, the authorities of the Republic of Cyprus... ensure the provision of such supplies so long as the deficiency continues." HMSO 1960. The Cyprus Constitution, p. 17, Reprinted by the Printing Office of the Rep. of Cyprus.

constitution was only grudgingly accepted by the majority population¹⁸. It precluded annexation with Greece, the object of the self-determination campaign, and required complicated power sharing arrangements with the 18% Turkish-Cypriot population¹⁹. Greek-Cypriots in the Cypriot Government tried to circumvent these constraints by internationalising constitutional and ethnic crisis, appealing unsuccessfully, on the basis of democratic principles and "self determination". Only on the economic front, however, was internationalisation successful.

A very few developing countries have remained relatively open since World War II or since the time of their independence – Barbados, Cyprus, Malaysia, Mauritius, Singapore, Thailand, and the Yemen Arab Republic (North Yemen) – but most of the others opened much later, mainly in the 1980s or 1990s, and usually in response to a deep macroeconomic crisis.²⁰

However, openness to international trade did not mean a laissez-faire approach to economic development. The legacy of development planning was inherited from British colonial administration, though development planning, in terms of civilian priorities, only really got underway after independence. In 1960 the Makarios Government followed UN advice and set up a planning bureau to replace British bureaucracy and co-ordinate development policy. In the 1950s, when colonial development peaked, total development expenditure did not exceed 12% of the Administration's budget. Between 1960 and 1973 development expenditure increased dramatically, representing an average of 22% of government expenditure. Yet in this period, unlike the latter part of the colonial era, the Government of Cyprus did not overly exploit deficit financing. The average Government deficit for

¹⁸ Xydis, S.G. 1973. *Cyprus: Reluctant Republic*. The Hague: Moulton.

¹⁹ Crawshaw, N. 1978, *The Cyprus Revolt*. London: George Allen & Unwin, pp. 365-6.

²⁰ Sachs, J.D. & Warner, A. 1995. "Economic Reform and the Process of Global Integration." *Brookings Papers on Economic Activity*, 1. 1995, p.4.

the period (1960-73), the difference between total Government revenue and Government expenditure on ordinary and development budgets, was an almost insignificant 0.4% of GDP²¹. Its level of total external public debt in the 1960s compares favourably with economies that looked fairly similar to Cyprus²². Matsis & Charalambous²³ have seen the formal adoption of economic planning as both a realistic appraisal of structural constraints and the demonstration of independence, in line with the then contemporary thinking.

The new Republic had invited in foreign experts to assist in the development of a planning mechanism designed to diversify the economy away from the insecurity of dependence on a very few foreign exchange earners: minerals, citrus and invisibles derived mainly from the stationing of foreign troops on the island. Too small to pervasively adopt the import substitution strategies followed by many newly independent nations, Cyprus, perhaps inadvertently, almost certainly of necessity, defied many fellow "Non-aligned" states by following a path of export led growth. Foreign trade first followed the colonial routes, still being dominated by the extractive industry. Throughout the 1960's food exports (mainly citrus) took over from minerals as the key export sector, to be overtaken in the 1970's by the manufacturing sector and finally in the 1980's by services, predominantly tourism.

²¹This aggregate figure masks a possible negative trend that the war effectively accelerated, see Bank of Cyprus Group, (December) 1974 Bulletin. Nicosia: Bank of Cyprus, Research and Development Division. In 1973 public finances had been in deficit for three years when that deficit reached 3.2% of GDP. (The GDP comparison has been calculated from: Republic of Cyprus, 1992. 1960-1990 Time Series Data. Nicosia, p.11 & Republic of Cyprus, 1994. Statistical Abstract 1992. Nicosia, p.295.)

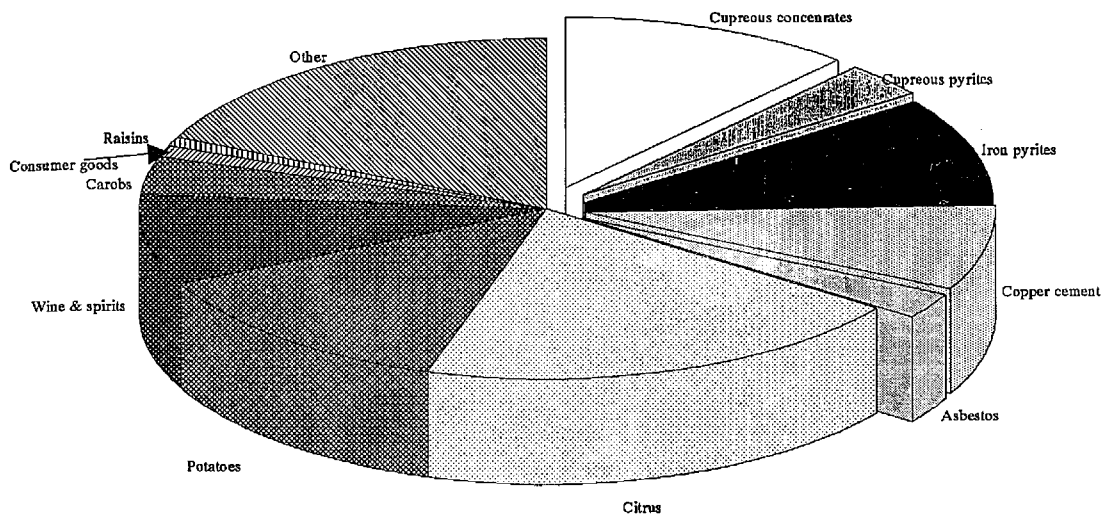
²² The economies referred to here, that looked similar to Cyprus in 1960, were either small, open economies, with populations below 1 million and similar per capita incomes, like Barbados, Mauritius, Trinidad and Tobago, Malta and Fiji, or members of the World Bank's "More Developed Mediterranean" category (IBRD. 1982/3 World Debt Report. Washington.) : Greece, Israel, Malta, Turkey, Yugoslavia (and Cyprus). See Chapter 6 for a more in-depth discussion of the selection process. In terms of the average external public debt as a % of GNP (at factor costs), 1961-67, Cyprus was the second lowest debtor out of the 10 economies for which there was data. The earliest period for which there is comparable data on debt to exports is 1967-70. By this measure and in this period Cyprus ranked 3rd lowest out of the 11 economies (Source: IBRD: World Tables 1971 & 1976).

²³Matsis S. and Charalambous A. (Autumn) 1989. "Development Planning in Cyprus", The Cyprus Review, Vol. 1, No.2, pp.30.

The progression from an economy dominated by a tiny enclave extractive industry and subsistence dry farming to a high income, mass consumption economy, based on a relatively diverse foreign exchange sector, appears to be an example of successful development along neo-classical lines. However, in what sense was war and the *de facto* division of 1974 a major impetus for change and modernisation?

Even by the end of the 1960s the relative importance of the main export components had changed significantly from those at the end of the colonial era (compare Figures 2.3 and 2.5), but there was still an overwhelming dependence on the primary sector. By the end of the 1960s, agriculture had overtaken minerals as the most important visible export sector, though minerals still represented a considerable proportion of Cypriot exports (Figure 2.5). The first ten years of independence saw minerals make a contribution to the new State's balance of payments, though the relative importance of minerals subsequently diminished rapidly, though not because of the rapid development of other sectors, effective policy or planning, but mostly due to simple depletion. Turkish military intervention and subsequent occupation removed most of the residual significance of the sector for the Republic of Cyprus, which was now denied access to most of the remaining resources. Even by 1970, manufactured goods other than tobacco and alcohol products represented just 4% of exports (Table 2.2). Manufacturing remained small scale, simple and traditional, aimed almost exclusively at a local domestic market, having increased its share of employment and its contribution to national income very little during the first decade of independence (compare Figures 2.1 and 2.2 with Figures 2.5 and 2.6).

Figure 2.4 *Principal exports as a proportion of the total value of domestic exports in 1968.*



Sources: "Economic Report 1972", pp. 52, 64, & "Statistics of Imports & Exports", Dec. 1969, p.2. Rep. of Cyprus.

Modern manufacturing came late and grew only slowly, arguably prevented from flourishing earlier because of colonial priorities²⁴. A Government of Cyprus report in 1946 said that "...apart from mining... the Island does not present a promising field for major industrial development..."²⁵ So early manufacturing had to follow the classic, underdeveloped country route of processing local agricultural products and other raw materials, usually on a very small scale, with traditional technology and mostly destined for domestic consumption. Even in 1970, 89% of manufacturing output was still locally consumed. Including beverages and tobacco (by far the largest single components) manufactured goods only represented 16% of exports (Table 2.2).

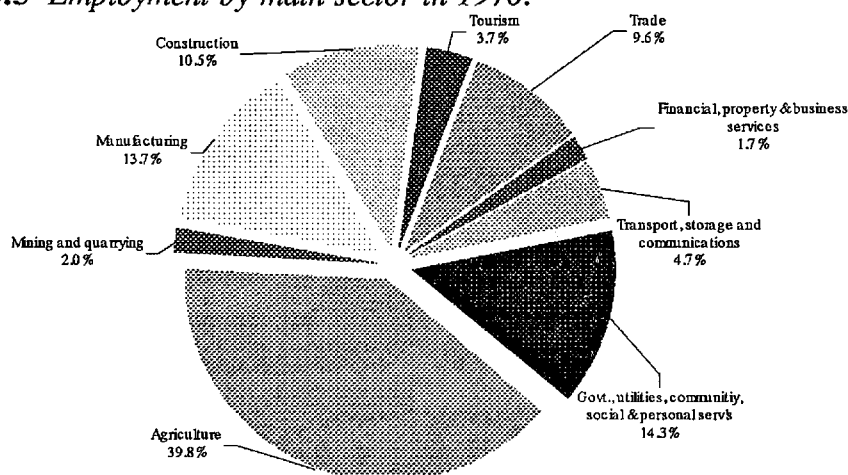
²⁴Christodoulou D. (November) 1992. *Inside The Cyprus Miracle*, Minnesota: University Of Minnesota, Modern Greek Studies Yearbook Supplement, Vol. 2, p. 93.
²⁵Cyprus Govt. 1946. *A Ten-Year Programme of Development for Cyprus*. Nicosia: Govt. Printing Office, p. 120.

Table 2.2 Domestic Exports FOB in 1970 by S.I.T.C. category:

	SITC code	in Cyprus £'s	% of total exports
Food.....	0	£19,166,025	48.83 %
Beverages & Tobacco.....	1	£3,750,803	9.56 %
Crude materials, inedible, excluding fuel.....	2	£13,741,532	35.01 %
Mineral fuels, lubricants & related materials.....	3	£0	0.00 %
Animal & vegetable oils & fats.....	4	£134,529	0.34 %
Chemicals.....	5	£86,322	0.22 %
Manufactured goods classified chiefly by material...	6	£724,619	1.85 %
Machinery and transport equipment.....	7	£45,856	0.12 %
Miscellaneous manufactured articles.....	8	£1,317,778	3.36 %
Miscellaneous transactions & commodities, n.e.s....	9	£281,941	0.72 %
Total exports.....		£39,249,405	100.00 %

Source: Rep. of Cyprus, (Dec) 1971. Statistics of Import & Export. "Nicosia.

Figure 2.5 Employment by main sector in 1970.

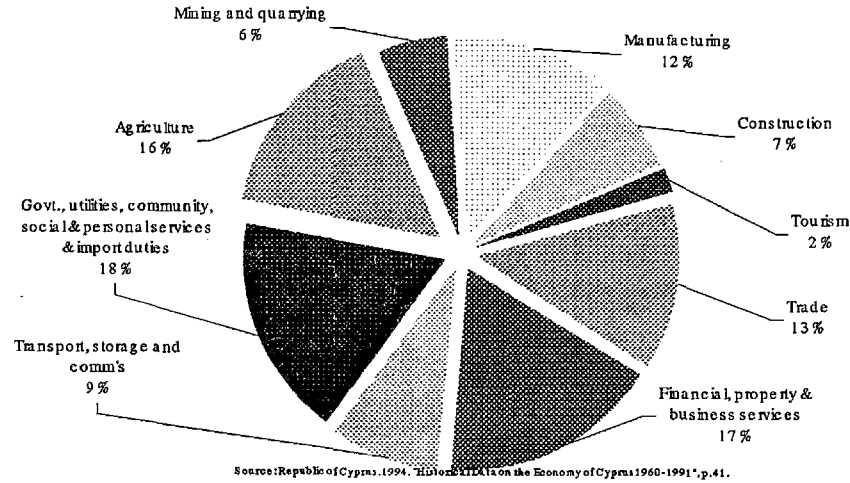


Source: Republic of Cyprus, 1994. "Historical Data on the Economy of Cyprus 1960-1991", p.184.

So what did the structure of the economy, in terms of employment and income, look like after ten years of independence? The simple answer is, not much different than it had a decade earlier. In 1970 agriculture included 4% less of the gainfully employed than in 1960, though the sector still produced under 16% of GDP (compare Figures 2.1 and 2.2 with Figures 2.5 and 2.6). Construction still exhibited signs of low productivity, 10.5% of labour producing just 7% of GDP. By 1970, manufacturing had become slightly less productive, over 13.7% of labour

producing 12% of GDP. Tourism (restaurant and hotels) revealed similar signs of under-employment, 3.7% of labour contributing 2.1% to national income. Again, only in the mining, transport, financial and property services industries, was under-employment absent. Mining and quarrying employed less labour and generated more income; 2.0% and 6% respectively. Transport storage and communications remained, in labour productivity terms, fairly static, employing in 1970, 4.7% of labour and producing 9% of GDP, while the financial, property and business sector was still the economy's star performer, though slightly less so, with 1.7% of labour producing 17% of GDP.

Figure 2.6 *Composition of GDP by main sector in 1970 (current prices).*



One of the major objectives of the economic planning adopted after independence was to restructure the economy so as to increase productivity and reduce dependence on a few insecure, external sources of income.

The principal purpose of planning has been to provide for the most efficient use of all human, physical and financial resources... Experience during the last fifteen years or so has shown that the market mechanism cannot be relied upon to ensure the desired restructuring of the economy... Without some Government intervention... Cyprus may well be subject to a repetition of the economic turbulence and ups and downs of the 1950s.²⁶

In terms of the structure of the economy: the composition of employment, the composition of GDP and the relative contributions to national income of the main sectors of the economy, the developments of the first decade of independence appear to have had little impact. The main structural changes over the decade were in the foreign exchange earning sectors. Essentially, this saw a shift in the composition of exports from overwhelming dependence on one type of primary product, minerals, to two, agricultural products and minerals (see Figures 2.3 and 2.4). The decade also saw the possible beginnings of a shift away from overwhelming dependence on one invisible earner, the stationing of foreign troops on the island, to another, tourism²⁷. Where successful economic development is plainly visible is in the growth in per capita income and in its growth performance relative to other economies. By 1970 average per capita income (again in comparable, purchasing power parity terms) had risen to over \$1400²⁸, which meant that out of 133 countries, for which there was comparable data, Cyprus would be ranked 36th on the basis of its per capita income in 1970. So not only had it moved up 5 places, but its per capita income was nearly 30% of US per capita income, as apposed to nearly 20% in 1960. Again, Cypriot per capita income relative to the US in 1970 was, like the 1960 figure, slightly less than Greece but

²⁶ Republic of Cyprus 1966. The Second Five Year Plan 1967-71. Nicosia: The Planning Bureau, p.1.

²⁷ In 1961 income from foreign military expenditure represented 67% of invisible earnings, whilst income from travel represented 20%. In 1971 income from foreign military expenditure had fallen to 47% of invisible earnings, though income from travel had changed little, being equal to 19% of invisible earnings. Republic of Cyprus 1966 [& 1970]. The Second [& Third] Five Year Plan[s] 1967-71 [& 1972-76]. Nicosia: The Planning Bureau, p.52 & pp. 67-68 respectively.

²⁸ (International \$s at 1970 international prices.) Summers & Heston 1994. *op. cit.*

considerably more than Turkey, whose per capita income had changed little relative to the US over the preceding decade ²⁹.

The consequences of 1974 on the structure, orientation and potential of the economy.

By 1980 average per capita had risen to over \$3800³⁰. Admittedly significant inflation, particularly over the preceding decade, had made such an increase much less meaningful. In real terms, however, this was an increase in per capita income of 41% between 1970 and 1980, exactly half as fast as the increase in real per capita income between 1960 and 1970.³¹ So seemingly, all other things being equal, *de facto* division in 1974 had a negative effect on economic growth in the Republic of Cyprus. Using Summers and Heston's data set again, per capita income in Cyprus in 1980 had risen slightly relative to the US, to just over 32% of US per capita income, as apposed to nearly 30% in 1970. This meant Cypriot per capita income relative to the US in 1980 was considerably less than Greece's (at 38%), but still considerably more than Turkey's, whose per capita income relative to the US was little changed at 18% of US per capita income in 1980 (as apposed to 17% in 1960)³². Out of 142 countries for which there was comparable per capita income data in 1980, Cyprus had slipped to be 46th ranked after having risen to 36th position in 1970.

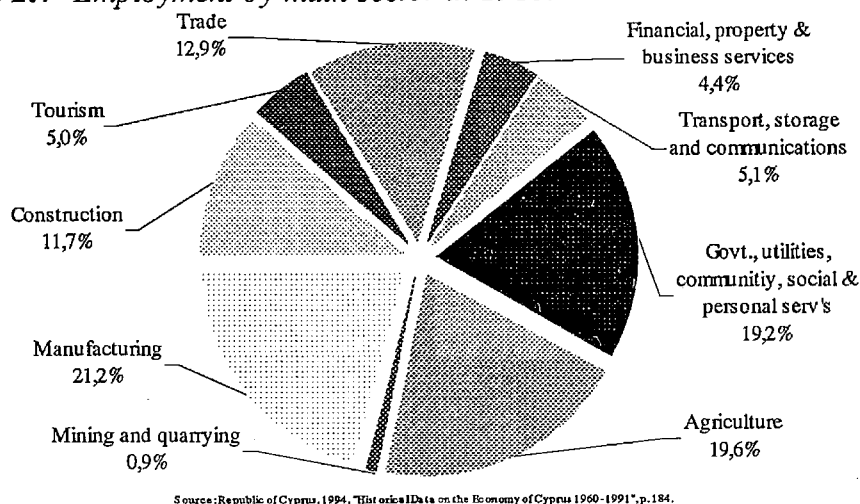
²⁹ *ibid.*

³⁰ (International \$s at 1980 international prices.) *ibid.*

³¹ Real GDP per capita in constant dollars (Chain Index) (expressed in international prices, base 1985.) *ibid.*

³² Real GDP per capita in current international prices relative to US [%] (current international prices) *ibid.*

Figure 2.7 *Employment by main sector in 1980.*



So during the 1960s, Cyprus had seen significant growth in income (82% growth in real per capita income between 1960 and 1970) but little structural change. Between 1970 and 1980 Cyprus had seen a great change in the structure of its economy, the main sectoral composition of employment and the composition of GDP by main sector (compare Figures 2.5 and 2.6 with Figures 2.7 and 2.8), though growth in per capita GDP had been considerably less significant.

In 1980 agriculture included proportionately half as many of the gainfully employed as it had engaged in 1970, while the sector produced 60% of the 1970 proportion of GDP and the same quantity of output³³. Construction no longer exhibited signs of low productivity, 11.7% of labour now produced 13% of GDP. By 1980, manufacturing looked less productive, over 21.2% of labour producing 17% of GDP, though it now employed far more people and made a considerably larger contribution to GDP and an even larger contribution to exports (see Figure 2.10). Tourism (restaurant and hotels) was still a minor employment sector in 1980 and still revealed signs of under-employment, 5% of labour contributing 3% to national

³³ Quantity index when 1980 = 100, total agricultural output in 1970 was 100.8, source: Republic of Cyprus 1995. *Statistical Abstract 1993*. Nicosia: Ministry of Finance, Dept. of Statistics and Research, pp. 375-376.

income. Mining and quarrying (now mostly the latter) employed even less labour, and generated proportionately less income: 0.9% of labour generated just over 1% of GDP. Transport storage and communications had become slightly less productive than they were in 1970, employing 5.1% of labour and producing 8% of GDP. By 1980, financial, property and business services were looking more like other sectors of the economy, with 4.4% of labour producing 14% of GDP, rather than the dominant income sector. Another major change was that whilst the (mostly) public sector of: government, utilities, community, social and personal services accounted for 13.4% of employment in 1960 and a similar, 13.8% in 1970, by 1980 they accounted for 18.4% of employment, although when import duties are included, the public sector generated 24% of GDP in 1980, compared with only 18% in 1970.

Figure 2.8 *Composition of GDP by main sector in 1980 (current prices).*

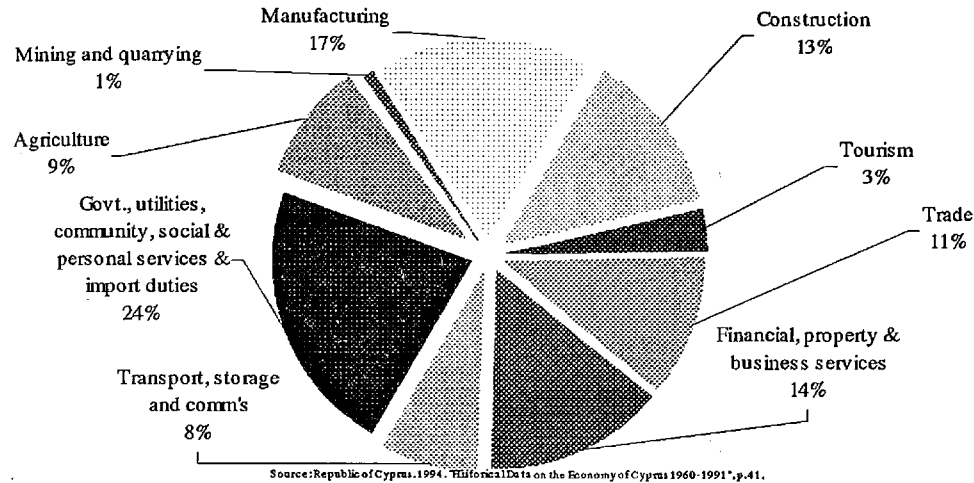


Figure 2.9 (overleaf) illustrates development in terms of the composition of total exports. As illustrated in the previous section (Figures 2.3 and 2.4), before 1974 exports were dominated by primary products, first crude minerals, then, increasingly by unprocessed agricultural products. After 1974 the export sector became less dependent on a few key primary products, with an increasing proportion of income deriving from manufactured goods. Over the period 1960 to

1973 domestic exports from the Republic of Cyprus increased in volume by 94% and in real unit value by 57%. Between 1975 and 1987 the volume of exports increased by almost 200%, while the real unit value increased by 52 %³⁴. Clearly, splitting the export trend into two time series, before and after 1974, has historical validity as the data prior to 1974 refers to exports from the entire island, whilst data after 1974 refers to exports from the southern 63% of the island still under the control of the Republic of Cyprus Government. The implications of the developments above and the change in the composition of exports (Figure 2.9) offers an indication of positive trends in the real economy that followed negative political developments.

Figure 2.9 *The composition of exports from Cyprus, 1956-1987.*

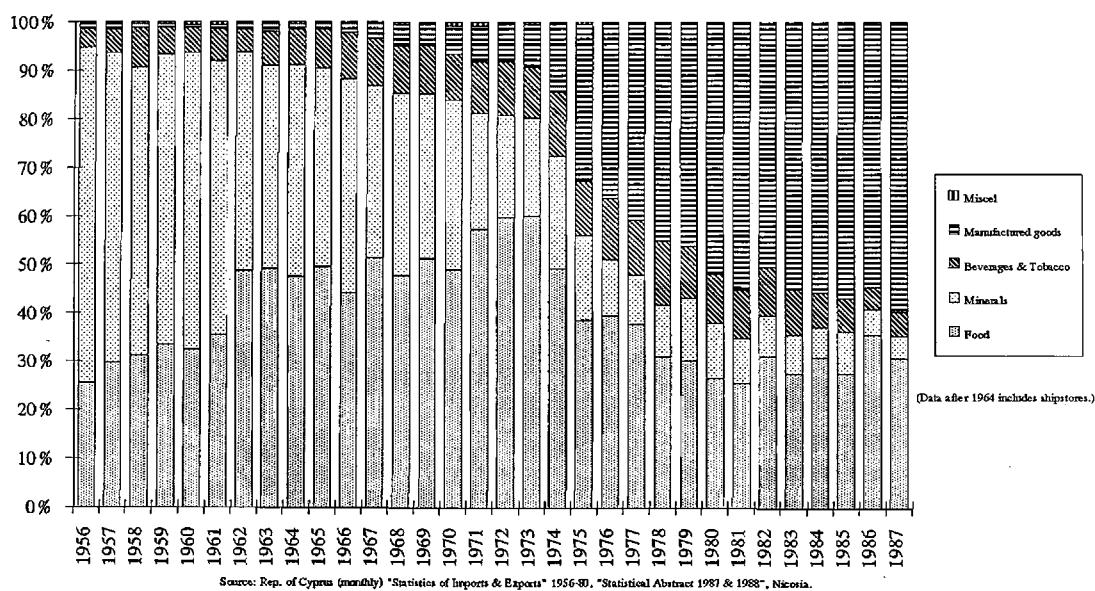
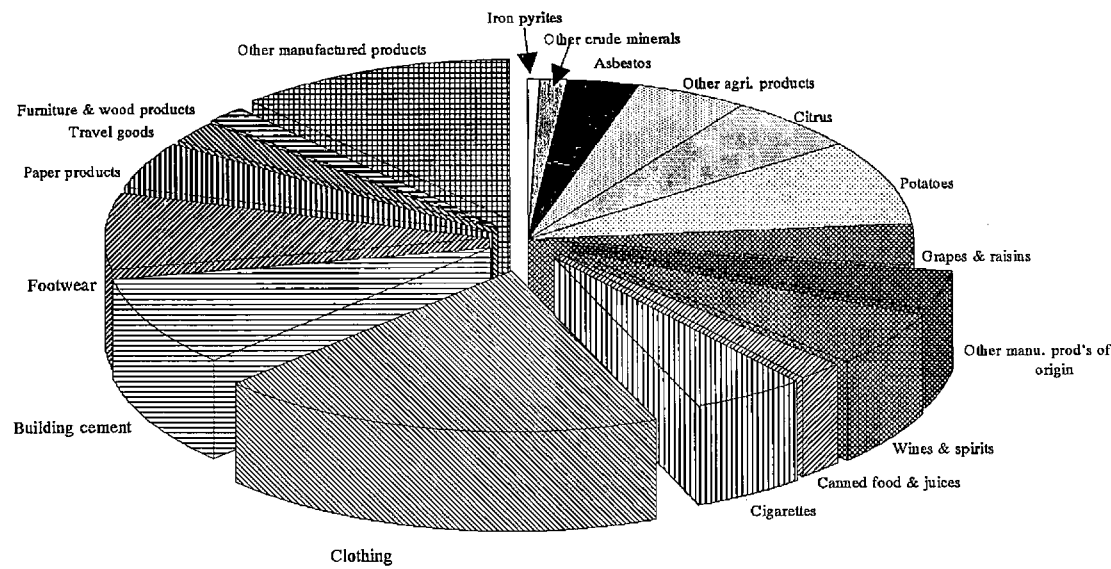


Figure 2.9 suggests that 1974 represents a watershed for the export sector of the Republic of Cyprus, the transition from a typical under-developed economy, exporting food and raw materials, to a more sophisticated economy with a more diverse export structure.

³⁴*ibid.* p.532.

Figure 2.10 *Principal exports as a proportion of the total value of domestic exports in 1980.*



Source: Rep. of Cyprus, 1983. "Economic Report 1981". Nicosia, p.116.

Table 2.3 *Domestic Exports FOB in 1980 by S.I.T.C. category:*

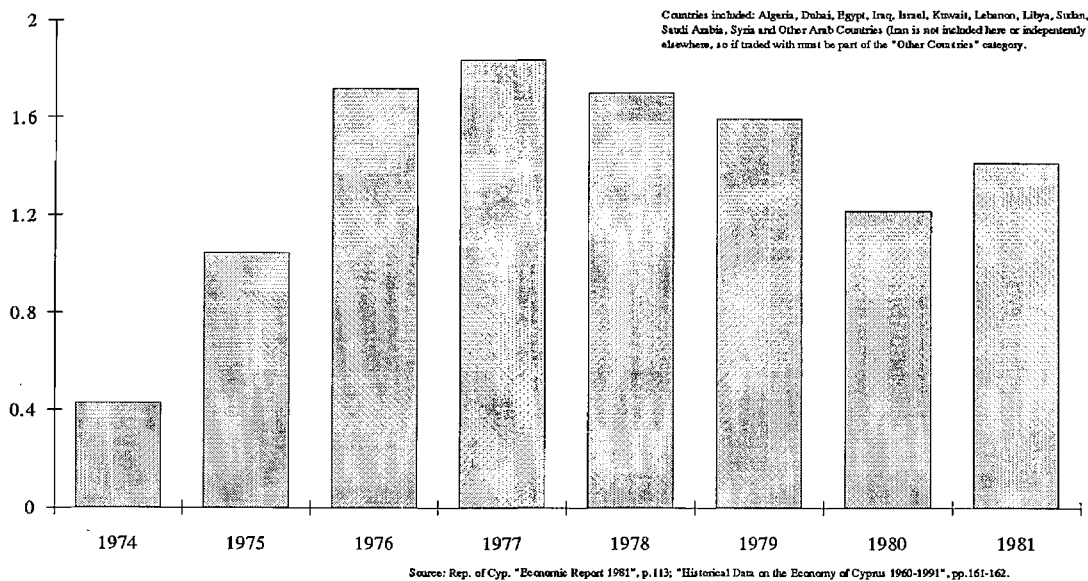
	SITC code	in Cyprus £'s	% of total exports
Food.....	0	£41,601,523	26.49%
Beverages & tobacco.....	1	£15,901,912	10.13%
Crude materials, inedible, excluding fuel.....	2	£9,962,121	6.34%
Mineral fuels, lubricants & related materials.....	3	£8,049,920	5.13%
Animal & vegetable oils & fats.....	4	£1,520,181	0.97%
Chemicals.....	5	£4,059,828	2.59%
Manufactured goods classified chiefly by material.....	6	£25,237,535	16.07%
Machinery and transport equipment.....	7	£4,218,397	2.69%
Miscellaneous manufactured articles.....	8	£46,203,527	29.42%
Miscellaneous transactions & commodities, n.e.s.....	9	£271,311	0.17%
Total exports.....		£157,026,255	100.00%

Source: Rep. of Cyprus. (Dec.) 1981, Statistics of Import & Export, Nicosia.

The *de facto* division of Cyprus coincided with rapidly rising revenues in neighbouring oil exporting countries. In 1980, the three richest nations, in terms of per capita income, were small oil exporting Middle Eastern countries, none of whom had any data for the 1970 table. They were followed by the US and Canada who in turn were followed, in sixth place, by Saudi Arabia. Ten years earlier,

Saudi Arabia had been ranked, in terms of its per capita income, at 55th place³⁵. So in the immediate post-invasion period this initially less discriminating Middle Eastern market acted as the growth sector for the mostly middling quality, Cypriot manufactured exports of the period. Despite the quadrupling of crude oil prices (as a result of the second oil shock in 1973-4) Cyprus received considerably more for its exports to the Middle East than it paid for its imports (mostly oil) in the crucial period which followed the coup and invasion.

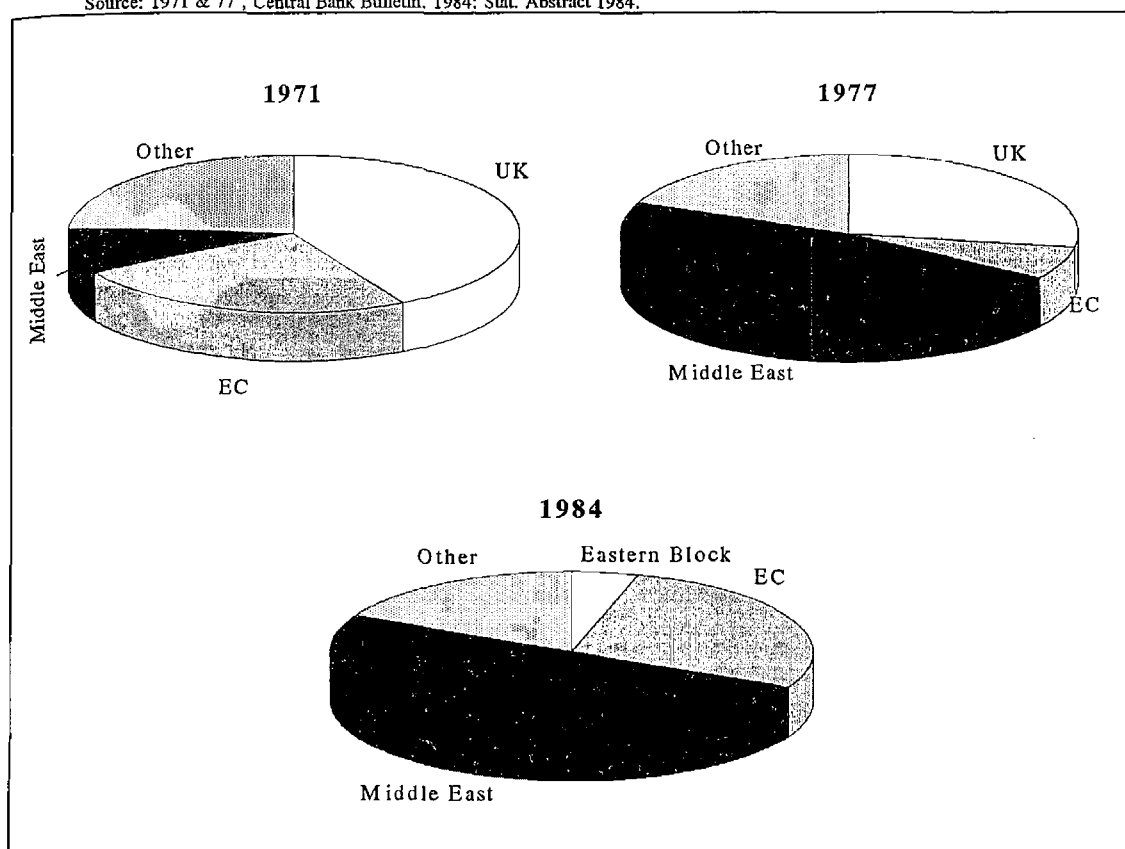
Figure 2.11 *Exports to the Middle East as a ratio of imports from the region.*



The change in the composition of exports, from a primary product base before the (1974) war, to increasingly manufacturing centred export production after 1974, was accompanied by a change in the direction of exports. This change in the direction of trade alluded to above is illustrated in Figure 2.12. This appeared to signal an end to the imperial passage of trade. In terms of the direction of exports the (1974) war represented a watershed also.

³⁵Summers & Heston 1994. *op. cit.*

Figure 2.12 *The Destination of the Republics Exports, 1971, 1977, 1984:*
Source: 1971 & 77, Central Bank Bulletin, 1984: Stat. Abstract 1984.



In a small economy with a limited market and a limited resource base, a rise in incomes, more, a rise in the income elasticity of imports should not automatically be seen as a negative phenomenon, perhaps the reverse. Even a deteriorating trade balance is hardly cause for concern in a small economy as long as the balance can be met by invisible earnings, which is both historically and in the period of interest (war and *de facto* division), the position of the Republic of Cyprus. Though in the immediate post-(74)-war period this was not true, so improvements in the visible trade balance (see Figure 2.14) cannot be perceived as a positive development.

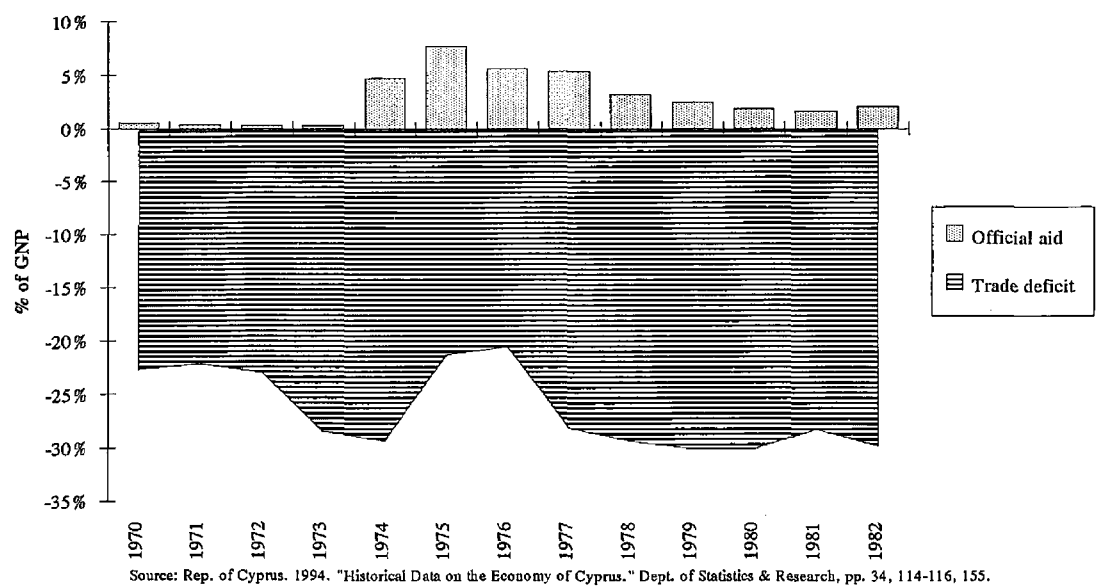
Figure 2.13 *Trade disruption; the effect of the war on trade flows.*



Source: Rep. of Cyprus, 1994, "Historical Data on the Economy of Cyprus," Dept. of Statistics & Research, p.115.

For the Republic, the interruption in the trend of deteriorating visible trade deficits was due to a reduction in domestic demand. Perhaps nothing is more demonstrative of the loss of purchasing power and the loss of confidence than the shrinking trade deficit (Figure 2.14), despite the impact of a growth in domestic exports (Figure 2.13). Many imports in the initial stage of the recovery represented the replacement of fixed and movable investment assets and Lebanese consumption, rather than the restoration of domestic consumer confidence.

Figure 2.14 *Ambiguous indicators: The war was associated with a reduction in the visible trade deficit.*



Notwithstanding evidence from the composition of exports (Figure 2.9), the change in the structure of employment (Figures 2.5 & 2.7) and, to a lesser extent, the composition of GDP (Figures 2.6 & 2.8), other research suggests that industrialisation began to reach "take off stage" prior to the invasion³⁶. In terms of output, but not employment or exports, measured by either relative contributions to real GDP or simply value added, the contribution of manufacturing (statistics for which include cottage industries) does seem to have accelerated just prior to *de facto* division. Given this optimistic interpretation of pre 1974 Cypriot manufacturing industry, the Greek coup and the Turkish invasion are seen to have acted as a force of retardation³⁷. Contemporary Government reports tend to reinforce this interpretation, at least in the short run: "Apart from physical

³⁶Christodoulou 1992. *op. cit.*, p.99.
³⁷ "The 1974 invasion and occupation of 37% of Cyprus territory resulted in the capture of 45% manufacturing capacity and destroyed much of the rest." *ibid.*

destruction of factories by enemy action, it is estimated that factories situated in areas controlled by the Turkish army employed 33% of the manufacturing labour force and produced 26% of output..."³⁸. Value added in the manufacturing sector declined in 1974 by 11% and a further 4% the following year³⁹. Despite Government initiatives, employment in the sector dropped by 20% in 1974 and a further 16% in 1975⁴⁰. Christodoulou's figures are more dramatic, though their origin is more obscure⁴¹. Recovery was, however, rapid. Overall gross manufacturing output increased by 113% between the pre war peak in 1973 and 1978, and the value of manufactured exports increased by 370% over the same period with footwear, clothing and cement representing the bulk of such exports. The economic modernisation implicit in this, is reflected in Figure 2.10 in terms of the 1980 structure of exports compared with the earlier graphs and tables.

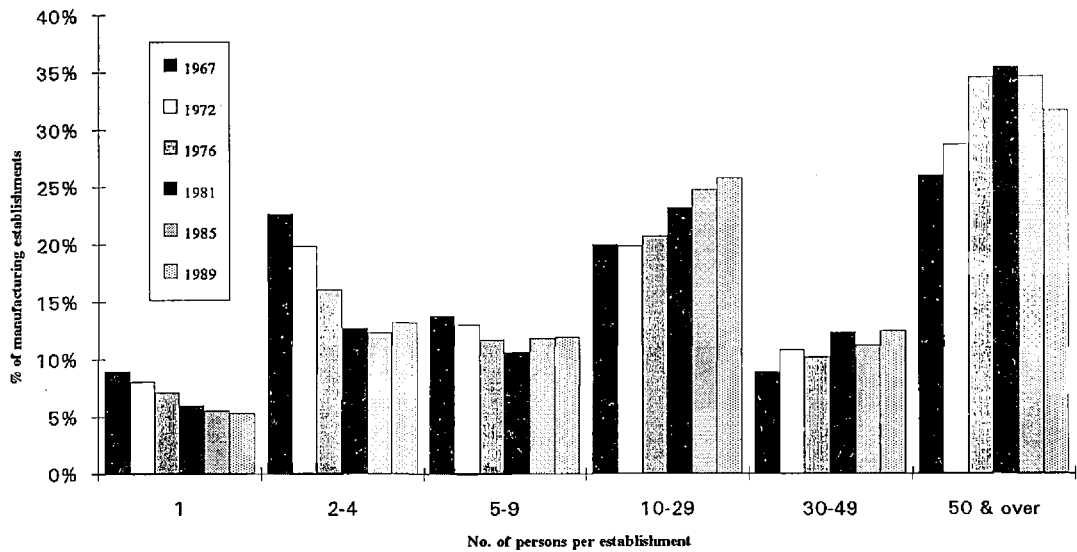
³⁸Republic of Cyprus, April 1975. (Unpublished - i.e. "Restricted") "Economic Consequences of the Turkish Invasion and Future Prospects of the Cyprus Economy." Nicosia: The Planning Bureau, p. 5.

³⁹Republic of Cyprus 1993. Industrial Statistics 1992. Nicosia: Ministry of Finance, Dept. of Statistics and Research, p. 71.

⁴⁰Republic of Cyprus 1994. Labour Statistics 1993. Nicosia: Ministry of Finance, Dept. of Statistics and Research, p. 31.

⁴¹By comparison, Christodoulou argues that 45% of manufacturing capacity was lost or captured, whilst manufacturing value added fell by nearly 24% in 1974 and a further 17.5% in 1975. From just before the invasion until the end of 1975 employment in the manufacturing sector fell by almost 30%. Christodoulou 1992. *op. cit.*, pp. 99-100.

Figure 2.15 *Size of manufacturing establishment by numbers employed, 1967-1989.*



Source: Rep. of Cyprus, Labour Statistics 1993, pp. 42-44.

Despite its successes in the immediate aftermath of war in 1974, in generating employment and foreign exchange, the manufacturing sector changed little. The overall structure of the manufacturing sector remained predominantly small, low tech and family run, with low capital to labour ratios and low productivity. The main change, that followed the events of 1974, was in the proportions of output that was exported and the countries it was exported to. Significant government emphasis to both encourage growth and modernisation in manufacturing, particularly interventionist after 1974, made little impact on the industry in Cyprus (Figure 2.15 above). Even in 1992 the largest sub-sector was still Food, Beverages and Tobacco, with nearly a 30% share of gross output and still largely dependent on the processing of local agricultural products. The textiles, wearing apparel and leather goods sub-sector was the second largest contributor to manufacturing output and, together with Food, Beverages and Tobacco, they produced half the gross output of the manufacturing sector⁴². Cypriot manufacturing at the beginning of the 1990s

⁴²Republic of Cyprus. 1993. *Economic Outlook, 1993*. Nicosia: Central Planning Commission, p.30.

could still be characterised by small, and very small, family run businesses, (30% of all establishments employing under 10 people and nearly 70% employing under 50 in 1989⁴³), using old technology, organisational and management techniques, consequently still revealing low labour productivity⁴⁴.

In the early post-invasion period manufacturing grew despite relatively few government incentives; seemingly later it failed to grow regardless of them. Flaws in the planning process can be seen not in the generality of recovery, but in the specifics of sectoral growth rates. The Government failed to maintain the growth of the manufacturing sector after the immediate post-74, Middle East driven, boom and also failed to encourage the modernisation of the sector. In the post invasion period Government also failed to control the growth and avoid the subsequent dominance of the tourist industry⁴⁵. The impact of 1974 was so profound because of the regional specialisation that had previously occurred. Before 1974 the Cypriot economy was dependent on four sectors for its foreign exchange: agriculture (particularly citrus production), revenue from the stationing of foreign troops on the island, tourism and the mining sector, three of which were heavily concentrated in the north. If one word could sum up the objectives of post-74 war development policy, it would be "diversification". In this sense, little had changed from earlier planning objectives:

Furthermore, in the case of Cyprus there are many exogenous factors influencing the economy and, although Government cannot control such factors, yet it can plan to minimise their impact on incomes, employment, and prices.⁴⁶

⁴³Republic of Cyprus 1994. Labour Statistics 1993. Nicosia: Ministry of Finance, Dept. of Statistics and Research, pp. 42-44.

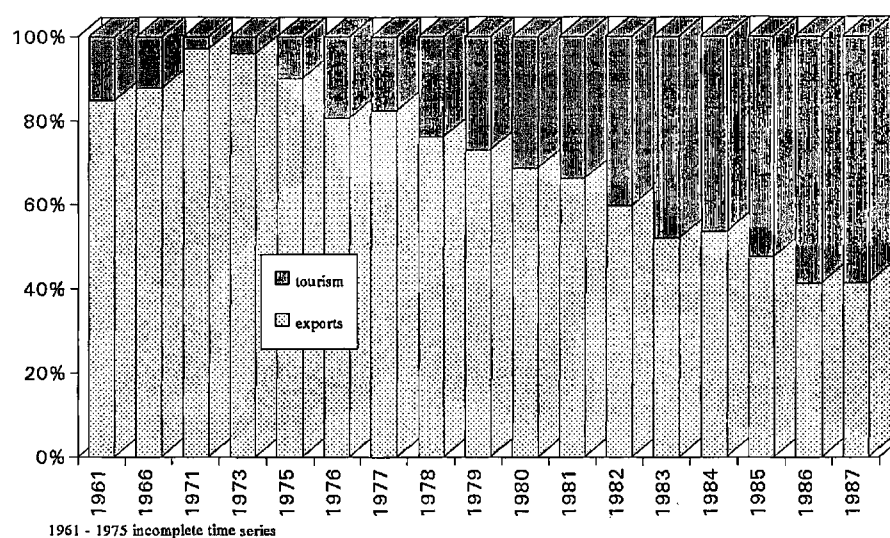
⁴⁴Republic of Cyprus. Five Year Development Plan, 1989 - 1993. Nicosia: Central Planning Commission, pp. 104-105.

⁴⁵An objective of 3rd and 4th Emergency Action Plans observed by Matsis & Charalambous (1989. "Development Planning in Cyprus", The Cyprus Review, Vol. 1, No.2, pp. 28-30

⁴⁶ Republic of Cyprus 1966. The Second Five Year Plan 1967-71. Nicosia: The Planning Bureau, p.1.

By 1980 the economy of the Republic of Cyprus looked far more balanced (see Figures 2.7 & 2.8). Whether it is a failure of the planning process or a consequence of the constraints imposed on the economy by the invasion, the Cypriot economy has subsequently become more dependent, directly and indirectly on a single sector (Figure 2.16).

Figure 2.16 *Ratio of receipts from tourism to total export earnings.*



Sources: Exports: Monthly Import and Export Statistics. Tourism: 1961-75 Christodoulou, 1992, p.140, 1976-87 Stat. Abstract 1987 & 88, Rep. of Cyp.

With *de facto* division, the Republic of Cyprus lost its most important coastal resorts, Kyrenia and Famagusta (Varosha), representing 65% of all tourist accommodation and 87% of hotel beds under construction⁴⁷. More fundamentally, 1974 saw a general fall in manpower of 30%⁴⁸ coupled with a 1000% rise in unemployment⁴⁹. Approximately three out of every five people displaced by the

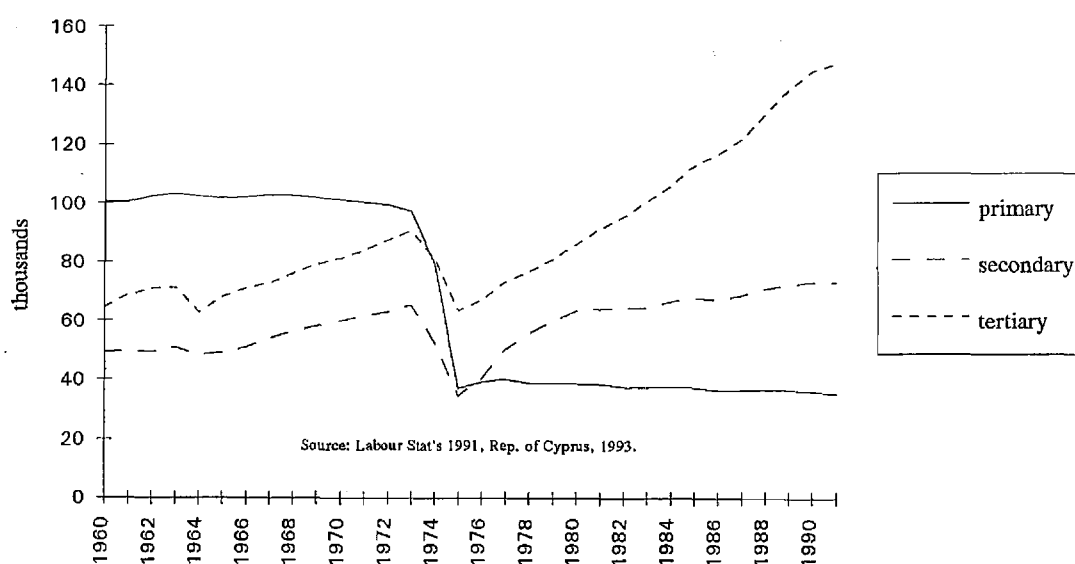
⁴⁷ Republic of Cyprus, April 1975. (Unpublished - i.e. "Restricted") "Economic Consequences of the Turkish Invasion and Future Prospects of the Cyprus Economy." Nicosia: The Planning Bureau, p. 8.

⁴⁸ Between 1973-76, the economically active population of the Republic of Cyprus dropped from 279,700 to 195,300; Republic of Cyprus 1993. Historical Data on the Economy of Cyprus 1960-1991. Nicosia: Dept. of Statistics and Research, Ministry of Finance, p.181.

⁴⁹ The average rate of unemployment in 1974 and 1975, in the Republic of Cyprus, was 33%, in 1973 it had been 3%, *ibid.*

invasion were rural dwellers⁵⁰. As displaced persons represented 40% of the population, urbanisation and retreat from the agricultural economy accelerated dramatically. Landless farmers looked for work and housing in a newly land scarce environment. This resulted in changes in employment patterns - with the percentage of self-employed workers falling from 53% to 25%. The trend within agriculture of a growth in part-time farmers was also accelerated. The reduction in territory meant much necessary diversification both at a micro and macro level. However, the manufacturing industry failed to absorb many of the refugees from the dislocated economy. As is clear below, most long term and consistent employment gains occurred in the tertiary sector: the majority, directly or indirectly employed in the tourist industry.

Figure 2.17 *Gainfully employed by broad sector in the Rep. of Cyprus 1960 - 1991.*



⁵⁰Zetter R. 1991. "Labelling Refugees: Forming and Transforming a Bureaucratic Identity", *Journal of Refugee Studies*, Volume 4, No. 1, pp. 25.

The scale of the disruption in the labour market in 1974 is clearly visible in Figure 2.17 (above), which shows the number of people employed by broad sector. The coup and invasion precipitated a most dramatic 60% drop in the agricultural labour force, from which it never recovered. This amounted to a rapid, statistical at least, modernisation of the economy: agriculture and the primary sector falling from being the largest employers to the smallest, almost immediately after the Turkish military intervention. The 1977 Agricultural Census found that 55% of farmers had off-farm employment and for 94% of them, their off-farm occupation was the one which demanded most of their time. Only 25% of farmers had no off-farm employment at all. As a result of the dislocation of population, 35% of pre 1974 farmers were no longer engaged in any farm employment.⁵¹

It is worth considering the changes in the structure of employment further because it had dramatic social and cultural, as well as economic implications (for changing supply conditions and the structure of demand). The share of employment in agriculture had fallen to well below 20% by 1985. Employment in the primary sector generally, fell precipitously in 1974 and had practically bottomed out by 1975 (Figure 2.17). The war accelerated the role of part-time farming. Of necessity, it undermined any cultural constraints on female wage labour, particularly affecting formerly rural households, whose women had not generally sought employment outside the home and farm. The role of women in the labour market seemed to rise sharply after 1974⁵² (more on which later).

⁵¹ Figures quoted by Pearce R. (July) 1981. "Part-Time Farming in Cyprus: A Pilot Study". University of Reading, Dept. of Agricultural Economics & Management, Development Study No. 21.

⁵² "As in other parts of Europe the activity rate of women has been rising in recent years. While it is not possible to make comparisons of participation rates defined in exactly analogous ways at two points in time, it is worth noting that the number of employed women in Cyprus rose by 31% over the period 1976-1980, compared with only 14% for men." House, W.J. 1982. Population, Employment Planning and Labour Force Mobility in Cyprus. (Terminal Report). Nicosia: Planning Bureau & Dept. of Statistics and Research, p.22.

What is also visible in Figure 2.17 is the impact of an earlier economic shock with political foundations: the 1963 withdrawal into fortified enclaves of much of the Turkish-Cypriot minority, following renewed communal fighting. Most obvious is the withdrawal of Turkish-Cypriots from the tertiary sector of the Republic Of Cyprus' National Income Accounts in 1963. This illustrates something of the problems associated with a comparative study over time, using available government statistics. Clearly, the events of 1963, like those of 1974, had a significant though less profound⁵³ structural impact on the Cypriot economy, yet how much do government statistics reflect the reality? Enclaved Turkish-Cypriot labour continued (in the 1960's and early 70's), perhaps less productively, to produce an income in the mostly (in terms of population) urban enclaves, though this activity was no longer reflected in official (Greek-Cypriot) statistics. However, the argument proposed in the "TRNC" by Dr Hasan Ali Bicak⁵⁴ and others, that the 1963 withdrawal was overwhelming, hermetic and permanent is partly contradicted by the data. Either some Turkish-Cypriots trickled back into co-operation with the (Greek-Cypriot) economy of Cyprus or the Greek-Cypriot work-force rapidly expanded and diversified. What does seem likely, however, and what is not contradicted by the data (Figure 2.17) was that for Greek-Cypriots, 1963 was an opportunity to monopolise government sector employment.

The role of government and the role of planning have had their successes, for example the development of the tourism infrastructure in Varosha and subsequently of new resorts elsewhere, but perhaps as always, they proved to be more effective in terms of fire-fighting, responding to catastrophes, than in developing a more efficient economic structure in particular industries or in the economy as a whole.

⁵³The events of 1963 were less profound for the economy as a whole than the events of 1974 simply because of the size of the Turkish Cypriot population, though for them the events of 1963 were at least as profound as the events of 1974 were for them or the Greek Cypriots.

⁵⁴Bicak H.A. 1993. "An Evaluation of the Turkish Position: Debts of [the] Greek Cypriot Community." This paper was presented to the UN Representative in Cyprus.

Whether taking the optimists approach (taken here), or something more negative, the effects of war and *de facto* division can be seen as having had a more profound and fundamental impact on the composition of GDP, employment structures, the balance of the economy, the composition and direction of exports, than either government or the market by itself in the 1970s. The question is, has it been good for the long term development of the economy, or has government policy, planning and / or the strength of the market, helped fire-fight the economy back to a position of strength? Clearly a move to more diverse exports, less concentration of resources in low productivity sectors, has been good for the economy and has been a direct consequence of the *de facto* loss of territory.

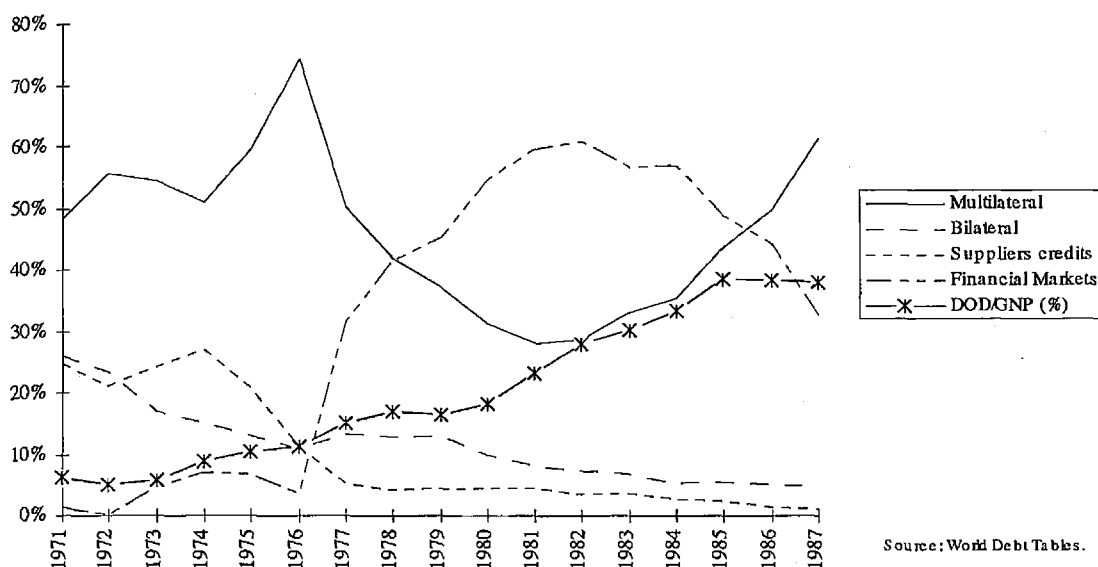
The problem of sustainability remains because some of the positive developments (such as the diversification of the economy following export led growth in manufacturing) were short lived, and other seemingly necessary developments, also shared the 1974 watershed. Government policy has managed to shift Cyprus from having one of the lowest public debts⁵⁵ in the 1960s, to having one of the higher public debt levels by the late 1980s. Between 1967-73 and 1974-80, perhaps unsurprisingly, the Republic's debt to export ratio doubled, in the 1980s it doubled again⁵⁶. In small economies where foreign aid is a significant feature of invisible receipts, the level of debt to total national income may be another useful guide to the relative weight of international public debt commitments (see Figure 2.18). In terms of these criteria, Cyprus has risen from being the second lowest debtor in the 1960's to being the second highest out of 11 similar economies⁵⁷ by the mid to late 1980s.

⁵⁵ See footnote 22.

⁵⁶ Average debt as a % of exports of goods and non factor services between 1967-73 was 19%, between 1974-80 it had risen to 41%, by the 1980s, 1981-90, it had risen again to 83%. Source: IBRD. *World Tables 1976 & 1993*. World Bank Publications, Baltimore: John Hopkins University.

⁵⁷ See footnote 22.

Figure 2.18 *Changes in the composition of external financing (% of total), compared with changes in total debt (debt outstanding & dispersed – DOD) as a % of GNP.*



The World Bank's "Debt Outstanding and Dispersed" (DOD) category was below 10% of GNP and fairly stable before 1974. The coup and invasion precipitate a ratcheting of foreign financing that continues to rise well into the 1980s, peaking at around 40% of GNP (Figure 2.18). The coup and invasion are also followed by a change in the composition of foreign financing; multilateral aid, the major pre 1974 financing item, accounting for 50% of external credit, rises sharply in 1974, peaking at a three quarter share of all external financing in 1976. Suppliers credits, another significant pre 1974 financing item, declined rapidly after *de facto* division. Bilateral aid generally continued a long term decline, the events of 1974 having little impact on its contribution to overall external financing. In 1976, as supplies credits, bilateral aid continues to decline and multilateral aid drops back to a 50% share of external credit,

financing from financial markets picks up and grows rapidly, overtaking multilateral aid in 1978 and remaining the dominant source of external finance until 1985.

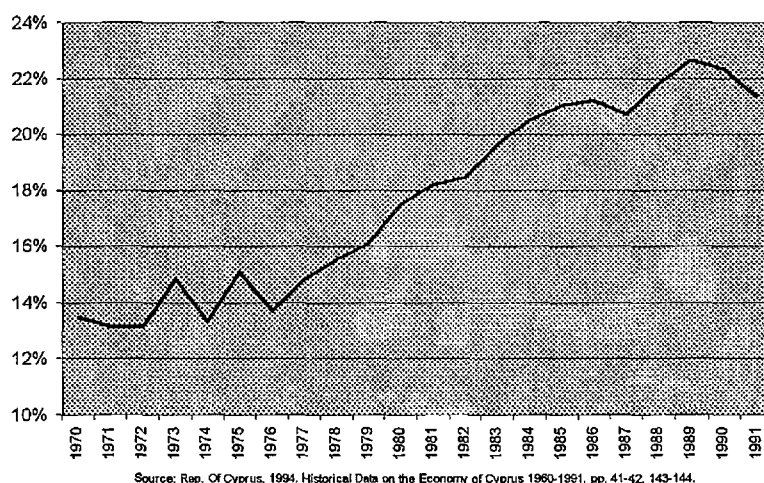
Between the 1960s and the late 1980s when the Republic of Cyprus moved from being one of the lowest debtor countries to being one of the highest, it had experienced significant and rapid economic restructuring. The structure of employment and the composition of GDP had changed profoundly between 1970 and 1980. Both in terms of the composition of exports and the direction, Cyprus appeared to have matured as an economy, being less dependent on a few primary products and less dependent on old colonial links. The watershed for all of these changes, again unsurprisingly, was the *de facto* division of the island, north and south. So while many of the real costs of war were reflected in the labour market, structural unemployment rapidly took on the appearance of frictional unemployment, as much of the financial costs of restructuring were borne by foreign aid and, increasingly, by the world's money markets.

The same period saw a ratcheting of the tax burden on the economy. While statistics before and after 1970 are not compatible⁵⁸, prior to 1970 both taxes on income and expenditure had gradually declined as a percentage of GDP. In 1960 "taxes on expenditure" represented the equivalent of 10% of Republic of Cyprus GDP whilst "taxes on income" represented 5%. By 1970, "taxes on expenditure" had fallen to 7% and "taxes on income" to 3%. Similarly, using the newer statistical categories, in 1970 "indirect taxes" represented the equivalent of 8% of the Republic's GDP, and "direct taxes" represented 4%. The total tax burden in that year, which included social security contributions, represented 13% of GDP. By 1974, the composition of tax and total tax burden was unchanged, although the intervening few years experienced some

⁵⁸ Republic of Cyprus, 1994. Historical Data on the Economy of Cyprus, 1960-1991. Nicosia: Ministry of Finance, Dept. of Statistics and Research, pp. 41-42, 143-144; Republic of Cyprus, 1995. Statistical Abstract 1993. Nicosia: Ministry of Finance, Dept. of Statistics and Research, p. 290.

minor fluctuations. By 1980 however, the tax burden had risen to the equivalent of 17% of GDP and three years later it had broken the 20% threshold, where it stayed (see Figure 2.19). Longer term, the costs of restructuring were passed on to the domestic tax payer.

Figure 2.19 *The total tax burden as a percentage of GDP 1970-91.*



1974 appears to be a watershed in terms of the Republic's economic structure and its foreign trade. As a consequence of the loss of key natural resources, the economy rapidly modernised. In some ways we have a story that looks a little like the Dutch disease⁵⁹ in reverse. The loss of natural resources in Cyprus seemed to make industry more competitive. Following the loss of two thirds of its resources⁶⁰ the Greek-Cypriot economy relocated itself around the urban sector. In the period immediately following those losses, the traditional sectors of the economy (essentially the primary sector) experienced rapid and permanent decline (see Figures 2.6, 2.8 & 2.17) while the secondary and tertiary sectors of the economy

⁵⁹ The exploitation of natural resources (in the case of Holland, natural gas) precipitates the decline of other industries as the new industry pays higher wages to attract staff, pushing up wages in other sectors, and making them less competitive. See Corden, W.M. and Neary, J.P. 1982. "Booming Sector and De-industrialisation in a Small Open Economy", in the *Economic Journal*, Vol. 92, pp. 825-848. There are also foreign exchange and interest rate consequences (of the Dutch disease) which are not relevant in the Cyprus case because of its statutory interest rate ceiling and the fact that its currency is fixed (against a trade weighted basket of currencies) rather than floating.

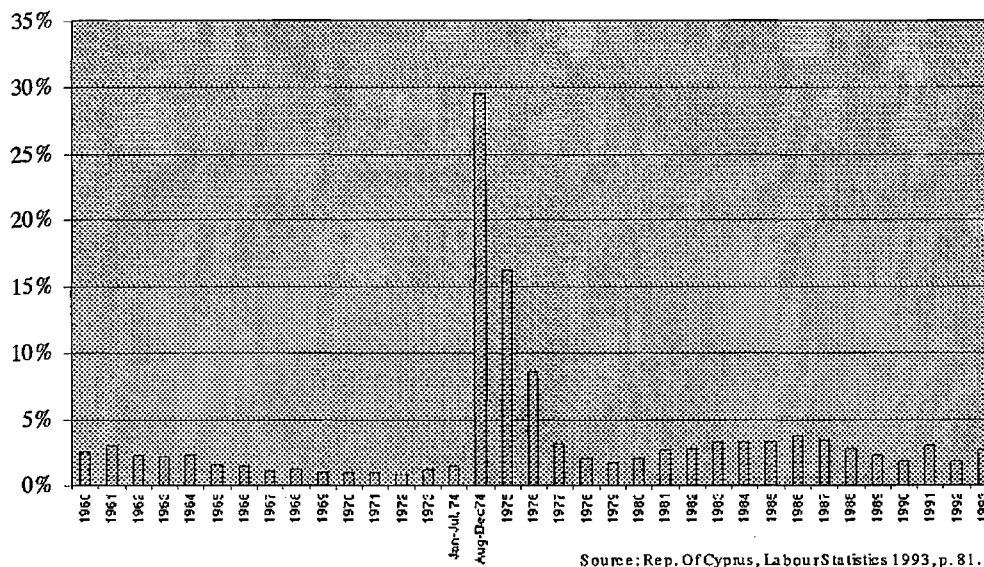
⁶⁰ Wilson R. 1992, *Cyprus and the International Economy*. Basingstoke: Macmillan, p.32.

grew rapidly. In the immediate aftermath of the *de facto* division of the island, manufacturing exports, output and growth experienced a significant boom. However, there were downsides to all this forced modernisation. After 1974, Cyprus became more dependent on external financing, government became more interventionist and the total tax burden on the economy grew considerably.

The impact of the war on the labour market and labour relations

The most obvious effect of the coup and invasion on the labour market of the Republic of Cyprus, was on the unemployment rate. Suddenly the percentage of the economically active population registered as unemployed increased sharply from 1.5% to nearly 30%. What has to be taken into consideration, however, is that the pre and post 1974 Republic represents two very different economic entities. Also, in the pre 1974 period there was much hidden unemployment and under-employment, particularly in the Turkish-Cypriot economy, which is not reflected in Republic of Cyprus statistics (see Chapter 3). However, if generally unemployment was very low in the Greek-Cypriot community before 1974, it rapidly rose in the summer of that year. Much of this rise can be seen as instant structural unemployment, as whole industries, such as mining and major parts of other industries, for example export agriculture, were lost to Greek-Cypriot labour overnight and forever. With the rapid adjustment to the *de facto* territorial changes, which of necessity triggered these structural changes, what initially looks like structural unemployment increasingly looks like frictional unemployment, because of the speed of labour's absorption into new growth sectors of the economy (Figure 2.20).

Figure 2.20 *Unemployment in the Republic of Cyprus, 1960-1974.*



For most of the period following independence, the Republic of Cyprus (as distinct from the Turkish-Cypriot economy) has faced significant labour shortages. Between 1960-73, despite the recession the Republic inherited in 1960, average unemployment ran at 1.6% of the economically active and real rates of pay rose on average by 4.8% per annum. Whilst the coup and invasion may have reduced labour shortages, they soon returned. Between 1977-83 average unemployment had fallen to 2.5% and real rates of pay rose on average by 10.6% a year. During the longer time period of 1977-93 average unemployment was still 2.5% and real rates of pay rose on average by 6.8% per annum. These statistics tend to suggest a tight labour market, with unemployment at a natural rate consistent with frictional unemployment and increases in real rates of pay reflecting limited supply of labour, rather than productivity increases⁶¹.

⁶¹ Republic of Cyprus 1994. *Labour Statistics 1993*. Nicosia: Ministry of Finance, Dept. of Statistics and Research, pp. 81, 129.

One of the major problems facing the Cypriot economy at the time of independence was the level of emigration. From the 1950's Cyprus has shed more than 25 % of its population through migration. By the time of the Second Five Year Plan, 1967-1971, this had largely been corrected⁶². As can be seen below (Figure 2.21) peak flows in out-migration have tended to correlate with periods of political upheaval. The data set in Figure 2.21 represents the level of permanent emigration. It does not include the numerous (almost exclusively male) Cypriot workers who spent some time working abroad, particularly in the oil exporting countries of the Middle East, after 1974. Labour remittances have always been an important source of foreign exchange in the Republic⁶³, particularly so when other sources remained depressed. In 1975, '76 and '77, labour remittances accounted for 6%, 6% and 10% of invisible receipts respectively⁶⁴. By 1976 8,500 Cypriots were "temporarily employed abroad", rising to a peak of 13,500 the following year⁶⁵ or approximately 7% of the economically active population, the overwhelming majority of whom were employed in either the gulf states or Greece.

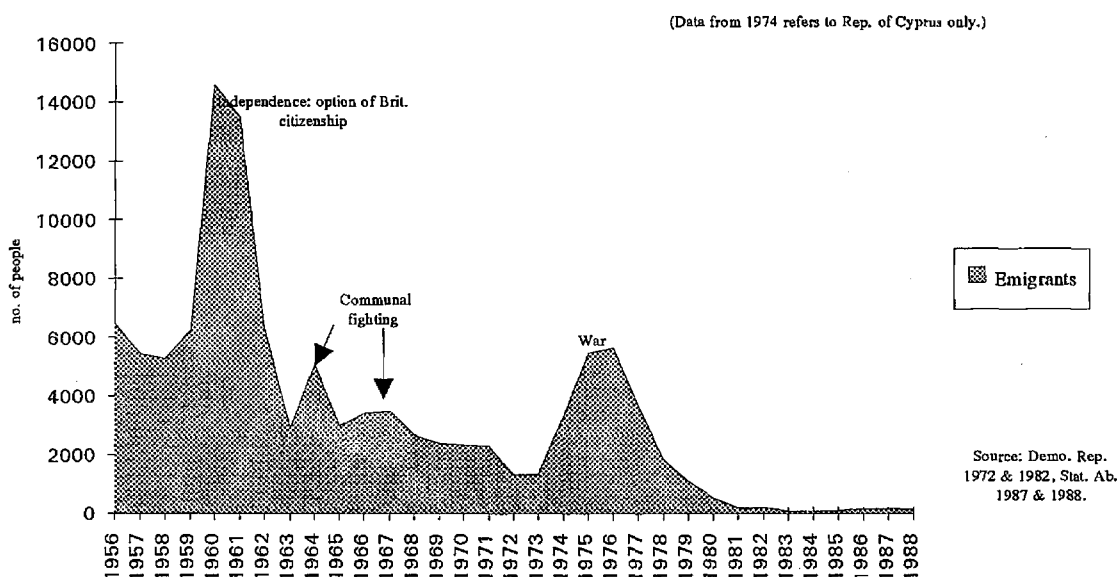
⁶²Republic of Cyprus, 1970. The Third Five Year Plan 1972-76. Nicosia: The Planning Bureau, pp. 3-4.

⁶³In 1960 William L. Thorp estimated that the UK bases in Cyprus accounted for some £14 million (by far the single most important invisible earning and more important to foreign exchange than any single export category). In the same year he estimated that remittances from Cypriots living in Britain were an important element in the Cypriot balance of payments, amounting to up to £3 million annually. UN. Programme of Technical Assistance, 1961. Cyprus - Suggestions for a Development Programme, (the 'Thorp Report'). Prepared by Willard L. Thorp. NY: UN, p.60 & p.90.

⁶⁴Christodoulou 1992. *op. cit.*, p. 42, Republic of Cyprus 1993. Historical Data on the Economy of Cyprus 1960-1991. Nicosia: Dept. of Statistics and Research, Ministry of Finance, p.104.

⁶⁵Christodoulou 1992. *op. cit.*, p. 42.

Figure 2.21 *The impact of political events reflected in the level of emigration from Cyprus, 1956-88.*



The short run effect of the war in 1974 was to increase net out-migration flows. The immediate economic consequences of the rise in emigration was both increased labour remittances (even from permanent migrants) and reduced social costs (of relocating some of the displaced population). The dominant constraint on the Cypriot economy in the post-independence era, however, had been the labour supply constraint. Longer term, the problem of large scale emigration has been stemmed (at least in the Republic of Cyprus) by rising prosperity and relative political stability seemingly engendered by *de facto* division⁶⁶.

Despite prolonged high level labour migration and a general and sustained shortage of labour, the mobilisation of women in the labour market has been relatively late in

⁶⁶Although the war may have reduced organised political violence, Greek-Cypriots argue that continued Turkish occupation represents an act of organised political violence. The Republic of Cyprus is, however, far more stable internally than it was before the war. Though it must be added that the failure of a political settlement has contributed to tensions in the region and worsened Greco-Turkish relations.

coming, only concerning policy makers from the late 1960's⁶⁷. Much economically active female labour has been involved in unpaid agricultural work on family farms⁶⁸. The cultural stigma of paid employment for rural wives and daughters began, of necessity, to dissipate with the new economic conditions and the rapid urbanisation brought about by the war in 1974⁶⁹. As *The Economist* noted "the liberation of women has been advanced" [by the Turkish invasion - sic]⁷⁰. This view may be implicitly confirmed by an ILO study:

As in other parts of Europe the activity rate of women has been rising in recent years. While it is not possible to make comparisons of participation rates defined in exactly analogous ways at two points in time, it is worth noting that the number of employed women in Cyprus rose by 31% over the period 1976-1980, compared with only 14% for men.⁷¹

There are a number of problems associated with viewing the 1974 war as a fundamental cause of the rising participation of women in the formal labour market. If 1974 was a watershed in the development of the Greek-Cypriot labour market, the war was only indirectly responsible and a change in attitudes, let alone the "liberation of women", was not a necessary prerequisite. The very fact that the agricultural sector was affected so dramatically by the *de facto* loss of territory (the formal labour force in agriculture dropped by 63% between 1973 and 1975 and never recovered⁷²) meant that much of the then unrecorded and unpaid family female labour were unemployed also. In being relocated in or close to urban areas, as most Greek-Cypriot refugees were, they were more likely to seek and find work

⁶⁷ Christodoulou 1992. *op. cit.*, p.22.

⁶⁸ Republic of Cyprus 1979. Census of Agriculture 1977. Nicosia: Ministry of Finance, Dept. of Statistics and Research, p.66.

⁶⁹ Loizos P. 1981. The Heart Grown Bitter: A Chronicle Of Cypriot War Refugees. Cambridge: Cambridge University Press, pp. 178-179.

⁷⁰ *The Economist*, 27th, August 1977, "Miracle in Half an Island", pp. 50-51.

⁷¹ House 1982. *op. cit.*, p.22.

⁷² Republic of Cyprus 1994. Labour Statistics 1993. Nicosia: Ministry of Finance, Dept. of Statistics and Research, p.31: Agriculture, Forestry and Fishing (but when the former represented the bulk of employment in the sector, e.g. in 1987 Forestry and Fishing accounted for only nearly 4% of the total Republic of Cyprus 1994. Agricultural Statistics 1993. Nicosia: Ministry of Finance, Dept. of Statistics and Research, p.66).

in the formal employment sector and so be included in subsequent employment statistics.

In the same year as *The Economist* article was published (declaring that "the liberation of women ha[d] been advanced" [by the Turkish invasion - sic]⁷³), 45.6% of the agricultural work-force was still unpaid female family labour⁷⁴. Ten years later female family labour still represented 40% of the agricultural labour force⁷⁵. At least in that sector it is difficult to think in terms of "the liberation of women ha[ving] been advanced". Given that the first "Emergency Action Plan"⁷⁶ encouraged labour absorption⁷⁷, a lack of progress in the recruitment of women to paid employment immediately after 1974 is perhaps understandable. Although, due to the success of the first "Emergency Action Plan" or the residual strength of the economy, or the modernising impact of exogenous shocks, it had to be amended as early as 1977 to encourage capital intensive production to cope with significant labour shortages. Even so, the only available official statistics suggest that increases in the numbers of women in the labour market have been gradual and not dramatic following the events of 1974 (see Figure 2.22 below), as is implied by House's sample survey and given explicit voice in *The Economist* report . In 1967 women represented 23% of non-farm employment, by 1976 that had risen to 30% and by 1989 women were 37% of non-farm employment. These developments are perhaps less significant because they occurred while significant labour shortages persisted,

⁷³ *The Economist*, 27th, August 1977, "Miracle in Half an Island", pp. 50-51.

⁷⁴ Republic of Cyprus 1979. Census of Agriculture 1977. Nicosia: Ministry of Finance, Dept. of Statistics and Research, p.66.

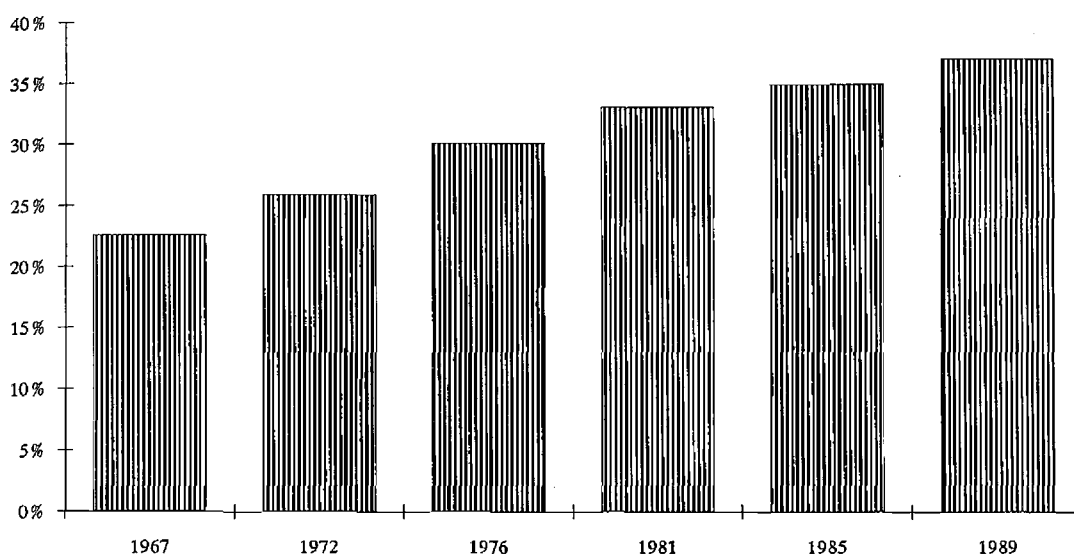
⁷⁵ *ibid.*

⁷⁶ Republic of Cyprus 1975. Emergency Action Plan 1975-76. Nicosia: The Planning Bureau, p.12.

⁷⁷ 39% of the economically active population were unable to continue their existing employment as a result of the de facto division of the island in the summer of 1974. Republic of Cyprus, April 1975. (Unpublished - i.e. "Restricted") "Economic Consequences of the Turkish Invasion and Future Prospects of the Cyprus Economy." Nicosia: The Planning Bureau, p. 12.

with particular bottlenecks affecting certain skills and sectors and requiring the import of foreign workers, both legally and illegally⁷⁸.

Figure 2.22 *Women as a % of total non-farm employment.*



Source: Rep. of Cyprus, 1995. "Statistical Abstract 1993". Nicosia: Dept. of Stat's & Research, Min. of Finance, p.163.

Perhaps this seeming paradox, labour shortages, the slow recruitment of women, is partly explained by the fact that women remained significantly over-represented amongst low income groups and under-represented amongst high earners. In an admittedly small and unrepresentative (i.e. entirely rural) Government study aimed at attempting to boost the female participation rate in the wage economy around 1980⁷⁹, almost half of the respondents cited the level of remuneration as a factor discouraging participation (the other factors were the distance from the workplace and the availability of child care facilities)⁸⁰. Around this time, average female earnings appear to be just over half those of men⁸¹. So if the "liberation of women"

⁷⁸ By 1992, foreign workers represented 6% of the Labour force, Republic of Cyprus 1994. Labour Statistics 1993. Nicosia: Ministry of Finance, Dept. of Statistics and Research, p.14.

⁷⁹ Republic of Cyprus, 1984. Tapping the Female Labour Reserve in Cyprus and Government Perspectives on the utilisation of Research for Women's and Population Issues in Cyprus. Nicosia: Ministry of Finance, Dept. of Statistics and Research.

⁸⁰ *ibid.*, p.2.

⁸¹ "In 1979 the ratio of average monthly earnings of females compared with males was only 0.56, according to data gathered from 40,000 employees. This differential compares unfavourably with the female-male earnings ratio of 0.60 for Canada, 0.66 for the United States, 0.59 for Singapore, 0.80 for Kenya and 0.60 for Indian non-agricultural occupations and 0.66 in Indian farming. However,

in the labour market had been forced on Cypriot society by the shock of war, as the *Economist* suggested, it is not demonstrated in the very limited official statistics⁸².

Although there have been few studies of social mobility, the growth and development of the economy and departure of the colonial power (vacating all middle and high ranking civil service positions) clearly left considerable room for middle class recruitment in the immediate post-independence area. According to the first House study (1981)⁸³, the immediate post *de facto* division period also saw significant occupational mobility.

"Labour mobility in Cyprus over a very dramatic growth period appears to be high, especially when compared with the results from a similar study in Australia. Twenty-four percent of the persons in our sample changed occupation and 7% changed their industry of employment between 1975-79. This result is a reflection of the internal labour market, whereby employees attain upward mobility and pay advancement within their industry of work."⁸⁴

In the 1980s the percentage of persons changing occupations had slowed by a third to around a 16% turnover. By this latest survey covering the period 1979-1985⁸⁵, nearly half of all mobility occurred between adjacent occupational categories with, unsurprisingly, women and older workers being least mobile. During the period of rapid growth following 1974, female occupational mobility was less than the corresponding male rates:

the women of Cyprus do relatively better than those in the Republic of Korea and Japan, where the differential is 0.45 and 0.53 respectively." House, W.J. 1985. Cypriot Women in the Labour Market. Geneva: ILO, p.31.

⁸²"Any discussion of the advancement of the female half of the population of Cyprus is beset by additional difficulties because in the inadequate records in general the female half of the population in particular has suffered from enhanced invisibility." So said former Government minister Christodoulou (1992. *op. cit.*, p.22). According to Stavros Karayorgios, an Economist in the Ministry of Finance's, Dept. of Statistics and Research (interview 03/7/95), the Republic of Cyprus only began collecting employment data by gender in 1980. Earlier snap-shots, such as 1967 and 1972, are based on estimates derived from Census data and demographic reports.

⁸³House, W.J. 1981. Aspects of Labour Mobility in Cyprus. Geneva: ILO/UNFPA. Conclusions reported in House 1982. *op. cit.*, p.20.

⁸⁴*ibid.*, p.20.

⁸⁵House, W.J. 1988. Mobility in the Labour Market in Cyprus. Geneva: ILO/UNFPA.

"We attributed this finding to the narrow and limited occupational and industrial base of female employment..."⁸⁶

Skewed income distribution may have had political consequences in Cyprus, but only in terms of class not gender. The Greek-Cypriot Communist Party (AKEL) has had, in recent years, more popular support than any other in Western Europe. Whilst communism in Cyprus did not begin in the mines, they were its earliest and most successful breeding grounds. Widespread unionisation, the persistent strength and grass-roots spread of left-wing organisations and political affinity is about the only lasting contribution of the mining industry to the modern Cypriot economy.

Ironically, World War II saw the relaxation of martial law (or "Palmerism", named after the governor Sir Richmond Palmer who imposed it) and trade unions and organised labour openly campaigned for the first time. The Communist Party surfaced and reformed under its Greek acronym AKEL (The Progressive Party of the Working People). The following year the nationalist party KEK (The Nationalist Party of Cyprus) was set up to meet the challenge of the left, protect the vested interests of the church and the Greek-Cypriot proto-bourgeoisie, encouraging the setting up of employer organisations. The Turkish-Cypriot minority began to form their own unions under pressure from ethnic leaders, following the continued calls for Enosis by Greek-Cypriots, calls which AKEL found difficult to counter⁸⁷. The Confederation of Turkish Trade Unions was formed in 1945, though it continued to retain close ties with the communist led PSE (Pancyprian Trade Union Committee). The latter was banned in 1946 and its leaders imprisoned by the colonial authorities for "unlawful association", having first been accused of sedition. On the release of

⁸⁶House 1982. *op. cit.*, p.21.

⁸⁷Adams T.W. 1971. AKEL: The Communist Party of Cyprus. Stamford: Hoover Institute Press, pp. 3, 40-45 & note 28, p.251. Attalides M.A. 1979. Cyprus: Nationalism and International Politics. Edinburgh: Q Press, pp. 105-6, 108-121.

its leaders, the PSE was renamed the PEO in 1947 (Pan Cyprian Labour Federation). After long and bitter industrial disputes, ruthlessly suppressed by colonial authorities particularly in the late 40's, PEO increasingly became the victim of Grivas' pathological anti-communism⁸⁸. EOKA⁸⁹ "executed" some leading PEO members during their campaign of violence in the mid-fifties. In 1959 the Employers Consultative Association was formed from the few small, disorganised employer associations.

Concealing this recent history of mutual antagonism, the infrastructure for subsequent "tripartism", affecting labour relations and employment legislation, has its roots in these developments. The more broadly corporatist policy which formed the basis of development planning and implementation ever since independence, was created to respond to these largely grass roots developments in the colonial era. Consultative Committees, commissioned after independence, form a major element of the planning process. They are made up of government officials and representatives from employer and trade unions organisations and meet to co-ordinate economic policy.

Whilst Greek-Cypriot "tripartism" appeared to come into its own immediately following war and *de facto* division in 1974, the importance of the broad consultative element in the development and implementation of economic policy needs further analysis if the response to the challenges of the 1970's is to be fully understood. On cursory examination, collective bargaining seems to have had a positive (if not indispensable) contribution to planning in the immediate post-war period, though most of the benefits appear to have been more political than economic. The evidence suggests, however, that collective bargaining worked in

⁸⁸See Adams 1971, *op. cit.* p.46, Mayes (S. 1981. Makarios: A Biography. London: Macmillan) p. 24.

⁸⁹EOKA: Ethniki Organosis Kypriou Agoniston (National Organisation of Cypriot Fighters).

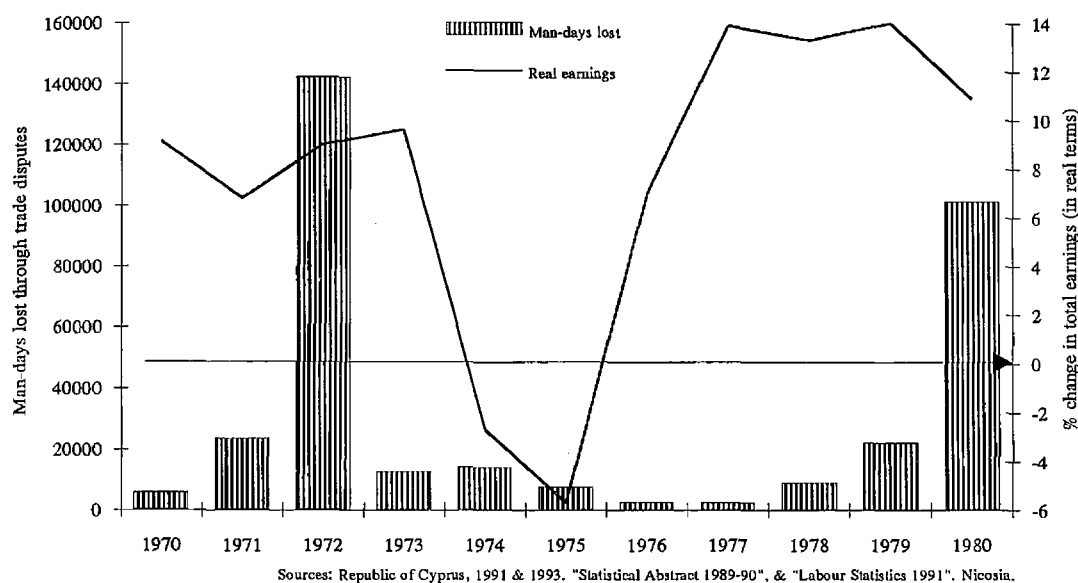
aiding the recovery from the coup and invasion, but only worked effectively in such adverse economic and political conditions (Figure 2.23).

The role played by war on labour relations and the kinder, gentler, Greek on Greek politics could be given as a possible economic benefit of *de facto* pacification and a newly established national cohesion in culturally simplified Cypriot society, although the consultative process probably played a role. In the aftermath of the invasion, P.O.E., the AKEL (Communist) led trade union movement, headed by Mr E. Papaioannou, agreed to an immediate 25% cut in pay, a wage freeze and a ban on strikes (see Figure 2.23 below). With the massive rise in unemployment which followed the structural dislocation of the invasion, it has been pointed out that such a move by the trade union movement was motivated by "enlightened self-interest"⁹⁰. Yet it proved effective both in boosting productivity and reducing inflationary pressures. An extension of the labour movement in Cyprus, the co-operative movement, also played a significant role in reducing inflationary pressure by holding prices down, following the disruption caused by *de facto* division and distributing "refugee" relief through its then pervasive retail presence (so reducing the need for more costly bureaucracy). The war and its effects, arguably, focused the collective psyche on material advancement through the reconstruction and maintenance of a successful mixed economy; in this "tripartism" and the consultative process played a role. The open and bloody conflict of nationalist and socialist agendas elapsed in a post-74 context. Public policy made greater concessions to consensus politics, reflecting more homogenised expectations and goals coinciding with the homogenous cultural conditions which then, and for the first time, generally prevailed, though they were created and maintained by the ever present perception of a continued threat from Turkey. In the immediate aftermath of

⁹⁰*The Economist*, 27th August, 1974, "Miracle in Half an Island", pp. 50-51.

the Junta sponsored coup and its consequences, the political right had lost credibility.

Figure 2.23 *Short run consequences of war on industrial relations.*



The contribution of labour to the recovery in terms of a reduction in real wages can be seen above (Figure 2.23). Underlining its significance is the idea that human resources are Cyprus' most valuable asset⁹¹, even more valuable when not striking or fighting. Although the political situation in Cyprus complicates analysis of industrial relations, decline in real earnings would normally be expected to usher rises in industrial disputes. After 1974 Greek-Cypriot workers did not respond accordingly, despite the decline in self-employment (as a result of the loss of prime agricultural land) and the concomitant rise in the number of potentially discontented workers. The immediate response by organised labour to the crisis of 1974 appeared self-sacrificial, although longer-term, mutual self-interest seems to have played a part. The rapid rises in unemployment had escaped no ones notice. Through negotiation they had been able to secure regionally enviable conditions of

⁹¹Christodoulou 1992. *op. cit.*, p.3.

employment: rapidly rising real earnings, index linked pay in some sectors, a minimum wage and gradual reductions in the working week.

Underlining the perceived significance of the conflict resolution, the consultative element of the planning process had been stepped up during the development and implementation of the Emergency Action Plans in the immediate post-war period⁹². More broadly, this illustrates the importance of earlier social and political developments on the institutional framework underpinning the Cypriot economy, seemingly important in assisting a rapid Greek-Cypriot recovery. The extent to which these developments failed to respond to the long looming political crisis which came to a head in 1974, can only be left here as a moot point. The corporatist, inclusive, planning strategy also failed to secure one key objective during post (74) war reconstruction, it failed to encourage and ensure long term diversification; failed to prevent a recurrence of the domination of the Cypriot economy by one industry, in one sector, regionally specific, this time limited to the coastal fringe.

War had briefly shocked the economy with a massive increase in unemployment, which in turn had briefly reduced the labour supply constraint. However, despite the very significant success of the Emergency Action Plan 1975-76, the surplus labour created by the *de facto* division of the economy could not be immediately absorbed by the economy, so leaked out in another upsurge in out migration⁹³. As a consequence of the dislocation of a third of the (mostly rural) population, the role of women in the formal labour market increased. Although direct comparisons are

⁹²Matsis S. and Charalambous A. (Autumn) 1989. "Development Planning in Cyprus", The Cyprus Review, Vol. 1, No.2, pp. 21.

⁹³"Another important feature of the demographic scene has been the large loss of external migrants, particularly in the years of political strife. For example, during the two years following 1974 emigration eliminated more than the whole of the natural increase in population." House, W.J 1982. Population, Employment Planning and Labour Force Mobility in Cyprus, (Terminal Report). Nicosia: Planning Bureau & Dept. of Statistics and Research, p. 4.

not possible, increases in the paid employment of women, as a consequence of the political upheavals, have not been as dramatic as some commentators have suggested. The role of organised labour and the co-operative movement in the recovery, has been recognised as significant. What has been less commented on is the homogenised goals in the Greek-Cypriot community which followed Turkish intervention; the dissolving of a "civil war in miniature, which was stopped only by the invasion by Turkey."⁹⁴ The role of a formal consultative process, inherent in the planning process, came into its own following the disruption of war. When growth returned, as it rapidly did, the Greek-Cypriot labour force had to adapt to work in a different economy, with new sector and sub-sectors looking increasingly significant.

Tertiary developments; re-establishing tourism and attempts to relinquish its dominance

The deliberate promotion of tourism in Cyprus only dates back to the 1960's, so it should come as no surprise that at the turn of the century, this leased Ottoman Province had only 10 hotels offering basic accommodation. By the time of the 1946 Census, 173 innkeepers and managers registered the hotel trade as their profession. The 1946 development report pointed out the...

...disadvantages of the island from the point of view of the visitor trade are the inconveniences of communication by sea and air, its remoteness from the beaten track of the large passenger steamship lines, its lack of properly organised road transport services, the limited accommodation available in hotels, summer cottages and camps and the poor quality of its places of entertainment.⁹⁵

⁹⁴Loizos 1981. *op. cit.*, p. 132, see also pp. 54-62.

⁹⁵Government of Cyprus, 1946. A Ten-Year Programme of Development for Cyprus. Nicosia: Govt. Printing Office, p.96.

Until the intervention of public finance initiatives and the arrival of cheap air travel, Cyprus offered three types of resort. The earliest resorts were up-market summer retreats in the cool of the Troodos mountains, attracting visitors from the existing or former British Protectorates and Mandate Territories of the Middle East. Mirroring these fashionable resorts were minor hill resorts which attracted wealthy local townspeople (especially from Nicosia) away from their trade during the uncomfortable August heat. Sun and sea resorts, such as Kyrenia, began as winter retreats for wealthy Northern Europeans (particularly Britons, with their colonial links). Following the advice of a UN mission to Cyprus in 1960⁹⁶, the independent government directly and indirectly acted to sponsor the development of tourism. Direct government funding was put forward for the development of the Golden Sands Complex in Famagusta and the construction of the Hilton International in Nicosia. With UNDP funding, a hotel and catering college was established in 1969 to provide the relevant skills to aid the development of the sector.

After the coup and invasion, tourism initially suffered from transport and supply problems: the loss of most tourist infrastructure, the island's main airport and seaport, an estimated 82% of tourist accommodation and 96% of hotels under construction⁹⁷. Also, demand was down as a consequence of perceived security problems associated with visiting Cyprus. The unrelated introduction of surcharges by airline companies (after 1973-4 oil price rises), particularly important for tourism to more distant European holiday destinations, also had an impact on Cyprus as a holiday destination. Arrivals by air fell by 45% in 1974 and a further 50% in 1975⁹⁸. In 1975 the windfall of the Lebanese influx (by sea, following the

⁹⁶ UN. Programme of Technical Assistance, 1961. *op. cit.*, p.56.

⁹⁷ Lockhart, D. G. 1993. "Tourism and Politics: the example of Cyprus", in Lockhart D.G., D. Drakakis-Smith and Schembri J. (eds.) The Development Process in Small Island States. London: Routledge, p.236.

⁹⁸ Republic of Cyprus 1987. Tourism, Migration and Travel Statistics 1986. Nicosia: Ministry of Finance, Dept. of Statistics and Research, p.37.

fall of Beirut as a regional commercial centre) filled some of the foreign exchange vacuum and many hotel beds left empty by the fall in tourism following the Turkish invasion.

As a result of swift government action, building a new airport, making state land available for development, guaranteeing and subsidising private investment in tourism, recovery was spectacular with realised growth rates far exceeding planned growth⁹⁹. For the World Bank¹⁰⁰, this sector offers an explanation for the successful development of the post-1974 Republic of Cyprus. By the 1980s Cyprus was considered a "service and remittance country" by the IBRD's sister institution, the IMF. By 1990, this meant that total domestic exports represented just 44.6% of tourist receipts with the latter accounting for 22.6% of GNP (for the relative rise of revenue from tourism, compared with export income, see Figure 2.16). It must also be remembered that this is not mere recovery but a completely new phenomenon. In 1973, when tourist numbers peaked before *de facto* division,¹⁰¹ receipts from tourism represented under 10% of export income (see Figure 2.16). The dominance of tourism, even in the service sector where it had mostly played second fiddle to revenue derived from the stationing of foreign troops on the island, was new to Cyprus and a post '74 phenomenon. In many ways the rapid recovery, the rapid growth of the sector reflects the success of planning and government incentives.

The subsequent establishment of new incentives to encourage the growth of an offshore sector¹⁰² was an attempt to diversify the tertiary sector, and the economy as a whole, from its overwhelming dependence on the whims of international tourists

⁹⁹Matsis & Charalambous 1989. *op. cit.*, pp. 9-45.

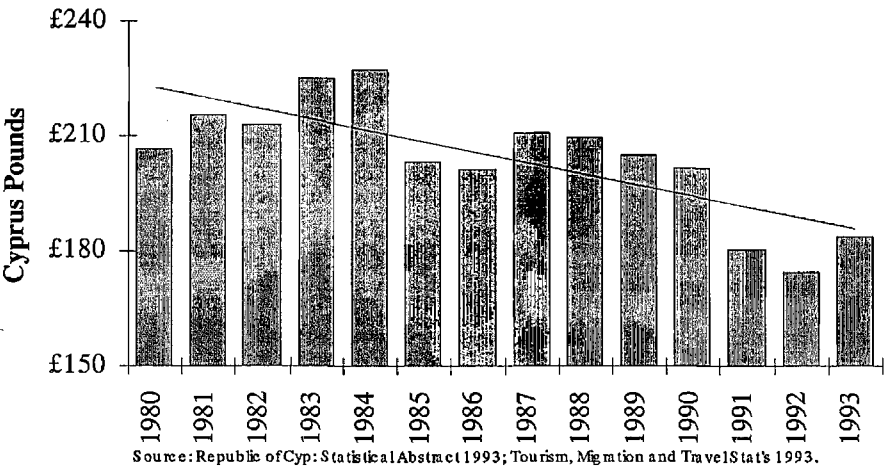
¹⁰⁰I.B.R.D. 1987. "Cyprus: A Long Term Development Perspective", A World Bank Country Study, Washington DC: World Bank Publications, pp. xi, 2.

¹⁰¹Republic of Cyprus, 1987. Tourism, Migration and Travel Statistics 1986. Nicosia: Ministry of Finance, Dept. of Statistics and Research, p.37.

¹⁰²Coopers & Lybrand. 1994 edition. Cyprus: The way for businessmen and investors. Nicosia, pp. 155-179.

to pick the Republic of Cyprus as their holiday destination. Official figures understate the overall dependence of the Republic on tourism; the construction industry, local manufacturers, retail and service sector and ultimately the speculative demands of the real estate market feeding equity rates all depend on a buoyant tourist industry. Due mainly to the speed of development and the need to re-deploy resources, coupled with a lack of geographical planning and sectoral zoning in new development, Cyprus has suffered a general down-grading of the tourist product since 1974. Excessive competition in the market for package tourism, has led to low and falling profit margins per visitor, as reflected in the declining trend in income per tourist in Figure 2.24 below.

Figure 2.24 *Income per tourist in constant 1980 prices, 1980-1993.*



Increasingly Cyprus became more and more dependent on mass tourism to maintain consumption levels and make up for visible trade deficits. Despite all the planning initiatives designed to encourage an upgrading of the tourist product and a diversification of export earnings, once it overtook visible exports sometime in the mid 1980s (see Figure 2.16), tourism, increasingly dominated by mass tourism, remained overwhelmingly important to foreign exchange earnings, though with falling incomes per head, this led to the need to attract ever increasing numbers of

tourists to the island. The result has been massive over capacity, high seasonality of earnings and an overwhelming strain on natural resources and (during peak season) on tourist infrastructure too. It has also led to questions about the sustainability of development trends: in the first 11 months of 1994, the Republic of Cyprus received nearly two and a half million foreign tourists¹⁰³, nearly four times the population. The last time the Cypriot economy was so dependant on a single sector for its, what today would be called, foreign exchange earnings, was during the colonial era when the Cyprus Mines Corporation represented the export sector almost entirely.

A great hope of post-74 planning initiatives was, however, the offshore business sector¹⁰⁴, particularly in the aftermath of the fall of Beirut.

"Tourist development holds a special place in the Third [Emergency Economic Action] Plan as a permanent source of activity to maintain foreign exchange earnings. For the same purpose the Plan also points to the need for the development of other sources of export services... Such sectors are considered to be the transit trade, professional services, insurance, Banking and shipping services...Increased contribution by the above service sectors will further stabilise the economy and reduce risks and uncertainty in the future."¹⁰⁵

Whilst the statistics on the growth of the offshore sector look impressive (see Figure 2.25 below), most offshore companies registered in Cyprus were little more than fax numbers and registration certificates. Even in 1994, a confidential Central Bank document estimated that out of the 17,258 offshore companies registered in Cyprus in that year, only 1096 were fully fledged companies (that is they employed staff directly in Cyprus) and only 423 employed three or more staff. Whilst the numbers

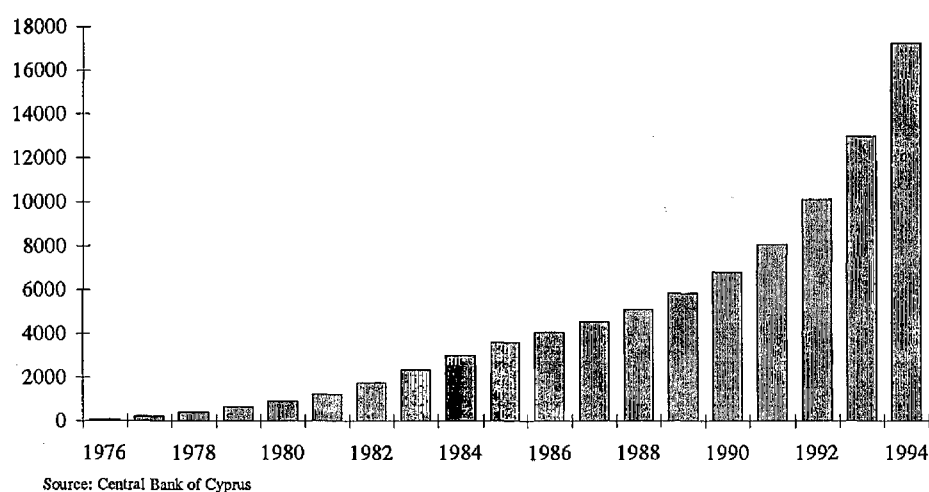
¹⁰³*The Cyprus Weekly*, 7/1/95, p.11.

¹⁰⁴"In 1975 the Government of Cyprus began offering the first incentives aimed at encouraging the establishment of legal entities by foreign persons in order to manage their overseas affairs or to render services abroad from the island." Rep. of Cyprus. 1992. Cyprus: A Guide For Offshore Enterprises & Regional Offices. Central Bank of Cyprus, p.3.

¹⁰⁵Republic of Cyprus, 1979. Third Emergency Economic Action Plan 1979-81. Nicosia: The Planning Bureau.

of offshore companies registered in Cyprus increased every year, the only available data¹⁰⁶ suggests that this has not been an entirely positive trend. In 1994 only 6% of offshore companies were fully fledged companies and just over 2% employed three or more people. In 1993 8% of offshore companies were considered to be fully fledged by the Central Bank and 3% employed three or more people, whereas in 1992 it was 10% and 4% respectively. Essentially, a lot of new offshore companies were registered in Cyprus every year, but very few of them (and in recent years a declining number of them) contributed anything other than a registration fee to the economy of the Republic of Cyprus.

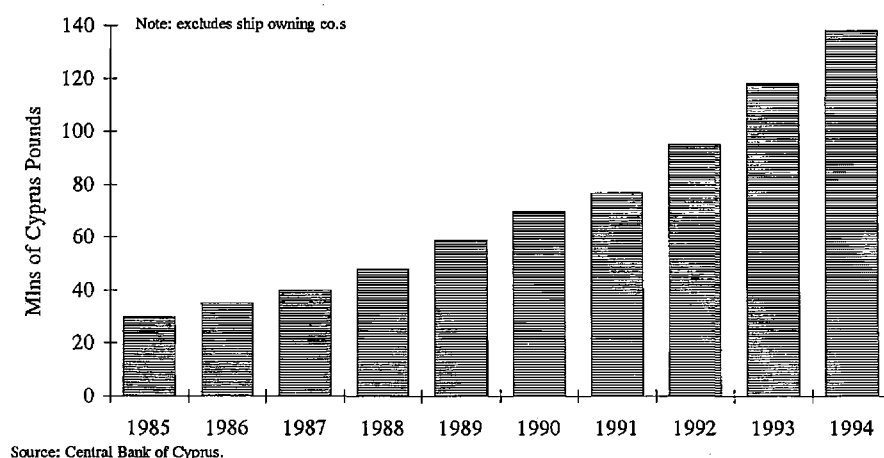
Figure 2.25 *The growth of other invisibles; the number of offshore companies registered in Cyprus, 1976-1994.*



However, by the late 1980s the offshore sector generated a significant amount of foreign exchange (see Figure 2.26 below). Even without considering the contribution of the many shipping companies (many of which simply relocated from Greece to Cyprus to reduce their exposure to taxation), the income generated directly from the offshore sector appears significant.

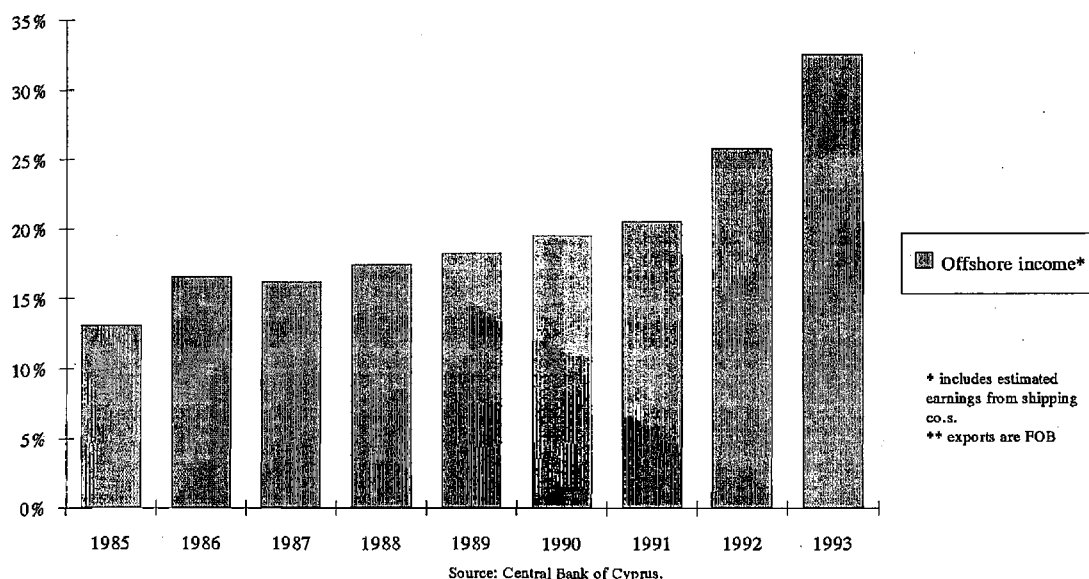
¹⁰⁶Confidential Central Bank Report: "Offshore & Shipping Developments During 1994".

Figure 2.26 *Gross foreign exchange revenue from the offshore sector.*



When offshore shipping companies are included as well, the contribution of the offshore sector to the balance of payments looks highly respectable compared with that of visible exports (Figure 2.27), so despite any discrepancy between registration and real economic activity in Cyprus, this appears to represent a major success for planners and participants, to successfully diversify the Republic's economy away from over dependence on the potentially highly volatile tourist sector.

Figure 2.27 *Revenue from the offshore sector as a % of export revenue, 1985 to 1993.*

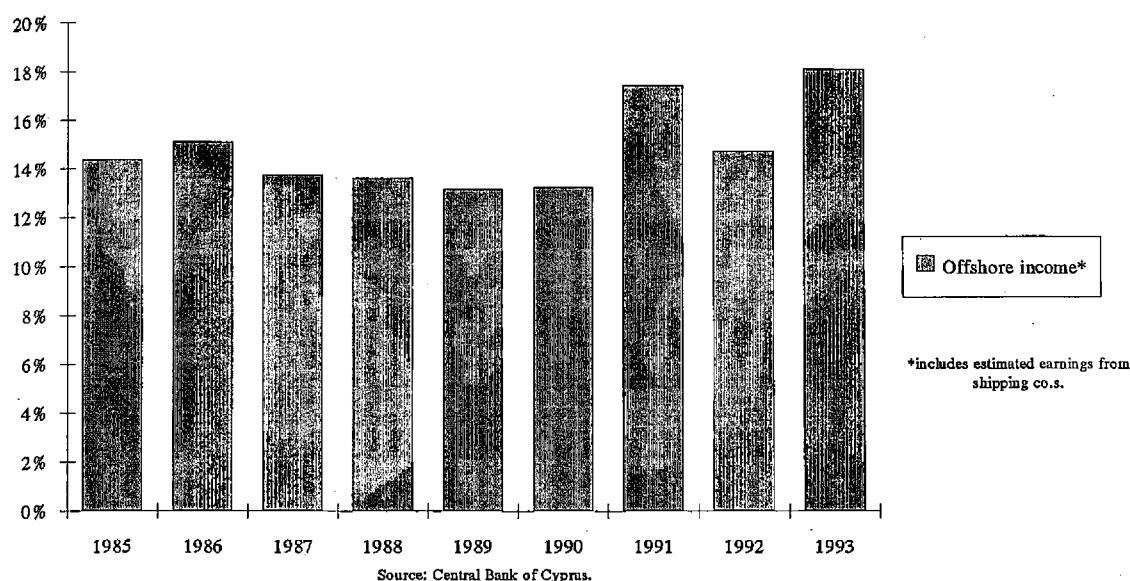


When compared with the rapidly rising revenue from tourism, reflecting the increasing numbers of tourists staying in Cyprus, the offshore sector has made little headway in deflecting dependence from increasing numbers of cheap package holidays on the island. Even during the offshore sector's most rapid period of growth in earnings, during the mid to late eighties and early nineties, its value as a proportion of earnings in the tourist sector grew only very gradually (Figure 2.28). Despite some impressive looking growth statistics, the offshore sector has been a tiny enclave within the Cypriot economy. In 1994 it employed only five and a half thousand people, a total figure that had grown by 35% in the two preceding years¹⁰⁷, although only just under two thousand of them were full tax paying local hires¹⁰⁸.

¹⁰⁷*ibid.*

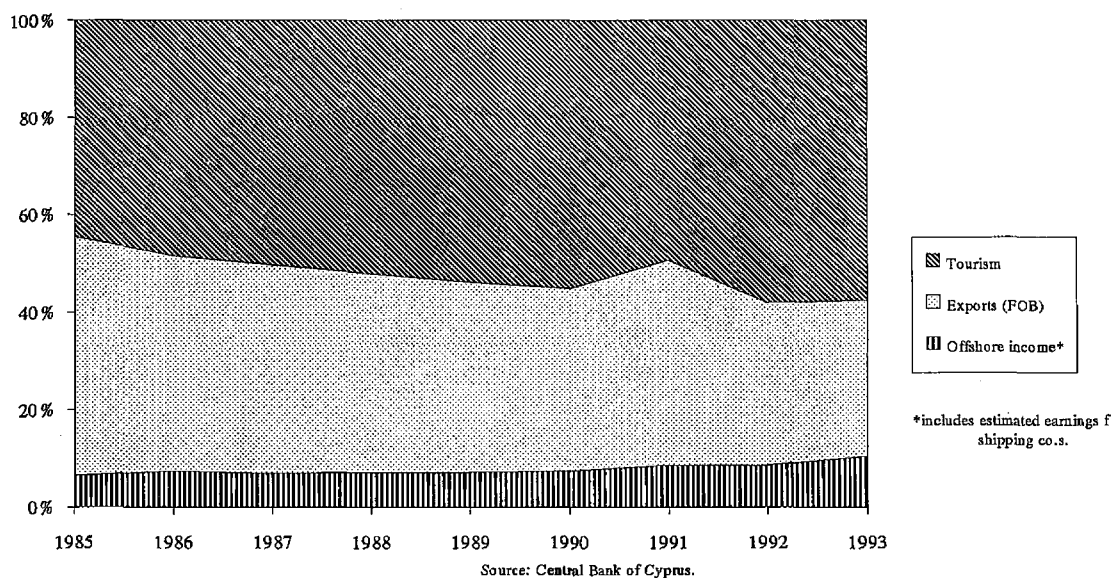
¹⁰⁸ Permanently resident expatriate employees are taxed at half the Cypriot rate of income tax (therefore max. 20%), and benefit from duty free status with regard to vehicles and many other goods and services purchased in Cyprus. Coopers & Lybrand. *op. cit.*, pp. 158-159, pp. 173-4.

Figure 2.28 *Invisible changes; revenue from the offshore sector as a % of revenue from tourism, 1985 to 1993.*



Seen as a whole, foreign exchange earnings have diversified little since the offshore sector increased its contribution to export earnings. The increased contribution of foreign exchange from the offshore sector seems simply to have made up for the losses in visible exports (see Figure 2.29 below). What also can be seen very clearly in Figure 2.29 is the volatility and potential volatility in revenue derived from tourism from which diversification has attempted to insulate the economy. The fall in the proportion of foreign exchange earnings in 1991 and the consequent rise in the contribution of (mainly) visible exports, were the result of the Gulf War.

Figure 2.29 *The changing composition of foreign exchange earnings, 1985 to 1993.*



Following *de facto* division in 1974, the tourist industry rapidly recovered and grew to dominate the Cypriot economy as it never had before. Subsequent efforts to limit and curtail tourism's dominance, with the development and encouragement of new invisible earning service sector enterprises, have so far proved to have had only limited success. Whilst tourism contributed to a sustained recovery, the extent to which it can continue to contribute to the economy's sustainable development can be questioned in view of its particular sensitivity to political instability; in a politically unstable environment there are significant costs associated with such a level of dependence.

Conclusion

Using IBRD¹⁰⁹ criteria, the Republic of Cyprus joined the rich nations of the world in 1988, when its per capita gross national product (GNP) exceeded the 1990 &

¹⁰⁹Although a member of International Bank of Reconstruction and Development (The World Bank) Cyprus is not included in its annual publication of basic economic and social indicators World Development Report (World Bank Publications, New York: OUP) because its population is below a million.

1991 World Development Report middle income economy ceiling of \$6,000¹¹⁰. Seemingly, Cyprus has done this by exploiting its comparative advantage in natural resources, initially minerals: copper, pyrites and asbestos, then its climate, first to grow citrus and early new potatoes (mostly for the British market) and subsequently to attract foreign tourists. With a loss of nearly 40% of territory, the Republic's economy had to do otherwise than simply rely on the exploitation of natural resources.

In the south, the loss of agricultural land led to much modernisation in the agricultural sector and the economy more generally. Agricultural productivity increased rapidly and was said to be over three times higher by the 1980s¹¹¹, than it was in the north, where the most productive agricultural land used to be¹¹². The loss of the most intensively farmed agricultural land led to the release of much under-employed rural labour, increasing productivity generally, temporarily removing the labour supply constraint and producing little inflationary impact at a time of high global inflationary pressure. This type of economic modernisation has proved politically difficult in most European economies, with low productivity agriculture receiving, or at least being the target for the bulk of direct EU subsidies.

¹¹⁰The \$6,000 ceiling relates to a per capita GNP two years prior to publication, given for Cyprus (World Tables 1992, World Bank Publication. Baltimore: John Hopkins University, p.209) as US\$6,450 in 1988, relating to World Development Report 1990 (World Bank Publications, New York: OUP) and US\$7,230 in 1989, relating to the World Development Report 1991. Dollar estimates in Official Cypriot statistics put per capita income somewhat higher at US\$7,754 and US\$8,136 respectively. Seemingly the difference represents exchange rate fluctuations and a relatively strong Cyprus Pound. The Governor of the Central Bank of Cyprus, Mr A.C. Afxentiou, speaking in London, revealed that recent calculations show that per capita income has practically doubled in Dollar terms since 1988. In his introductory address to the Cyprus British Chamber of Commerce and Industry on the 8th April 1994, he estimated that in 1993 per capita income had reached US\$12,000 per annum.

¹¹¹Dodd, C.H. (ed.) 1993. The Political, Social and Economic Development of Northern Cyprus. Huntingdon, Eothen Press, p.300.

¹¹²The 37% of the island north of the UN Buffer Zone accounted 46% of plant production in 1972 (79% of citrus, 68% of cereals, 45% of olives, 25% of potatoes, 100% of tobacco, 86% of carrots, 32% of other vegetables, 65% of green fodder, 30% of carobs) and 47% of livestock. Republic of Cyprus, April 1975. (Unpublished - i.e. "Restricted") "Economic Consequences of the Turkish Invasion and Future Prospects of the Cyprus Economy." Nicosia: The Planning Bureau, pp. 3-4.

The structure of the economy, the composition of employment, the composition of GDP and the relative contributions to national income of the main sectors of the economy changed little during the first decade of independence. Where successful economic development was plainly visible, was in the growth in real per capita incomes. 1974 provided the decisive break, in which the structure of employment and the composition of GDP changed fundamentally. The composition and direction of exports also changed significantly after 1974. Though at a cost, the Republic of Cyprus shifted from having low external debts to high external debts, a low tax burden to a much higher one. Seemingly, many of the financial costs of restructuring were borne by a combination of foreign aid and the world's money markets, but also by the domestic tax payer. War had briefly shocked the economy, with a massive increase in unemployment, which in turn had briefly reduced the labour supply constraint, but also caused an upsurge in out migration. The role of women in the formal labour market increased, though not as dramatically as some commentators suggested. The role of organised labour, the co-operative movement, the formal consultative process inherent in the planning process, contributed to the rapid recovery, but so also did a decline in politically motivated violence. Following *de facto* division in 1974, the tourist industry began increasingly to dominate the Greek-Cypriot economy, becoming increasingly responsible for much economic growth that took place after the initial recovery had restored confidence. Subsequent efforts to diversify export oriented services, have had limited effect.

But what of developments in the Turkish-Cypriot economy? After 1974, per capita income began the period of regionally distinct economic development looking fairly similar on both sides of the UN Buffer Zone (see Figure 7.1). Another period of inter-communal redistribution 1974/75 had seen Turkish-Cypriot total income rise

by over 60%¹¹³ whilst Greek-Cypriot income had fallen by nearly 35%¹¹⁴. So in 1976, official estimates put Greek-Cypriot per capita income at \$1520 and Turkish-Cypriot per capita income at \$1504 (in 1977 US dollars). After 1976, however, Cypriot economic growth trajectories diverge dramatically, (see Figure 7.1) and yet little has been written of these developments in Cyprus' other community. Whilst the Greek-Cypriot economy bounced back from another bout of fighting (anti-colonial 1955-58, inter-communal, 1963-67, intra-communal 1967-74, and coup and invasion in 1974), Turkish-Cypriots appear to have fared less well.

The following chapter attempts to piece together a rough sketch of the development of a separate Turkish-Cypriot economy, while chapter 4 looks at developments in the Turkish-Cypriot economy following *de facto* division. In chapter 5, many of the long-term themes introduced both here (in chapter 2) and in chapter 4, are developed as the focus is sharpened onto the short-term recovery. Do they provide an explanation for the growth trends observed in the island's two economies? Chapter 6 draws it all together, looking back at the island as a whole, and asks whether a single, integrated economy would be greater than the sum of the two? But first a closer look at the evolution of a separate Turkish-Cypriot economy.

¹¹³Bicak 1993. *op. cit.*, p. 8.

¹¹⁴Represents loss of real GNP in 1974 and 1975. Rep. of Cyprus. 1994. Historical Data on the Economy of Cyprus 1960 - 1991. Nicosia: Ministry of Finance, Dept of Statistics and Research, pp. 19-20.

CHAPTER 3. The foundations of *Takism*; The development of a separate Turkish-Cypriot political economy.

Introduction

This chapter looks at the internal political, practical and institutional developments that led up to *de facto* division in Cyprus along ethnic and regional lines. Most of what follows is derived from a series of interviews with significant players (footnoted below). In the absence of other records, their recollections, cross-referenced where possible with contemporary independent reports, provide useful and largely unreported background and detail to the clinically, statistically biased economic consequences of war and ethnic division described elsewhere in the thesis. In this and the following chapter, the object is to map the development of a separate Turkish-Cypriot economy, from the largely subsistence and aid dependent enclaves of the 1960's to the creation of their own multi-national in the 1980's. Here, the significant developments that preceded the coup and invasion are the main concern. In Chapter 4, the developments which led up to the creation of the region's own multi-national enterprise, will be examined.

At one level, the diplomatic conventions which determine syntax and grammatical style¹, when referring to northern Cyprus, can easily be confused with bias, simply

¹Even in the 1960's "because of the nature of the Cyprus conflict, and because UNFICYP had to remain impartial, it could not, for example, use the phrase 'Turkish Cypriot Government' in reports or during negotiations. UNFICYP therefore drew up a list of terms to be used when referring to Turkish Cypriot officials, e.g.: Turkish Cypriot Leadership...Turkish Cypriot Police Element..." Patrick R.A. 1976. A Political Geography of the Cyprus Conflict: 1963-1971. Ontario: University of Waterloo, Dept. of Geography Publication Series, No. 4, p.99, footnote 70.

because they underline the lack of diplomatic recognition for an autonomous Turkish-Cypriot political entity. A product of this lack of recognition is a lack of international research interest. Seemingly, the very act of conducting research may be seen to add a level of credence and recognition to a separate political economy that is at odds with long-standing Greek-Cypriot policy, which has so actively opposed division². The Republic of Cyprus is of necessity the host of anyone considering pan-Cypriot research, though it requires a determined effort to maintain a pan-Cypriot approach³. It is hoped that bias will be avoided here and that the reader will appreciate that the motive for investigation remains the desire to understand the economic consequences of ethno-national conflict and division in Cyprus.

Despite dire warnings to the contrary⁴, access to available "official" sources in the "TRNC" has been relatively good. From the late 1970's the quality and quantity of data improved. Earlier data is highly limited in either scope, reliability and / or availability with the crucial period before, during and immediately after 1974 being particularly problematic. At critical periods in the community's recent turbulent history, most recently on the 20th July 1974 (when it looked as if the Nicosia and

²An example of this policy can be seen in a PIO publication written by Dr Elenora Gavrielides, a Press and Information Officer (Rep. of Cyprus. 1992. Greek Cypriot Properties in the Occupied Area and the Turkish Cypriot Policy. Nicosia, PIO, p.4): "Another aim of the Turkish Cypriot illegal regime's policy regarding Greek Cypriot properties is to create the impression that a perfectly organised state is operating in the occupied areas and that is, at least partly, why 'law' and 'regulations' were adopted to regulate the matter at issue."

³For example, current authorised international points of entry are located within the areas controlled by the internationally recognised Government of The Republic of Cyprus. Other points of entry are illegal and people using them are subject to prosecution there. If pan Cypriot research is to be conducted, access to the north is only possible from the south via the Ledra Palace checkpoint in Nicosia. Special permission is required to visit the area more than once per visit, to stay beyond the 5.00pm curfew, to leave the confines of (north) Nicosia and to visit before 8.00am and after 1.00pm. Special permission is complicated and time consuming to arrange, and has to be periodically re-negotiated with officials at the checkpoint.

⁴David Barchard of the Financial Times (FT), a far from unsympathetic journalist, said "economic information about Northern (sic) Cyprus was regarded as a virtual military secret by the Turkish Cypriot authorities..." (Barchard D. 1992. Asil Nadir and the Rise and Fall of Polly Peck. London: Victor Gollancz, p. 91). Barchard was a periodic contributor to Nadir's flagship publication *Turquoise*. A publication that Barchard himself described as the "in flight magazine" for the "cultural image" of Turkey and northern Cyprus.

Famagusta enclaves would be over-run before significant numbers of Turkish Troops could reach them), Turkish-Cypriot administrators were instructed to burn specific documents before leaving their civilian posts to take up military duties. Administrators possessed a list of documents which were to be destroyed during military emergencies; economic data was amongst them⁵. In the aftermath of 1974, security concerns were dominant and economic statistics were either not gathered or not published. Interviews, investigative research and further trawling of secondary literature in other fields, attempt to fill these gaps. The recent and controversial nature of the establishment of the "TRNC" means that gathering data is sometimes slow, though satisfaction arises from providing a more accessible and clearer picture of the formation of a separate Turkish-Cypriot economy.

The data viewed and information gleaned from primary sources provides the basis for an introductory analysis of the development of a Turkish-Cypriot economy⁶. No published work has so far attempted to construct a coherent analysis of its development. The narrative form taken in this chapter makes a contribution to knowledge if it stimulates further interest, leading to the discovery of new archives which may disprove tentative conclusions reached here. Unfortunately those archives, if they exist, were not available to this writer. The limited statistical analysis provides some data revealing the difficulties associated with transitional economies at both a practical and theoretical level.

⁵This information derives from a series of interviews with Ozalp Sarica, carried out in his office, at the EMU, on the following days 17/3/95, 21/3/95, 24/3/95. Ozalp Sarica was the first Assistant Governor of the Central Bank of Cyprus, employment he left on 23 December 1963 along with the rest of the Turkish Cypriot community. Since then he has held senior positions in the various Turkish Cypriot "administrations" and key economic institutions that helped to create and maintain a separate Turkish Cypriot economy. From 1964 to 1968 he was the Director General of Evkaf (the second largest landowner in Cyprus). He became the first Director General of the "State" Planning Organisation when it was founded by the provisional administration in 1968. While there, he set up a company called Eti, which he fronted from 1972, with the aim of opening and increasing economic links with "mainland" Turkey.

⁶Where possible information provided in interviews has been cross-referenced with independent sources, contemporary newspapers, the UN (and former serving UN officers - Patrick 1976. *op. cit.*,) and other independent secondary sources.

Cyprus is a small island with one history which has bestowed on it two non-communicating economies. An element of shared institutional foundations and structures is however difficult to disentangle from the economic development that took place as the lines of communication were cut. The object of this and the following chapter is to establish the role of those institutions within the Turkish-Cypriot community. This approach will be taken within a general pan-Cypriot context of establishing what the economic effects of ethnic conflict in Cyprus were, the agents of recovery and the role of different public and private institutions in the development that followed *de facto* division. Perhaps a further question is necessary when considering the minority community of the island, and that is to establish the role of economic decision making, to determine the extent to which the Turkish-Cypriot economy evolved from its apparent roots as a highly controlled war economy. This raises other questions like; is Turkish-Cypriot economic dependence on Turkey a result of exogenous constraints (as the House of Commons, Foreign Affairs Committee suggested⁷), or does this reflect non-economic concerns? To what extent have economic policy makers' choices been constrained by the community's evolving relationship with the "mother" country and has the Turkish-Cypriot community benefited economically from that relationship? This latter question will be left until Chapter 6, though the context from which they can be more clearly understood is outlined below.

⁷HMSO, May 1987. House of Commons Foreign Affairs C'tee, Third Report on Cyprus, paragraph 65, p. xx.

The historical context of separate economic development

Despite a powerful Greek-Cypriot official rhetoric to the contrary, Turkish and Greek-Cypriots did not live together in Cyprus before 1974, 1963, or even 1955. They may have shared the same villages and been neighbours, even been of the same ethnicity⁸, though at best it was coexistence rather than integration. Important parts of their lives remained distinct. Kitromilides has argued⁹ that in traditional society, before the expansion of literacy and the transmission of nationalism into the villages, they lived separately in mixed communities, geographically and culturally close together and without "ethnic" hostility. Divisions were not regional, perhaps portraying the level of coexistence, though a rising trend of spatial separation had been accelerating since the late nineteenth century¹⁰. As Patrick¹¹ and Loizos¹² have pointed out, as well as the rise in political tensions concomitant with the rise of nationalism, another factor in the decline of mixed villages may have been different rates of migration to urban centres.

Economic distinctions had followed a typical Ottoman religious / cultural division of labour within the context of a primitive economy: Greek-Cypriots were stone masons whilst Turkish-Cypriots were carpenters, Turkish-Cypriots aspired to the prestige and security of administrative positions, whilst Greek-Cypriots aspired to trade. Though the wealthiest elite were merchants, most Turkish-Cypriots were poor farmers. Just prior to December 1963 Turkish-Cypriots produced 13% of gross value added in agriculture whilst representing (in 1960) 17% of the rural

⁸Kitromilides P.M. "From Coexistence to Confrontation: The Dynamics of Ethnic Conflict in Cyprus", in Attalides M.A. 1977. (ed.) Cyprus Reviewed. Nicosia: The Jus Cypri Association with the Co-ordinating C'tee of Scientific and Cultural Organisations, p. 37.

⁹*ibid.*, pp. 36-47.

¹⁰Patrick 1976. *op. cit.*, p.12, figure 1.5.

¹¹*ibid.*, pp.8, 75.

¹²Loizos P. (Spring) 1994. "Understanding 1974, Understanding 1994", The Cyprus Review, Vol. 6, no. 1, p.11.

population¹³. A proportionately small minority were professionals and a larger number of Turkish-Cypriots (a proportionately large number) filled the lower ranks of public service, the police and the civil service. In 1901 Turkish-Cypriots represented 13% of advocates and 2% of registered chemists. Out of 37 doctors, 32 were Greek-Cypriot and none were Turkish Cypriot, yet in the same year they represented 38% of the police force.¹⁴

The main cultural distinction between the two communities was religious. Different family connections (there was little inter-marriage, which was proscribed by Orthodox Canon Law) followed the religious divide. Also following the religious divide was a separate education and a different language (though many shared villages had bilingual communities, some Muslim villages were exclusively Greek speaking and the Turkish-Cypriot elite spoke Greek¹⁵). Kinship ties, reinforced by language, religion and a separate education, meant that Turkish-Cypriots tended to use their own shops, cafes and restaurants. These cultural differences meant that Turkish-Cypriots also tended to use different professional services: doctors, lawyers, banks¹⁶ and money lenders. Like the co-operative societies however, which increasingly provided agricultural credit for the mainly rural communities of Cyprus, infrastructural provisions (public transport and hospital services), when they came, were bi-communal. The economic position of Turkish-Cypriots in the income distribution of the Republic of Cyprus prior to December 1963, was

¹³Republic of Cyprus 1964. Statistical Data by Ethnic Group. Nicosia: Dept. of Statistics and Research, Ministry of Finance.

¹⁴Attalides M.A. "The Turkish Cypriots: Their Relations to the Greek Cypriots in Perspective" in Attalides M.A. (ed.) 1977 Cyprus Reviewed. Nicosia: The Jus Cypri Association with the Co-ordinating C'tee of Scientific and Cultural Organisations, p. 87. Figures derive from attributing ethnicity according to name cited in the "Handbook of Cyprus 1901".

¹⁵According to the 1960 Census, 38% of all Turkish Cypriots spoke Greek, whilst only 1% of Greek Cypriots spoke Turkish.

¹⁶The Turkish Bank Ltd was established in Nicosia in 1901 by Turkish Cypriots, Christodoulou D. (November) 1992. Inside The Cyprus Miracle, Minnesota: University Of Minnesota, Modern Greek Studies Yearbook Supplement, Vol. 2, p. 164.

generally concentrated in the lower 30% group¹⁷, though economic differences were only really obvious in urban areas. Differences between the Greek and Turkish-Cypriot community generally were more apparent outside village life.

"...separation... tended to intensify rather than diminish with economic development and be most marked amongst the more affluent, the better educated and those with higher social status."¹⁸

With the limited proletarianisation that occurred with the development of a modern mining sector (asbestos from 1904 and copper during the First World War), the rising labour movement challenged the nationalist ideology of elite Cyprus. A minority of the workforce (Turkish and Greek-Cypriots) began to share the same conditions of employment and the same interests in collective action, re-establishing some of the intra-ethnic horizontal bonds that Kitromilides noted in traditional society¹⁹. Elements of the Greek right responded by linking the conditions of the masses with colonial occupation, an approach that culminated in the uprising of 1931. Violent Greek nationalism with the beginnings of the EOKA campaign in 1955, and finally the onset of independence killed off joint trade unions in the 1950's²⁰ and a central joint co-operative organisation in September 1959. Although far from integrated, the two communities contributed towards the maintenance of the same economy or at least until the events of 1963 put an unbearable strain on even that level of co-operation.

¹⁷Interview with Suleyman Kiryagdi, General Co-ordinator & Acting Secretary and General Manager of the Cyprus Turkish Co-operative Central Bank Ltd. (est. 1959). Interviews carried out, 20/04/95, 21/04/95 - 11:00am - 1.30pm. A UN economist, Notel Rudolph, estimated that Turkish Cypriot per capita income was 20% lower than the Greek Cypriot, at £130.5 instead of the Greek £160.5.

Rudolph N. 1973. "Economic Integration on Cyprus", paper presented at "An Enquiry into the Resolution of the Cyprus Problem" seminar, held at the Centre for Mediterranean Studies, Rome, 19-24/11/1973, quoted in Attalides 1977. *op. cit.*, p. 87.

¹⁸Wilson R. 1992. Cyprus and the International Economy. Basingstoke: Macmillan, p.118.

¹⁹Kitromilides 1977. *op. cit.*, p. 36.

²⁰The first separate Turkish Cypriot trade union appeared in 1943, as the Turkish Cypriot elite began to organise a separatist approach to the sirens of Enosis. The overwhelming majority of Turkish Cypriot Trade Unionists continued, however, to remain part of the unified left wing trade union syndicate, PEO, until the late 1950s.

Some of the Turkish-Cypriot community had already sought security in numbers by moving to predominantly Turkish areas of the main towns and cities of Cyprus in response to the activities of EOKA beginning in 1956. Effectively the Green Line (a neutral zone dividing the two communities) had been established in Nicosia in the summer of 1958 by British Troops attempting to separate the two communities during the unrest triggered by the EOKA campaign²¹. When fighting waned and after the restoration of confidence as a consequence of the signing of the Zurich and London Agreements (February 1959), communications between the two communities in the major towns, and even the capital, were restored. However, by 1 April 1961, just over seven months after it came into operation, the new constitution already showed signs of severe strain²². On the 30th November 1963 President Makarios, in a letter to the Turkish-Cypriot Vice President, suggested 13 amendments to the constitution favouring the Greek majority. On 11 December these amendments were made public. The atmosphere thereafter was tense. The consequences were that a street brawl in the Turkish quarter between the (ex EOKA) Interior Minister Yorgadjis' plain clothes special constables and a Turkish-Cypriot crowd was immediately followed by a major assault by various Greek-Cypriot paramilitary elements on Turkish-Cypriot areas of Nicosia and Larnaca.

Since the publication of the 1964 Foreign Office documents, it is no longer controversial that the British High Commissioner, Sir Arthur Clark, actively supported, if not influenced, President Makarios' moves to change the recently

²¹ Interview with Ozalp Sarica, *op. cit.*, And Harbottle M. 1970. The Impartial Soldier. London: OUP, p. 63: "Those who were in Cyprus during the EOKA campaign of 1955-9 will remember that the Greek and Turkish quarters of Nicosia were divided by a wire fence which acquired the sobriquet of the 'Mason Dixon Line'. Within the walls of the Old City, the Green Line almost coincides with its predecessor..."

²² On 1/4/1961, the *Cyprus Mail* reported that President Makarios acted unconstitutionally to reinstate a colonial taxation law after the failures to secure the required separated communal majorities to approve new taxation authority. Turkish Cypriots failed to support new taxation legislation to put pressure on the Govt to speed up the pace of positive discrimination and fully install the constitutionally guaranteed 30/70 ethnic ratio at all levels of public service.

agreed Constitution. Seemingly Clark's knowledge and support was given contrary to considered opinion at the Foreign Office in London. The current President of the Republic, Glafkos Clerides who drafted the 13 amendments, has gone on record as saying that Makarios showed him the draft with suggested alterations added in Sir Arthur Clarke's handwriting²³. Clerides said that Clarke told him that he had given advice to Makarios on this matter as a personal friend. President Makarios justified the move as eliminating divisive elements in the constitution: "certain unreasonable rights the misuse of which creates obstacles to the smooth running of the state"²⁴. He distanced himself from the subsequent violence which he publicly considered to be the acts of extremists and irregulars. Turkish-Cypriots saw it as an attempt to relegate them from a position of partnership to the status of a minority. When they refused to accept the constitutional amendments as a *fait accompli*, they saw the violence as a means of removing them entirely.²⁵

The December 1963 constitutional crisis and the re-occurrence of communal violence saw the beginning of a rigid separate economic development on the island. Turkish-Cypriot government employees withdrew en masse (only medical staff,

²³Kyle K. 1984. *Cyprus*. London: Minority Rights Group, p.22, footnote 12.

²⁴*Cyprus Mail*, 26/10/1963.

²⁵As these events are still controversial, it is worth re-quoting two conflicting explanations at some length as a health warning (originally quoted by Robert McDonald [McDonald R. 1989. *The Problem of Cyprus*. London: International Institute of Strategic Studies, Adelphi Papers No. 234, note 25 to Chp. 1]): Field Marshall Lord Carver, Commander of the Peace Force wrote in [Koumoulides J. (ed.) 1986. *Cyprus in Transition*. London: Trigraph, p.22] that "both sides had armed bodies of men ready to go into action immediately... the Turks had a plan which they executed, to leave all government service, and try and set up a parallel administration... at the same time abandoning a number of mixed and isolated villages [103 according to Turkish-Cypriot sources] and concentrating their population in areas where they were less vulnerable; and... the Greeks had plans which they executed with brutality and callous disregard of human life, to drive Turks out of certain areas, particularly in the northern suburbs of Nicosia..." Whereas Robert Stephens has argued [Stephens R. 1966. *Cyprus: A Place of Arms*. London: Pall Mall, p.101] that "neither the suggestion of a carefully planned Turkish rebellion nor that of a systematic Greek attempt at extermination or terror will bear close examination. Despite their clandestine activities, both sides were ill-prepared militarily or politically when the clash came. Nor had either side taken the elementary precautions which should have been evident if they had been preparing for battle, such as the removal of their compatriots from unsafe areas. It was not until the fighting had begun that the Turks began to move out of some of the mixed villages and to concentrate in the Nicosia area, either voluntarily or from fear, or in some cases, under pressure from the Turkish leadership. The same is true of the Greek evacuation from areas where they were outnumbered and in danger".

some police and some CBC²⁶ staff stayed behind in Greek areas). Turkish-Cypriots say a number of rumours had been circulating before the outbreak of violence, substantiated on the day of the 23rd December by the appearance of armed civilians, known EOKA activists. The fact that the British High Commissioner, Sir Arthur Clark, vacated his residence in Shakespeare Avenue (in the Turkish Quarter) three days prior to the outbreak of violence, alerted the community of the possibility of violence²⁷. Put simply, Turkish-Cypriots say armed irregulars and the threat of violence forced them to leave official positions, mixed areas and more general co-operation in the Republic of Cyprus. The (Greek Cypriot) Government maintains that they absented themselves from the civil service and mixed areas on the orders of the Turkish-Cypriot leadership and were carrying out a concerted policy of separation and communal autonomy²⁸.

On Christmas Eve 1963, the Vice President's Office was ransacked and the Turkish-Cypriot Vice President, Dr Kuchuk, remained in his residence where he set up office. Within four days radio Bayrak was broadcasting "illegally" to the Turkish-Cypriot people. The fighting continued when, by the 28 December 1963, Turkish-Cypriots in the Nicosia enclave were confined to their smallest area of Nicosia and according to first hand reports, nearly exhausted²⁹. Intervention by the Turkish Airforce, over-flying Nicosia, and the speedy dispatch of a Turkish Task Force³⁰ caused Britain to send a contingent to Nicosia from its Sovereign Base Areas (SBAs) to act as a peace keeping force. British Troops were again manning the inter-communal boundaries in Nicosia and Larnaca. The political and economic

²⁶Cyprus Broadcasting Corporation (PIK, Ραδιοφωνικό Ίδρυμα Κύπρου).

²⁷ Interview with Ozalp Sarica, *op. cit.*

²⁸E.g. "Within four years of Independence the Turkish Cypriots were concentrated by their leaders with the aid of an underground armed force in a number of enclaves and took no part in the Republic's government and institutions and only a small part in the economy... the policy of Turkish Cypriot withdrawal into enclaves was put in hand." So says former government minister Demetrios Christodoulou 1992. *op. cit.*, pp. xxxii, xlv.

²⁹ Interview with Ozalp Sarica, *op. cit.*

³⁰ Kyle 1984. *op. cit.*, p.10.

separation of the communities began to take on the appearance of permanence. By March 1964, the Greek-Cypriot National Guard was being established and the UN Security Council had created a role for international peace-keepers in Cyprus. By June, General George Grivas³¹ had returned to Cyprus to command the newly formed Greek-Cypriot National Guard. Greek army officers were becoming increasingly apparent on Greek-Cypriot check-points³². By then, leading Turkish-Cypriot figures knew they would not be returning to their official positions in the Government of the Republic of Cyprus³³. Field Marshall Lord Carver, Commander of the Truce Force and then Deputy Commander of UNFICYP from February to July 1964, claims that the objective of the Turkish-Cypriot leadership was “to concentrate their population in the north and bring about partition”³⁴, and that:

Policy was clearly dictated from Ankara, and any deviation from it was liable to lead to condign punishment by the TMT, the Turkish-Cypriot fighters organisation.³⁵

The Nicosia enclave had two open checkpoints, three if you count the VIP checkpoint at the Ledra Palace (still in operation). When inter-communal violence had broken out again in December 1963, the Turkish Army contingent had moved out of its Nicosia Barracks and taken up strategic positions covering the Nicosia to Kyrenia trunk road. Whilst Turkish-Cypriot fighters, with or without Turkish army assistance, captured the strategic strong point of St Hilarion in the Pentadaktylos

³¹Leader of the violent campaign by EOKA for the union of Cyprus with Greece (*enosis*) 1955-60. “...the fanatical General George Grivas ...a native Cypriot, took Greek citizenship to join the Hellenic Army. In the wake of the liberation of Greece from the Nazis, Grivas led a white-terror campaign against communist partisans which helped precipitate the second round of the Greek civil war, 1947-9.” McDonald 1989. *op. cit.*, p.8 and note 8, p.81.

³² Former Greek Prime Minister, and a Minister in his father George Papandreou’s government at the time, Andrea Papandreou, claims that after the breakdown of the Cypriot constitution: “A clandestine operation then began on a huge scale of nightly shipments of arms and troops, of ‘volunteers’ [sic] who arrived in Cyprus in civilian clothes and then joined their ‘Cypriot’ [sic] units. The process was not completed until the middle of the summer. No less than 20,000 officers and men, fully equipped, were shipped to Cyprus.” Papandreou, A. 1970. Democracy at Gunpoint. Andre Deutsch, p. 100.

³³Interview with Ozalp Sarica, *op. cit.*

³⁴ Field Marshall Lord Carver, in Koumoulides 1986. *op. cit.*, p.30.

³⁵ *ibid.*, p.31.

range, overlooking the pass through which the Nicosia to Kyrenia road ran. This effectively extended the Nicosia enclave to a point that overlooked the Northern Coastline, aiding the area's security. However, to the discomfiture of the community, UN organised convoys (in September 1964) escorted Greek-Cypriot vehicles through the area twice a day, during which they required Turkish-Cypriot traffic to pull over.

Responding to the Turkish-Cypriot withdrawal into fortified enclaves the (now exclusively Greek Cypriot) Government of Cyprus operated a policy of embargo on, what it termed the "rebel" element. For much of 1964 the blockade of the Turkish-Cypriot enclaves of Nicosia, Lefka, Limnitis and Kokkina was total, a situation that was periodically restored. Under pressure from the UNFICYP³⁶ and the International Red Cross and with the concession of the opening of the Nicosia and Limnitis enclaves to UN escorted Greek-Cypriot traffic, the Makarios Government let in quotas of food, clothing, kerosene and medical supplies. In mid September, as the lines of engagement remained around Nicosia, Kokkina, Lefka and other villages and groups of villages where tension remained, an ever changing list of items were specified as "strategic materials" and proscribed. Strategic items generally included building materials, tiles, timber, cement, certain items of clothing, many raw materials, spare parts and vehicle accessories, electrical equipment, batteries, chemicals and large quantities of fuel. Dipsticks were used to check the quantity of fuel in cars entering the Nicosia enclave (the largest enclave and the administrative centre of the Turkish-Cypriot community). Anything over a gallon would be siphoned off and spilled over the pavement. All the fuel used by the Turkish-Cypriot military before 1968 was, however, smuggled in. The 650-man Turkish Army contingent supplied themselves and was monitored in doing so by the

³⁶United Nations Force in Cyprus, established by Security Council resolution (S/RES/186) on 4 March 1964.

UN.³⁷ Some additional supplies must have reached either the Turkish military or Turkish-Cypriot units from the Kokkina enclave over which they fought so hard in 1964. However, these goods also had to be smuggled to population centres before 1968³⁸.

On the 20 November 1964 the Government removed rationing of non-strategic materials for the Nicosia enclave and allowed Turkish-Cypriots to move in and out of the area, subject to thorough searches. (Prior to this the UN estimated that 10-20 Turkish-Cypriots had been permitted to enter the area daily³⁹.) According to Patrick⁴⁰, restrictions on freedom of movement and the rationing of non-strategic goods had already practically disappeared from the Lefka enclave, although the Government maintained a strict blockade of Kokkina until 10 June 1965 when non-strategic materials could also be transported freely there.

For most of 1964, the areas under effective Turkish-Cypriot control amounted to little more than the Nicosia enclave, the Lefka enclave, the Limnitis enclave and the Turkish quarters of all the main towns other than Limassol (see UN map⁴¹ - top of next page). There was an element of consolidation as the Turkish-Cypriot leadership became more effective and as the problems of communication eased after 1967.

³⁷ Turkish Cypriots, whilst having a rank in Turkish Army and therefore integrated command, did not share Turkish Army resources. Interview with Ozalp Sarica, *op. cit.*

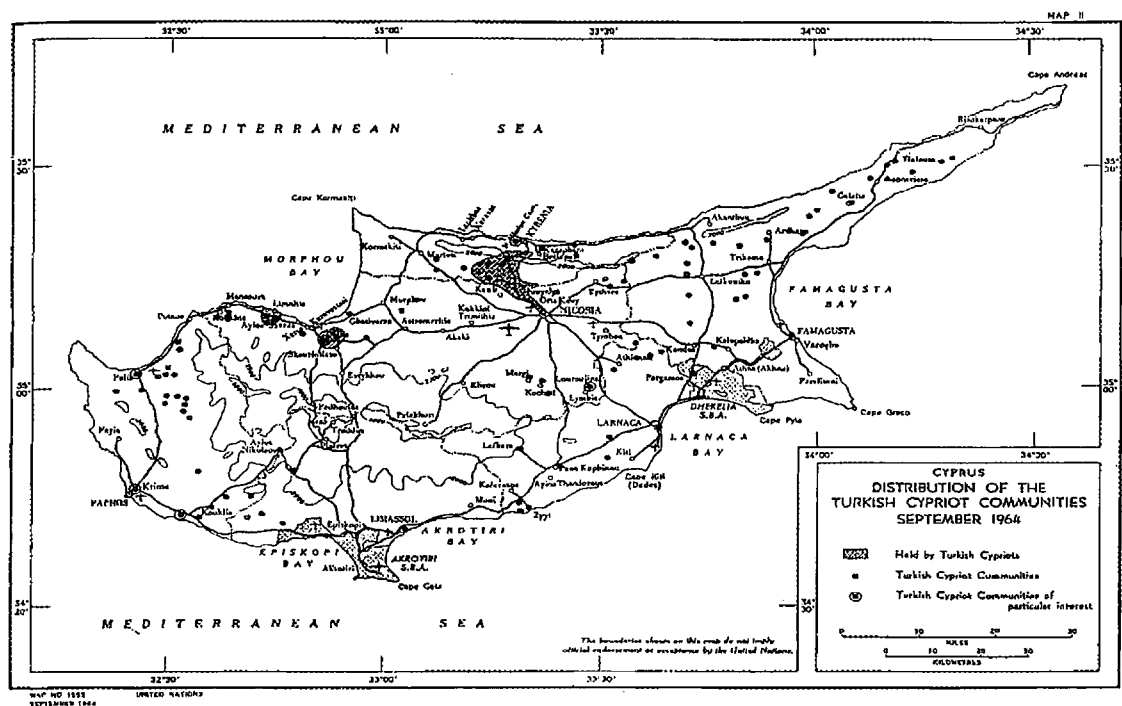
³⁸Smuggling was rife during the period and there are a number of reported incidents in the local press, however, due to the people likely to be involved, (regular and irregular military personnel) it is assumed that the detection rate was low. On the 23 March 1966 *The Cyprus Mail* reported that 4 British soldiers, serving with the United Nations peace keeping force in Cyprus (UNICYP), had been sentenced by Court Marshall to between 9-18 months in custody, for smuggling arms and other "strategic materials" into the Turkish quarter of Nicosia.

³⁹UN Security Council, 12 December 1964. "Report on UNFICYP and the Cyprus Situation for the period 10 September to 12 December 1964". NY. S/6102.

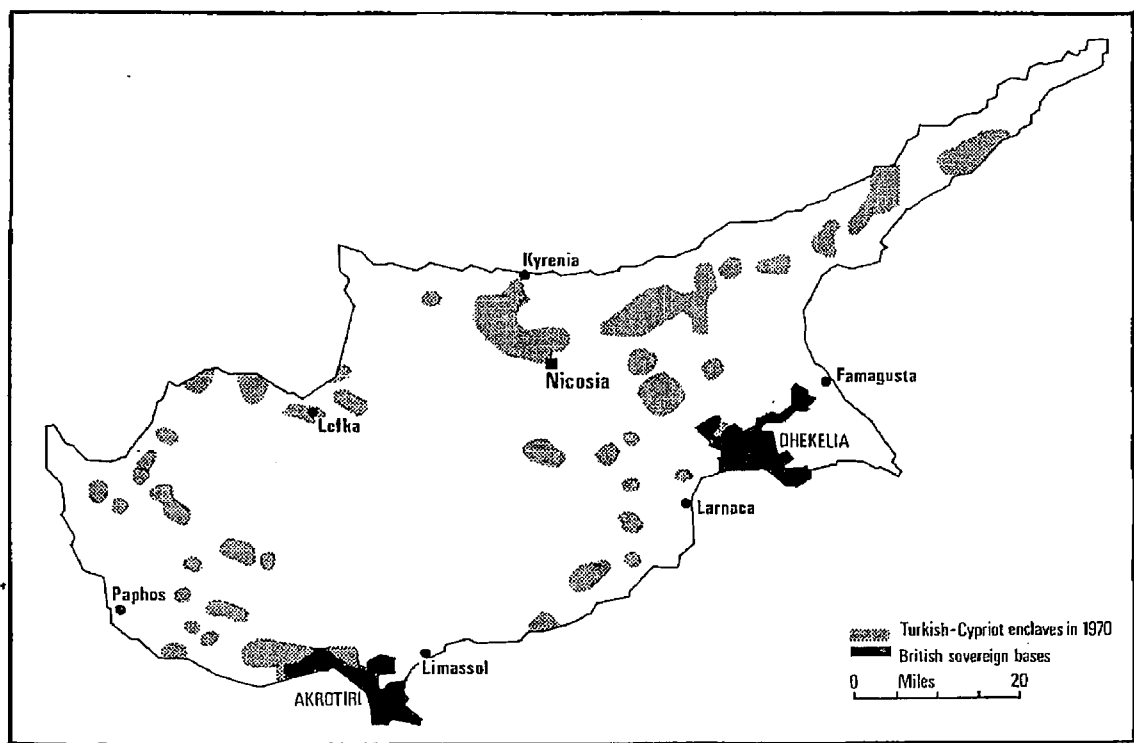
⁴⁰Patrick 1976. *op. cit.*, p. 107.

⁴¹UN Map Collection, F6/42/11/1964, UN Headquarters, NY.

Figure 3.1 Areas under Turkish-Cypriot control, 1964 and 1970.



Source: UN Map Collection, F6/42/11/1964, UN Headquarters, NY.



Source: Patrick 1976. *op. cit.*, Figure II.1, p.279.

Seemingly, by 1970 the Nicosia enclave had grown considerably and was joined by many new groupings of villages which had banded together (such as the group of Turkish villages in the northern Mesaoria plain around the Nicosia/Lefkonika road) to form new areas beyond the scope of the internationally recognised Government of the Republic of Cyprus⁴² (see Patrick's map⁴³ - bottom of last page).

Patrick argues that the political geography that had emerged by the end of the hostilities in 1964 changed little by 1970 (and by logical extension also by 1974). Perhaps much of the difference between his map and the UN's, is the latter's cautious approach at defining reality; it was after all a guest, invited in by the government of the Republic of Cyprus. The UN was only likely to classify areas of clear, unambiguous communal control, demarcated by an inner ring of defenders, an outer ring of Government military and in the middle a ring of UN observation posts. Most areas of communal division were, however, not like this. Many areas did not permanently accommodate UN observers, though many were periodically contested, with fluid boundaries; some had no boundaries at all. When tension rose, Greek-Cypriots knew where Turkish-Cypriot fields began and Turkish-Cypriot fighters were sometimes prepared and willing to defend them. What Patrick mapped in 1970 is areas where Turkish-Cypriots could, most of the time, carry out successful autonomous control, largely defined by its ability to control and restrict access. On that basis, it can be extrapolated from Patrick's work⁴⁴ that the vast majority of the Turkish-Cypriot population (over 92% in 1971) were under the control of the (Turkish Cypriot) "Provisional Administration" rather than the Government (of the Republic of Cyprus).

⁴²President Makarios acknowledged, in an interview with a correspondent from Eleftheros Kosmos (Free World), that a *de facto* separate "situation" had existed in Cyprus for some time, but that the scattered Turkish areas did not easily lend themselves to the full establishment of a pseudo-state. He declared that currently they controlled an area not exceeding 2% of the island. Front page report, *Cyprus Mail*, 20/8/69. The long term leader of the Turkish Cypriot community, "President" Denktash, said that during the enclaved period, Turkish Cypriots were restricted to 3% of the island: Interview with Rauf Denktash, carried out in his office, 28/7/95.

⁴³The map is a simplified form of Patrick's (1976., *op. cit.*) figure II.1 (p. 279).

⁴⁴Patrick 1976. *op. cit.*, Appendix II, pp. 278-323.

The economy under Turkish-Cypriot administration

Much of the economic activity in the enclaves (particularly in the 1963-68 period) was not recorded in Republic of Cyprus national income accounts. The community neither paid taxes to, nor benefited from transfer payments from the Government of the Republic of Cyprus⁴⁵. Multilateral aid designed for the community was mostly neither claimed nor received. Being channelled through the Republic of Cyprus, Turkish-Cypriot claims were seen as confirming the Government's legitimacy⁴⁶. Movement in and out of the key Turkish-Cypriot enclaves was periodically constrained and permanently monitored. Some necessities of life and many necessary prerequisites of efficient economic activity were considered "strategic materials" and either prescribed or, in the case of fuel, limited and controlled. Smuggling was rife in these items and also, ironically, involved extremist types on the Greek side. Illegal drops of prescribed materials would be made in no-man's land and would be retrieved later by Turkish-Cypriot Fighters (communal defence force). These materials would have registered initially as imports, therefore entering national income accounts, but the income multiplier that followed the application subsequently undertaken would not⁴⁷. Not that there was much of an income multiplier. Many Turkish-Cypriots living in the enclaves were displaced from elsewhere, having lost their economic foundation, either with the move or with the loss of public sector employment.

Financial assistance began to arrive from Turkey⁴⁸ in March 1964, via the London branch of a Turkish bank and the offices of the Central Bank of Cyprus. Payment

⁴⁵Marjorie Hald is one of the few writers on the economy of Cyprus who acknowledges this fact [Hald M.W. 1968. A Study of the Cyprus Economy. Nicosia: Printing Office of the Republic of Cyprus, p. 43, footnote 63] : "Since 1964 statistics on the economic activities in Turkish areas have been incomplete."

⁴⁶ Patrick 1976. *op. cit.*, p. 168.

⁴⁷Interview with Ozalp Sarica, *op. cit.*

⁴⁸Criticising mismanagement of funds, Turgut Mustafa, a member of the General Committee, said aid from Turkey in the six years to the end of 1969 amounted to £7,500,000, *Cyprus Mail*

was made on the basis of a fixed income allowance to the head of each eligible family. In 1964 the sum paid amounted to approximately £20 per month, a figure that was paid to Turkish-Cypriots as members of military units or as public officers, irrespective of rank. The Turkish Army Contingent received its own pay and conditions as members of the Turkish Military. Payment for Turkish-Cypriot heads of families through the military unit, provided income to most Turkish-Cypriots. All able bodied Turkish-Cypriot men were members of military units which, in the absence for many of other forms of employment⁴⁹, became via the male head, the source of all payment and food distribution. Through the medium of the family unit, people either received financial assistance as members of an army unit or the army unit organised distribution to known needy people within its area of operation. However, the private sector was still permitted to operate; the public sector and the military merely facilitated the distribution of aid, acting as an information service and in some cases, a welfare and distribution service as well as an employment service⁵⁰.

Even during the period of total embargo in 1964, the central distribution of food in the Nicosia enclave was organised by civilian authorities though the military played a key role in distribution. Again because of spatial separation of this the largest enclave from both grain producing enclaves and from the coast, the provision of grain to the mill in Nicosia and flour to the bakeries was co-ordinated by public and quasi-public bodies. Despite the shortages deriving from the embargo and dislocated production, the Turkish-Cypriot population were not issued with ration cards. As a

1/11/1969. Patrick (1976. *op. cit.*, p. 108, p. 161) states that Turkish Cypriot sources confirmed a slightly higher figure. In 1968 alone he claims Turkish aid amounted to £8,000,000 and by 1971 that had risen to a total of £10,000,000. "The budgets were never published, nor were they dependent upon any form of legislative approval. In these circumstances, the leadership's critics were free to speculate about mismanagement or even misappropriation..." p. 161.

⁴⁹In December 1966 a UN report estimated that a third of the Turkish Cypriot population needed some form of welfare. UN Security Council, Dec. 1966. "Report on UNFICYP and the Cyprus situation for the period 11 June to 5 December 1966." NY. S/7611.

⁵⁰Patrick 1976. *op. cit.*, p.160, and Chapter 5, footnote 33.

small community, they were known to each other through inter-connecting families, employment and most importantly, active service in military units⁵¹. The displaced and destitute, created by political events, were required to register at a social welfare office which had responsibility for the issuing of food. Each eligible family was then added to a list which entitled them to weekly food distribution. In March 1964 when Red Crescent aid was interrupted, the Turkish-Cypriot leadership began to organise the stockpiling of food, to be distributed when food supplies were curtailed. When Red Crescent assistance came in through Famagusta, the UN escorted it to the enclaves⁵².

Financial assistance to family heads gradually rose: from £20 per month in 1964 to £30 in 1965. In 1966 financial assistance rose again to £40, however, it was not until the beginnings of the easing of pressure on the movement of goods and people in 1967/8, that pay differentials began to appear. In 1967 Turkish-Cypriots received extra financial assistance from Turkey allowing them to receive a percentage of their former salary. To deflect potential criticism and maintain unity in a period of continued political instability and deprivation, the allocation of differentiated financial assistance commenced on a depreciating scale: the highest paid former government employees received 20% of their former pay, whereas the lowest paid received 100% of theirs⁵³. In November 1969, the "Provisional Administration" felt confident enough to begin deducting income tax⁵⁴ although most income still

⁵¹Patrick (1976. *op. cit.*, p.10-11) has estimated that Nicosia, the largest enclave, contained between twenty and thirty thousand people during the period 1964 to 1974, or approaching 20% of the Turkish Cypriot population.

⁵²A report in the Cyprus Mail, 15/6/1965, quotes the UN Secretary General (U Thant) saying that the hardships facing Turkish Cypriots were due to "seemingly deliberate policy of self-segregation" and that "Turkish Cypriot leaders adhered to a rigid stand against any measures which might involve having members of the two communities live and work together".

⁵³Amid criticism in the Turkish Cypriot press (*Zafer*) Vice President Kuchuk and other Turkish Cypriot leaders voted to raise their salaries by 80%. It was also reported that this would put Dr Kuchuk's salary at £400 per month, from £225, and the salaries of the other former ministers in the Republic, Mr Osman Orek and Mr F. Plumer, were raised from £175 to £275. *Cyprus Mail*, 4/11/1969.

⁵⁴*Cyprus Mail*, 4/11/1969.

derived from Turkish transfer payments. Even prior to 1969/70, once people started earning an independent income their financial assistance stopped. From mid 1964, when shops in the enclaves began operating again, financial assistance was given on the basis of need; only those without independent means were entitled to it. Wealthy merchants received nothing except food stuffs when other supplies were unavailable.

Some Turkish-Cypriots still lived outside the "Provisional Administration's" control, particularly in areas within or close to the two large British Sovereign Base Areas⁵⁵. Therefore some economic activity still continued as part of the economic life of the Republic of Cyprus. Despite periodic disruption during periods of tension (when Turkish-Cypriots were glad to see their harvest safely loaded on Greek-Cypriot lorries for the protection it offered) grape production in the Limassol and Paphos regions (a major Turkish-Cypriot activity prior to 1974) generally went on, with only periodic disruption throughout most of the period after 1964. Through inter-communal co-operation, Turkish-Cypriot grape production became Cypriot wine and spirit products. Patrick mentions four carob processing plants in the village of Zyyi, an exclusively Turkish-Cypriot village. Greek-Cypriot managers and foremen would commute into Zyyi on a daily basis to co-ordinate the exclusively Turkish-Cypriot workforce⁵⁶. Much other large-scale agricultural production was not bi-communal and therefore did not always register in the national income accounts of the Republic of Cyprus. Turkish-Cypriot wheat production from villages in the Mesaoria Plain and the greater Nicosia enclave, was often diverted from the Grain Commission and delivered directly to the new flour mill in the Turkish Quarter of Nicosia (built after much haggling in 1962)⁵⁷. After

⁵⁵ Patrick 1976. *op. cit.*, pp.302 & 307.

⁵⁶ *ibid.*, p.300.

⁵⁷ Interview with Suleyman Kiryagdi, *op. cit.*

1963, much Turkish-Cypriot cereal production and its products would not be registered as part of Cypriot national income.

Suleyman Kiryagdi⁵⁸ challenged the level of economic separation that former Deputy Governor of the Central Bank, Ozalp Sarica, emphasised. Most Turkish-Cypriots were farmers. Ozalp Sarica acknowledged that significant bi-communal co-operation went on in grape related production. Suleyman, however, argues that in other crops, co-operation continued after December 1963. A government body founded in the colonial era, the Grain Commission, continued to buy all grain produced in Cyprus at a fixed price. In some Turkish-Cypriot villages, controlled by the "Provisional Administration after December 1963, Turkish-Cypriots still sold grain to the (exclusively Greek Cypriot) government controlled body, sometimes via the mediation of the Cyprus Turkish Co-operative Central Bank. There is clearly still some confusion as to how much went directly to the Grain Commission and how much directly to the Turkish-Cypriot flour mill in Nicosia and more generally the extent to which Turkish-Cypriots had reverted back to subsistence agriculture as Wilson suggests⁵⁹. Suleyman said that if there were three villages near each other and one was Greek Cypriot, one Turkish-Cypriot and one mixed (not an unusual ethnic distribution), and if there was trouble in one village, life went on as normal in the other two, and that meant economic life. Hence, according to Suleyman Kiryagdi⁶⁰, grain was generally still sold to the Grain Commission by Turkish-Cypriot villages, and other forms of economic co-operation went on⁶¹ despite overt, even violent discouragement from hard-line elements on both sides.

⁵⁸*ibid.*

⁵⁹" The marketing of agricultural produce by Turkish Cypriot farmers was disrupted, and the rural economy for the Turkish community became increasingly subsistence based. The emphasis was on self support not cash sales." Wilson 1992. *op. cit.*, p.117.

⁶⁰Interview with Suleyman Kiryagdi, *op. cit.*

⁶¹The *Cyprus Mail* reported on the 12/6/1969, that the Chairman of the Nicosia Chamber of Commerce, Mr Zenon Severis, said that despite the suspension of political co-operation, trade exchanges between Greek and Turkish Cypriots had made progress.

Patrick has offered a more complicated contemporary dissection of the controversy:⁶² In 1964 Turkish-Cypriots were generally unable to sell their grain and grapes through the government's marketing agencies. Turkish-Cypriot farmers were thus forced to sell surplus requirements to their Greek-Cypriot counterparts at a substantial discount or dump the crop. In 1965 the marketing boards were willing to receive Turkish-Cypriot produce provided the farmers were willing to pay off the debts for the advance payments they had received in 1963, for the crop that was not delivered in 1964. The Grain Commission deducted 20% from payments to Turkish-Cypriot farmers until the debt had been repaid. Attalides argues that the intention was not to pay Turkish producers less:

Since the [Turkish] Co-operative Bank owed a sum of money to the Grain Commission, the sum was cut in instalments from lump payments to the Turkish Co-operative Bank. If the Bank, which engaged in many other activities than purchasing grain, chose to pass this on in the form of lower prices... it was true that to the producers it would appear that the Government was discriminating against them.⁶³

Patrick relates how in 1966 the Government tried to raise a compensation fund for Greek-Cypriot Farmers displaced by communal fighting⁶⁴ (mostly from around the northern Nicosia enclave) by imposing a 30% deduction on payments for grain grown in the Nicosia enclave. This is in addition to the 20% reduction that producers already experienced, amounting one way or another, to a 50% reduction in the likely payments due to cereal farmers in the Nicosia enclave. Consequently no grain was delivered to the Grain Commission in 1966 from the Nicosia enclave and the 30% Government "Emergency" rent was withdrawn. The picture thus

⁶²Patrick 1976. *op. cit.*, p.110.

⁶³Attalides 1977. *op. cit.*, pp.88-89.

⁶⁴UNICYP estimated that half of the farmland abandoned by Turkish Cypriots was being leased to Greek Cypriots, sometimes under allegedly less than favourable terms. UN. Security Council. 8 December 1966, "Report on UNICYP and the Cyprus Situation for the period 11 June to 5 Dec. 1966". NY: S/7611. By comparison only a very small proportion of Greek Cypriots lost access to property in 1963/4 and most of that was in and around northern Nicosia. Rep. of Cyprus 1967. Report by the Special Parliamentary C'ttee set up to Examine the Question of Emergency Victims. Nicosia: House of Representatives. Both sources quoted by Patrick, 1976. *op. cit.*, p. 110.

reveals that in one year, 1964, there was no inter communal co-operation in grain production, and in at least another year, 1966, there was very little co-operation.

Ozalp Sarica acknowledges however that between 1964-74, inter-communal trading links were sporadically maintained, although he emphasised that from 1964 to 1968 it was restricted by controls on the movement of "strategic" goods and periodically of people too. The controversy as to the level of inter-communal co-operation and / or the autarkic nature of the Turkish-Cypriot economy, can be summarised and possibly resolved with a head count; how much of the Turkish-Cypriot population was confined to the enclaves and the more hermetic enclaves at that?⁶⁵ The four-year period that followed December 1963 was undoubtedly the worst period for Turkish-Cypriots, when a forceful and consistent element of Government policy was economic warfare against the enclaved⁶⁶. Essential materials sometimes ran desperately short when increased inter-communal tension led to the checkpoints being closed at a point where supplies were already low⁶⁷. The Turkish-Cypriot leadership responded by stock-piling and, according to Attalides made things worse by maintaining a "buy Turkish [Cypriot] campaign"⁶⁸. This suggests that there was something to buy that was of Turkish-Cypriot origin and therefore something of a Turkish-Cypriot economy.

During the whole period, gainful employment and thus productivity in the Turkish-Cypriot community plummeted, due to the pressure of the embargo, the lack of

⁶⁵ This is more complicated than it sounds. Patrick, 1976. *op. cit.*, a political geographer, refrains from aggregating numbers in his authoritative 500 page text on the "Political Geography of the Cyprus Conflict: 1963-1971".

⁶⁶ On the 29/6/1966, the *Cyprus Mail* reported that the International Confederation of Free Trade Unions had sent a message to Cypriot President Makarios, expressing their concern with the restrictions of movement imposed on Turkish Cypriots.

⁶⁷ For example, it was reported in the *Cyprus Mail* from the beginning of 1965 to the end of 1966 that the Turkish Cypriot "quarter" of Nicosia was sealed off between 16 April 1965 and the 3 May 1965, checks on persons intensified 18 March 1966. The Turkish Cypriot "quarter" of Nicosia was sealed off again between 1 June 1966 and 4 June 1966, re-imposed 20 June 1966, lifted again 29 June 1966.

⁶⁸ Attalides 1977. *op. cit.*, p. 88.

spare parts and maintenance material and the demands of military service⁶⁹. Each able-bodied citizen was required to perform military duties along with their civilian service. Periodic shortages of fresh vegetables led to an element of intensified production (a form of Geertzian "involution"⁷⁰) which of necessity encouraged domestic cultivation of market garden crops. In British terms, the political and economic crisis of 1963 saw the creation of a Turkish-Cypriot Home Guard (the Turkish Fighters), a Grow for Victory campaign and a Blitz spirit amongst the Turkish-Cypriot community.

In Nicosia, (the largest enclave both spatially and in terms of population) between 1964-8, more than half of all able bodied male time was spent in military activities⁷¹. A typical day would commence with civilian work absorbing the hours from eight in the morning until eleven when instructions would arrive for volunteers to join units. All able bodied males would then close-up shop, change into military attire and go to their posts. Although things were more relaxed after 1968, the clash between the Makarios government and various extreme right terrorist organisations, the National Front and subsequently EOKA B, had dangerous implications for the Turkish-Cypriot community. Though the worst situation after 1968, occurred just prior to what the community generally perceives as their liberation, during and

⁶⁹Despite the fact that military service masked unemployment and under-employment, the *North Cyprus Almanac* put Turkish Cypriot unemployment in 1964 at 25%, Rustem K. (ed.) 1987. *North Cyprus Almanac*. London: Rustem K. & Bro., p. 81. In terms of military service the divergence in productivity and / or underemployment has been outlined by Patrick (1976. *op. cit.*, p. 181, footnote 33): "In 1971, a [Turkish Cypriot] Fighter private received about £30 per month. In many areas his duty left him plenty of time to work his fields or carry on another job. In other centres, Fighters seemed to spend most of their time in coffee shops. By comparison, a [Greek Cypriot] National Guardsman was employed much more fully by his military duties and was paid £4.50 per month, or £15 if he had children."

⁷⁰Geertz, C. 1963. *Agricultural Involution. The Process of Ecological Change in Indonesia*. Berkeley.

⁷¹Turkish Cypriot sources confirmed the introduction of conscription 6/8/1970, *Cyprus Mail*. The Turkish Fighters were set up in 1963 and, apparently, previously manned entirely by volunteers. The move, passed by the Turkish Communal Chamber, attempted to mobilise the young to fill the places vacated by departing volunteers. It was stressed that the move should not be perceived as mobilisation.

immediately after the coup of 1974. Then the male able-bodied Turkish-Cypriot population were permanently with their respective units.

The easing of tension, 1968-74; a political background

The Kophinou incident, at a Turkish village on the junction of the Limassol / Larnaca, Limassol / Nicosia roads, accelerated new international tension, though it subsequently resulted in the easing of constraints imposed on the enclaved Turkish-Cypriots. On 15 November 1967 the Greek-Cypriot National Guard had launched a large-scale assault on the villages of Kophinou and Ayios Theodoros, ostensibly because of a long standing dispute over access by Republic of Cyprus (therefore Greek Cypriot) police patrols. The strategic location of the villages was perhaps more to the point, though more of a threat to Greek pride than security. Twenty Turkish-Cypriots were killed and there were allegations of Greek-Cypriot atrocities. Turkish pressure, particularly focused on Greece, caused Grivas and his National Guard to withdraw. Subsequent shuttle diplomacy by Lyndon Johnson's special envoy Cyrus Vance, persuaded the Greek Junta and the Makarios Government to make further concessions which effectively reduced tension. Grivas was withdrawn from Cyprus altogether. Greek and Turkish Army personnel, over and above the level permitted by the constitution, were required to leave Cyprus (a withdrawal of some 12,000 Greek troops⁷²). In March 1968, all remaining check-points and economic restrictions were removed from Turkish enclaves, most importantly those affecting the main enclave around northern Nicosia. The incident also stimulated the beginning of inter-communal talks.

⁷²Kyle 1984. *op. cit.*, p.13.

Emphasising the growing divisions between Makarios and Grivas⁷³, the Cypriot President had already acted to cut the National Guard's budget and was building up his own paramilitary force. Makarios had previously responded to UN pressure by lifting the road blocks in Limassol and Paphos, allowing those residents to buy products formerly proscribed as "strategic goods". Patrick has argued that during the period from August 1964 to November 1967, Grivas and Makarios had different views on the methods of achieving the same goal. After Kophinou their goals diverged; for Makarios to what was feasible (independence) rather than what was desirable (Enosis).⁷⁴ There were also economic reasons behind the official moves towards lifting the sanctions and encouraging détente with Turkish-Cypriots. One of the biggest barriers preventing the implementation of the *Second Five Year Plan* was a shortage of labour.

Whilst representing a timely reduction in inter-communal violence, divergent goals within the Greek-Cypriot community opened the way to an upsurge in intra-communal violence. Violence escalated in the Greek-Cypriot community between those who supported independence (either pragmatically, as a way of preventing Turkish Military intervention or whole-heartedly as AKEL, the Greek-Cypriot Communist Party, did) and those who continued to favour Enosis by force.

"The years between 1969 and 1974 were a civil war in miniature between two sets of Greek-Cypriot men about who would govern Cyprus, and particularly, how the Cyprus problem was to be managed."⁷⁵

⁷³There had been a long running media debate as to who controls the (Greek) Cypriot armed forces, and by implication, tactics and strategy concerning the "national issue", beginning in 1966; see *Cyprus Mail* 27/2/1966, 4/3/1966, 25/3/1966... etc.

⁷⁴Announcing his decision to seek a renewed mandate (*Cyprus Mail*, 12/1/1968) President Makarios stated that the failure of Greco-Turkish talks and the withdrawal of Greek troops had brought the Cyprus question to a critical stage. In a subsequently much quoted phrase, used to underline the significance of this as a turning point, from a policy of "self-determination" (Enosis) to a policy of non-aligned independence, President Makarios stated that: "a solution, by necessity, must be sought within the limits of what is feasible, which does not always coincide with what is desirable".

⁷⁵Loizos P. (Spring) 1994. "Understanding 1974, Understanding 1994", *The Cyprus Review*, Vol. 6, no. 1, p.11.

Despite the hiccup of the declaration of a Turkish-Cypriot "provisional administration" (when the Makarios Government briefly re-instated sanctions), from April 1968 all remaining controls on Turkish-Cypriot movement in and out of the enclaves were lifted, though Turkish-Cypriots retained restrictions on Greek-Cypriot entry into the areas they controlled. As a minority, the Turkish-Cypriot leadership felt it needed to prevent access by the majority community, to retain security. The rise of terrorism in this period did not help matters, despite the fact that most acts of violence after 1968 were perpetrated by Greek-Cypriots against (the now almost exclusively Greek Cypriot) Government⁷⁶. The recently returned from exile, of the Leader of the Communal Chamber, Rauf Denktash, used the lifting of restrictions to permit him to tour the island's Turkish-Cypriot communities, to build up morale.

In December 1970, 2000 Greek-Cypriots blocked the Nicosia / Kyrenia road declaring that "seven years" was long enough⁷⁷. Foreigners and Turks could use the 16-mile trunk road from Nicosia to Kyrenia freely, but Greek-Cypriots had to use one of the two daily UN convoys. Turkish-Cypriots saw their continued control of key stretches of the road as vital to their strategic interests (as it in fact proved to be during the first phase of Turkish military intervention in 1974). An alternative route was announced at the end of December 1970; however, this alternative increased the journey to 30 miles or by 47%. The new road was opened on 12 July 1973⁷⁸, almost exactly a year before it was to prove obsolete.

On constraints imposed on free movement, in areas under the control of the Turkish-Cypriot "Provisional Administration", the then Leader of the Communal

⁷⁶Though the ultimate objectives of the terrorists organisations (the National Front and EOKA B) active in the late 1960's and early 70's would not have been compatible with the continued presence of a Turkish Cypriot community.

⁷⁷*Cyprus Mail* 11/12/1970.

⁷⁸*Cyprus Mail* 13/7/1973.

Chamber, Rauf Denktash, said people had to "abide by certain rules" if they were to take advantage of certain things which are now within this *de facto* position⁷⁹. Denktash continued that the temporary existence of two separate administrations in a virtually partitioned Cyprus should be considered a "*de facto*" situation until a political solution is achieved.

After the establishment of the "Provisional Administration" in 1968, the (Turkish Cypriot) "State" Planning Organisation was established. With the easing of restrictions, it began attempting corporate planning for the whole Turkish-Cypriot community. Its primary objectives were to increase intra-communal economic interconnections, to improve efficiency and profitability across a whole range of economic activities within which the dispersed community were engaged. Another key aim was to attract investment for Turkish-Cypriot enterprises. And crucial to these objectives was the establishment of a Development Budget, which was financed separately from Turkey. The Development Budget covered the development and maintenance of the infrastructure within the area under Turkish-Cypriot control and the opening of new roads both for military and commercial purposes. Turkey needed to know what proportion of its financial assistance was to be allocated to current expenditure, salaries, transfer payments etc. and what proportion would be allocated for development and infrastructural work. These budgetary conditions remained in place until they were replaced by combined financing under current budgets, outlined in Annual Plans from 1976⁸⁰.

In so much as the Government of Cyprus attempted to prevent the establishment of a separate Turkish-Cypriot economic and political entity, "a state within a state", it failed. Its policies, first of attempting to enforce the Government writ through the use of officially and unofficially sanctioned violence, and then through the use of

⁷⁹*Cyprus Mail* 17/6/1969.

⁸⁰Interview with Ozalp Sarica, *op. cit.*

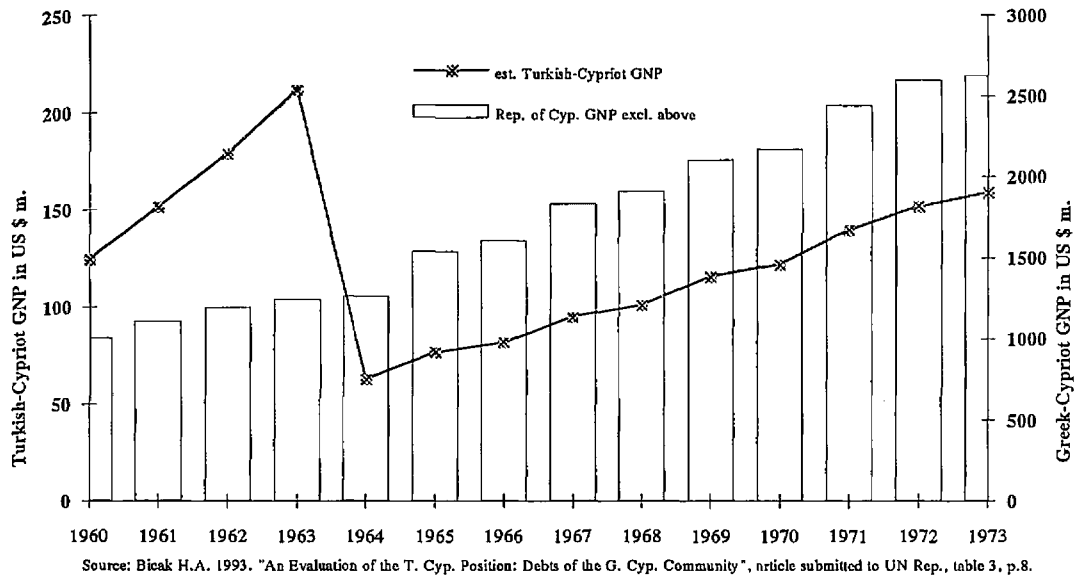
economic sanctions, only acted to accelerate the extent to which Turkish-Cypriots created and developed their own institutions. By the time both Government policies were abandoned, any Turkish-Cypriots who believed in the expediency of economic co-operation with Greek-Cypriots, were increasingly marginalised. The relaxation of the sanctions allowed the Turkish-Cypriot leadership to co-ordinate the development of their separate economy, re-enforcing links with the "mainland" and integrating the separate economy which the force of circumstances had helped to create.

Some analysis of the only available early economic statistics

Progress in the Turkish-Cypriot community in the short period when the 1960 constitution was functioning was dramatic, according to one of the few surviving "official" records⁸¹. The economic performance of the infant economy in general was successful but, for the Turkish-Cypriot community, coming from a lower base, it was their most successful period of sustained growth in terms of per capita income.

⁸¹"Provisional Turkish Administration". 1970. The Economy of Cyprus and the Turkish Cypriot Community. Nicosia: Turkish Planning Organisation, pp.7-10, (written by Ozalp Sarica).

Figure 3.2 *The possible economic effects of the 1963 political crisis on Turkish-Cypriots: est. T. Cypriot GNP in 1991 US \$ m. 1960-73.*



As is evident in the statistics above, a sudden drop in Turkish-Cypriot income followed the political failures of the Republic of Cyprus to establish an independent national identity. Economic activity in the enclaves regressed, with a meagre subsistence provided largely by Turkish aid.

"...since 1963 the Turkish sector has failed to share in the rising prosperity of the rest of the island. Turkish unemployment is high, and average incomes have fallen by at least one half."⁸²

The data above was largely derived from estimates and assumptions generated for political purposes: to outline the "debts of the Greek-Cypriot Community" as a bargaining chip in the protracted discussions over the terms and the relative benefits of the (UN sponsored) Confidence Building Measures (CBMs). However, they are

⁸²Hald 1968. *op. cit.*, p. 48. A UN economist cited above, estimated that whilst Turkish Cypriot per capita was 20% lower than Greek Cypriot's before the catastrophe of December 1963, by 1971 the gap was considerably wider with a 50% respective difference. Rudolph N. 1973. "Economic Integration on Cyprus", paper presented at "An Enquiry into the Resolution of the Cyprus Problem" seminar, held at the Centre for Mediterranean Studies, Rome, 19-24/11/1973, quoted in Attalides 1977. *op. cit.*, p. 88.

useful here mostly because they are the only statistics that exist. The statistics are also useful because they illustrate something of the economic growth experienced by the Turkish-Cypriot community before the breakdown of the constitution, at the end of December 1963. The data used to generate the chart above is a partial extract from data used in table 3 of Bicak's paper⁸³. It visually demonstrates something of the economic impact of the breakdown of the constitution in terms of the collapse of Turkish-Cypriot income and the very slow recovery that followed. The figures for 1960-3 derive from survey data⁸⁴, whilst the 1964-72 data is based on Bicak's educated guesses and the 1973 data derives from 1977 "Federated Republic of Northern Cyprus" estimates.

If the object of Bicak's figures is to estimate Greek-Cypriot debt, and therefore minimise Turkish-Cypriot contributions to proposed political compromises, it is unlikely that the estimates of income during the period 1964-72 will be overly exaggerated. Regardless of the reasons for the move into fortified enclaves, clearly income must have collapsed for the Turkish-Cypriot community at a time when Greek-Cypriot income rose sharply. Bicak's figures were designed to conform, in quantitative terms, to contemporaneous reports by Turkish-Cypriot "authorities", although these reports can no longer be located. What the figures also do, ironically, is support the economic rationale of inter-communal co-operation, at least for Turkish-Cypriots. Although contrary to the dominant Turkish-Cypriot picture of communal life in post independence Cyprus, the 1960-63 data tends to support a more positive view of economic co-operation prior to the constitutional crisis. Whilst the Turkish-Cypriot population declined⁸⁵, the proportion of GNP

⁸³Bicak H.A. 1993. "An Evaluation of the Turkish Cypriot Position: Debts of the Greek Cypriot Community", article submitted to the UN Resident Representative of the Secretary General.

⁸⁴This data seems to be more reliably based on survey data, quoted by Ozalp Sarica ("Provisional Turkish Administration". 1970. *op. cit.*, p.15.)

⁸⁵In seven out of eight successive censuses between 1881 and 1960, the Turkish Cypriot population declined as a proportion of the total Cypriot population, from nearly 25% in the former census, to 18% in the latter.

produced by them rises significantly, peaking at 15% of the GNP of the whole island in 1963, a figure that has never been surpassed (in 1990, the GNP of the "TRNC" was only 9% of the Republic's).

For the period 1964-72, the contribution of the Turkish-Cypriot community has been assumed to be 7%, 4.8%, 4.9%, 5.0%, 5.2%, 5.3%, 5.4% and 5.5% of total Cypriot GNP respectively. There are a number of problems with these figures: particularly the inexplicably high contribution in 1964 (when things should have been at their worse) and the (perhaps) too gradual growth after the relaxation of restrictions on the free movement of Turkish-Cypriots after 1968. More generally, the spurious accuracy of the figures, e.g. unless there are sound reasons why growth may have occurred, as specified, why not leave the estimates at 5%? But as Bicak states, "it is almost impossible to compute the GNP of the Turkish-Cypriot community for the years of 1964-1972"⁸⁶. For these years the figures above represent the combined Turkish-Cypriot contributions to the GNP of the Republic of Cyprus, income generated both in the enclaves but not counted as national income, and in the small integrated economy. Much like the Cambridge economist Pigou, marrying his housekeeper (who subsequently carries on, unpaid, with the same daily functions), another weakness of the 1964-72 data is inherent to national income accounting generally. Like a large black-economy, much of the economic activity that continued in the Turkish-Cypriot enclaves did not find its way into national income accounts. During the period Turkish-Cypriot income may well have been approximately 5% of the GNP of the Republic, but the GNP of the Republic did not include any official record of economic activity within the enclaves.

For some reason the "State" Planning Office calculated the estimated GNP for the Turkish-Cypriot community for 1973 in 1977, when it calculated estimated income

⁸⁶Bicak 1993. *op. cit.*, p.4.

for the early years of hermetic regionally separate development that followed 1974. This is ironic because, as the estimated figures above imply (and the preceding narrative argues) some re-integration of Turkish-Cypriots into the economy of the Republic of Cyprus had taken place, with the relatively prolonged inter-communal peace after 1968. An early reference to these new estimates is in both the 1978 Statistical Yearbook and in the "First Five Year Development Plan" (both published in 1979 by the "State" Planning Organisation). There is however no guide as to the methodology applied.

While the specific figures might be disputed, the trend is generally consistent with what has been more generally recorded: after December 1963 Turkish-Cypriot income collapsed and only recovered very slowly, if at all. Economic development only returned to the community after 1974. As they are the only figures available, they will be used here as a guide to Turkish-Cypriot income in the period.

The Development of a separate Turkish-Cypriot administrative organisation

The Administrative organisation, until 1968, was primitive and fragmented due to the spatial separation of the regions under Turkish control and the constraints imposed on them by the, now exclusively, Greek-Cypriot controlled Government of the Republic. The principal political organ was made up of the Turkish-Cypriot members of the Government of the Republic acting separately. The Vice President and his three Turkish-Cypriot Ministers came together with the Turkish-Cypriot members of the House of Representatives and the Turkish Communal Chamber to form a cabinet or "General Committee". This "General Committee", headed by the Vice President Dr F. Kuchuk, exercised the legislative, judicial and the executive powers in the areas under Turkish-Cypriot control. Also part of the "General

Committee" was the area military commander (until 24 February 1967 a Turkish colonel named Kemal Coskun) who was, in policy terms, ultimately responsible to the cabinet⁸⁷, though he carried more weight in terms of executive function⁸⁸. Because of the difficulties associated with communication between the spatially separate enclaves, each had something of its own local administration, headed by a military commander⁸⁹. Muktars and local Committees had responsibility and therefore local accountability for certain *de jure* functions. However, depending on the location, military considerations invariably dominated administrative agendas, particularly between 1964-8. Due to their precarious security and their determination not to become a minority in a Greek state, military affairs were paramount. Thus military commanders, who were all Turkish (rather than Turkish Cypriot) had ultimate, *de facto* executive powers after 1963. Lower down the scale of military command, at a non-commissioned officer level, Turkish-Cypriots played a part⁹⁰.

On 28 December 1967, at a special meeting convened by the Vice President and after much public debate, the establishment of a "Provisional Turkish Cypriot Administration" was approved, which, with its separate administrative organisation,

⁸⁷Interview with Ozalp Sarica, *op. cit.*

⁸⁸In February 1967 the Turkish Cypriot weekly *Zafer* admitted that colonel Kemal Coskun was the commander of the Turkish Fighters and also alleged that he was the "real" leader of the Turkish Cypriot community (reported in the *Cyprus Mail* 25/2/1967). *Zafer* also hinted that Dr Kuchuk had asked for the colonel's removal. A day later it was reported that Kemal Coskun was removed to prevent a rift between the Turkish Cypriot political structures and the military organisation (the Turkish Fighters).

⁸⁹"The structure of government in the Turkish-Cypriot community should not be equated solely with the various legislative and executive organisations outlined above. In many cases, the *de facto* leadership at the level of the village and quarter, of the district, and of the community as a whole, was assumed by the Fighters. Therefore, the community's government structure was in fact a civil-military synthesis." Patrick 1976. *op. cit.*, p. 84.

⁹⁰This general argument (based on a series of interviews with Ozalp Sarica, *op. cit.*) is confirmed by Denktash: "Everyone thought that I was the leader [of TMT - the Turkish (Cypriot) Fighters] but I was not. I was political advisor. Immediately after forming it I handed it over (to a former army officer from Turkey). It was a good mask because even the British and the American intelligence thought I was the man who ran and decided everything. I was not. Thomas C. 20/1/1978. "The Politics of resistance that divided Greek from Turk", *The Times*, quoted by McDonald, 1989. *op. cit.*, note 14, p.82. This point was also made by Patrick (1976. *op. cit.*, p.159) in 1976, who said that the senior Turkish military figure on the island was referred to as the "pasha".

was the roots of separate Turkish-Cypriot governance. This was done in response to the changes in the stance of the (Greek Cypriot) Government, to strengthen the Turkish-Cypriots' *de facto* and *de jure* position, in preparation for renewed inter-communal talks on the future of Cyprus. However as previously noted, this initially soured relations further and caused the (brief) reinstatement of economic sanctions by the Makarios Government. The reorganisation of the Turkish-Cypriot administrative structure also reflected acknowledged inefficiencies in the administration of the community's affairs through the most difficult period in its history.

The Basic Law of the "Provisional Administration" stated that until the provisions of the 1960 constitution were implemented, all Turkish-Cypriots living in areas under the control of Turkish-Cypriots were to be administered by the "Provisional Administration". The Basic Law also provided for the establishment of a "Legislative Assembly", made up of the Turkish-Cypriot members of the House of Representatives and the Communal Chamber, to enact the necessary legislation to administer the Turkish areas. Section 7, of the Basic Law, provided that the executive function would be enacted by an "Executive Council". The first general election in July 1970, elected 30 members to the Assembly (15 members of the House of Representatives and 15 members of the Turkish Communal Chamber), shadowing elections in the Republic. Following a decision by the "Executive Council" on 5 July 1971, the "Legislative Assembly" of the "Provisional Turkish Cypriot Administration" elected to drop the "provisional" prefix from its title. Things carried on largely unchanged until after the "Peace Operation" in the summer of 1974, when the Legislative Assembly elected to change its name again, becoming the "Legislative Assembly of the Autonomous Turkish Cypriot Administration". On 13 February 1975 the "Turkish Federated State of Cyprus" was proclaimed, which meant another name change: the "Executive Council" and the "Legislative Assembly" of the "Turkish Federated State of Cyprus". On the 18

February 1975 the latter bodies set up a "Constituent Assembly", to draw up the "Constitution" of the "Turkish Federated State of Cyprus"; this was approved by referendum on the 8 June 1975 and published in the *Official Gazette* 17 June 1975.⁹¹

The new "constitution" institutionalised planning early after its nominal establishment in 1975. The transition to planned economic development was far from immediate, due to the organisational problems involved in the immediate aftermath of large-scale Turkish military intervention. Planning was, however, both easier and more politically urgent than during the enclave era (1964-74), when the spatially separate enclaves suffered from serious communication constraints. The initial problems surrounding statistical gathering and "state" planning after *de facto* partition, was due to the continued movement of people. Turkish-Cypriot sources claim⁹² "half of the population of the Turkish Federated State of Northern Cyprus had to be re-settled in the northern part [of the island from the south], and the frequent movements of people rendered difficult the compilation of the required statistical data." Hence a "transitional programme" was prepared and implemented, based on estimates. All data prior to 1977 is based on these estimates which were compiled and backdated. Only after 1977 did systematic civilian statistical gathering get underway in earnest. Before 1977, more immediate and pressing priorities were on the minds of administrators. Decision making at the time (1974-77) was probably dominated by military and strategic objectives, securing ethnic homogeneity behind the newly established UN Buffer Zone. Turkish, rather than Turkish-Cypriot planners, dominated the initial phase of expansion of the Turkish-Cypriot economy. Turkish economic policy has continued to play a key role in the economic policies adopted by the "authorities" in the north, though the level to which the economy

⁹¹Rustem 1987. *op. cit.*, p.20-21.

⁹²"Turkish Federated State of Kibris", February 1979, Extracts From the First Five Year Development Plan (1978-82), , "State" Planning Organisation, north Nicosia, p.2.

remained a highly controlled, war economy is yet to be fully explored (see next chapter).

Until 1976, however, the essential organisational structure of the Turkish-Cypriot community did not change much. Executive power lay with the local military commanders and the "Executive Committee" (and subsequently, with the "Executive Council of the Provisional Administration"). The military command derives from three separate forces: the Local Defence Force (previously the Turkish Fighters), headed by a Turkish Major General, the Turkish Contingent provided for under the Zurich and London agreements, commanded by a Turkish Colonel, and since 1974 the "Peace Force" headed by a Turkish General. Ultimately the power hierarchy works in reverse order with, since 1974, the "Peace Force" acting as the command centre. Before 1974 the Turkish military contingent, with its Nicosia command, represented the ultimate source of executive authority⁹³.

A limited reorganisation of the administration began immediately after the "Peace Operation". As Turkish-Cypriots, with Turkish military assistance, gained control of a more extensive area of Cyprus, new mayors were appointed in 1974 by the "Provisional Administration" for newly acquired areas under their control. The elections in 1976 filled local and regional administrative positions. Except for the police force in northern Cyprus (which still remains, for strategic reasons, directly under Turkish military command⁹⁴), democratic and accountable institutions took over much of the functions formally assumed by military structures.

⁹³The Turkish Cypriot weekly *Zafer* admitted that Colonel Cemal Coskun (known as "Bozkurt" or "Grey Wolf") the Turkish Military Attaché, was "the commander of the Turkish Cypriot Fighters", also alleging that he was "the real leader of the Turkish Cypriot community", reported in the *Cyprus Mail* 25/2/1967. Patrick (1976. *op. cit.*, p. 86) has generally confirmed this, adding that: "This commander was attached to the Turkish embassy, but the relationship between him and the ambassador was unclear; most certainly it could not be assumed that Bozkurt was subordinate to the ambassador."

⁹⁴Although under Turkish military command, accountability at an individual level (meaningful in a small scale society), is ensured by recruiting the police force in northern Cyprus locally.

The first five-year plan, published in 1979, set out economic policy objectives. Planning was central to the creation and maintenance of a separate Turkish-Cypriot economy and was to be "imperative for the public sector and indicative for the private sector"⁹⁵, the objective being an "open" and "competitive" economy. As the private sector played a very limited role during the period of the implementation of the First Five-Year Development plan, so imperative planning for the public sector meant imperative planning for almost the whole economy. To assist planners, input / output tables were created.

In democratic political terms, the right has dominated the Turkish-Cypriot community since the creation of a national identity. The National Unity Party, (NUP) was founded by the long-term leader of the Turkish-Cypriot community and "president" of the self proclaimed republic, Rauf Denktash. Most subsequent changes in the identity of a Turkish-Cypriot political entity in Cyprus, owe their origin to his, and the NUP's, leadership. By his admission Denktash stands for self-determination, regional and ethnic segregation and will not compromise the security guarantee of a strong and prevalent Turkish military presence in northern Cyprus⁹⁶. For the purpose of more long-term security, the party advocates further integration with Turkey. The main focus of opposition has been Turkish-Cypriots who feel that northern Cyprus is being swamped by Turkish immigrants, an integral feature of post '74 developments, undermining their unique cultural identity and which they fought Greek-Cypriots to preserve.

⁹⁵"Turkish Federated State of Kibris", February 1979, Extracts From the First Five Year Development Plan (1978-82), "State" Planning Organisation, north Nicosia, p.2.

⁹⁶ Interview with Rauf Denktash, in his office, 28/7/95.

Conclusion

With the conclusion of the events of 1974, and the population transfers of 1975, Turkish-Cypriot policy makers would seem to have been successful beyond their wildest dreams. After some 11 years of hardship and intimidation, they had secured a fully separate and autonomous (at least from the Greeks) area in which to administer their own affairs. The area they had secured was not only some of the most productive and developed parts of the island, but also proportionally almost exactly twice their share of the island. After occupying some 2 to 3% of the island during the enclaved period, after the summer of 1974, the 18% Turkish-Cypriot minority occupied 37% of the island; all this behind the seemingly secure and unqualified security guarantee that had seemed so near, and yet so far, for so long. How would all this good fortune, this political success be consolidated? In the next chapter, the economic developments behind the new, far extended, and uninterrupted UN Buffer Zone will be examined. How was the transition from a war-torn, military dominated and ethnically cleansed region to a seemingly locally run and re-settled economy administered, particularly in the absence of secure property rights and international recognition?

CHAPTER 4. The construction of a Turkish-Cypriot economy in the north.

Introduction

This chapter looks at the institutional developments that have helped to create a functioning economy for Turkish-Cypriots north of the UN Buffer Zone. The economy had to work within the, arguably, powerful constraint of a lack of international recognition. Statistical data reveals the role and inter-play of domestic and international politics on its direction. What is also apparent from available statistics, is the role of changing macro-economic paradigms; the consequences of selecting public and private sector development on a small transitional economy. Regardless of the limited availability and quality of data, an interesting story begins to unfold, in some ways mirroring developments elsewhere, beginning with a modern, politicised Gerschenkronian¹ story of institutional innovation in lieu of modern free market activity. New and existing state and quasi-state institutions were created and adapted to provide, direct and concentrate resources in an attempt to build an autonomous economy in an area largely de-populated, as a consequence of military activity. In the absence of indigenous entrepreneurs and know-how, a shortage of investment funds, limited manpower and the need to adjust to a new political reality, existing institutions relocated and adapted to provide the medium for development, whilst ensuring some continuity with the past. New public sector institutions were created to manage large abandoned assets. Public and quasi-public sector substitutes evolved economic leadership roles in response to short term expediency, though many seem to have become permanent key features on the economic landscape, despite a declared preference for private sector solutions by the Turkish-Cypriot leadership. Increasingly the private sector was encouraged to take a greater role in the economic development of the north. After a brief hiatus however,

¹ Gerschenkron A. 1962. Economic Backwardness in Historical Perspective. Cambridge: The Belknap Press of Harvard University Press.

the private sector remained a marginal producer in the Turkish-Cypriot economy. All of this is worth studying in greater depth and yet mostly it has been ignored by researchers working on the Cypriot economy. It is hoped that these preliminary enquiries will inspire more interest, triggering further research which may provide answers to some of the many questions raised here. By ignoring developments in the Turkish-Cypriot economy, research on the Cypriot economy is distorted, forcing it to conform with the never-never world of contemporary Cypriot political rhetoric.

The economy in transition and the role of state enterprise

In every sector of the economy, every area of economic activity, a public sector or quasi public sector organisation was created or adapted to reactivate and run things north of the UN Buffer Zone. Prior to 1974, the three main economic activities in the region were agriculture, mining and tourism, all overwhelmingly private sector industries. After Turkish military intervention in 1974, mining sector activity ceased with the exit of the Cyprus Mines Corporation² and agriculture became dependent on four main state and quasi-state sector organisations, actively engaged at all levels of production. In November 1974 a new public sector company, the Cyprus Turkish Tourism Enterprises Ltd, was formed to manage the other key economic feature north of the UN Buffer Zone. State Economic Enterprises (SEEs) were created to run any remaining industry located in the north, after it was abandoned by its Greek-Cypriot management. Essentially, an extra market organisation with direct political links to the Turkish-Cypriot leadership, was adapted or established to manage and exploit assets located behind Turkish lines, following the August 1974 cease-fire.

² The Cyprus Mines Corporation withdrew from Cyprus following Turkish military intervention and is now part of the Cyprus Amax Minerals Company, with assets in 1997 of US\$6 Billion, (source: www.cyprusamax.com/about/history.htm).

Whilst the Turkish-Cypriot leadership have historically been pro-market, private sector advocates, the lack of sufficient and adequately developed human capital, a choice in the sources of development finance, the mainland Turkish predilection for planning and State Economic Enterprises and clear and secure property rights³, have forced their hand⁴. The north rapidly became one of Western Europe's most state controlled economies. Increasingly however, the Turkish-Cypriot leadership attempted to release whatever seemed sustainable to the private sector. Even in its early extremes⁵, the leadership could be said to have complied with the classical maxim of only allowing the state to provide what the market failed to provide efficiently. In the summer of 1974 the private sector had withdrawn from almost all economic activity in the north. Most Turkish-Cypriots had spent the previous ten years in fortified refugee camps and were neither experienced nor confident in the future of running assets north of the UN Buffer Zone. Where the market failed to provide, which, given the speed of necessary adjustment and the political context, was almost everywhere, the state and quasi-state moved in. In an economy which peaked in 1990 with a GNP of under \$600 million (in 1990 US dollars) and a population estimated to be around one hundred and seventy five thousand⁶, there were at least ten major state companies, encompassing most major economic activity. For example the Cyprus Turkish Airlines Ltd. was one of only two airlines providing air transport and passenger services in northern Cyprus; Cyprus Turkish Industrial Enterprises Holding Co. Ltd., used mostly formerly Greek-Cypriot assets

³ See Scott J. "Property Values; Ownership, Legitimacy and Land Markets in Northern Cyprus", in Hann C.M. 1998. Property Relations: Renewing the Anthropological Tradition. Cambridge: Cambridge University Press. pp 147-159.

⁴ Wilson, R. 1992. Cyprus and the International Economy. Basingstoke: Macmillan, P.122; Olgun, M.E. "Economic Overview", in Dodd C.H. (ed.) 1993. The Political, Social and Economic Development of Northern Cyprus. Huntingdon: Eothen Press, p. 272.

⁵ "President" Denktash described the economy in the north, in the first four years following Turkish intervention, as having been centrally planned: Interview with Rauf Denktash, carried out in his office, 28/7/95.

⁶ Morvaridi, B. "Demographic Change, Resettlement and Resource Use", in Dodd 1993. *op. cit.*, p. 219.

to manufacture textiles, plastics and foodstuffs; the Cyprus Turkish Maritime Co. Ltd. provided maritime transport, cargo and passenger services; while the Cyprus Turkish Petroleum Co. Ltd. was responsible for importing and distributing petroleum and petroleum products; Cyprus Turkish Tobacco Industries Ltd. manufactured, distributed and exported tobacco and tobacco products; while Cyprus Turkish Tourism Management Co. Ltd. directly managed hotels and tourist development in northern Cyprus; Cypruvex Ltd. marketed and exported citrus and other agricultural products; EFIK Ltd. provided banking and insurance services; Eti Ltd. was responsible for importing and distributing essential foodstuffs; and T.A.S.E.L. Ltd. manufactured alcoholic beverages⁷. This economic activity by the state is on top of what the Cyprus Turkish Co-operative Central Bank provided through its banking, commercial and industrial divisions and what the religious and cultural foundation, Evkaf, funds and manages. There is also the contribution of the independent co-operatives in the spheres of banking, retail and industrial production.

Due to its key role in reactivating the economy, agriculture will be dealt with in depth in the following chapter. However, it is worth noting here that in the agricultural sector there was a significant overlap between the various state sector organisations which provided credit and inputs and also bought and marketed the output: TÜK (Toprak Ürünleri Kurumu: - Agricultural Products Organisation), the State Production Farms⁸, Cypruvex, the Cyprus Turkish Co-operative Central Bank (CTCCB), local independent co-operatives, and the Ministry of Settlement and Rehabilitation. The CTCCB provided credit to local independent co-operatives, who in turn made credit available to their members. The CTCCB also had the monopoly

⁷ Rustem, K. (ed.) 1987. North Cyprus Almanac. London: Rustem K. & Bro, pp.223-224.

⁸ Comes directly under the control of the Ministry of Agriculture and runs three to four chicken farms which produce for the poultry counter (eggs and meat). They also provide seeds to cereal producers and the equivalent to poultry producers (chicks imported from England).

of supply, and/or marketing, in key areas of the economy (and not just agriculture). Until about 1986 the CTCCB's Agricultural Supplies Division used to import seeds for producers, but after that the main marketing bodies took over supplying seeds to their producers. For example, TÜK functions as the Grain Commission used to; it provided (imported) cereal and potato seeds for producers, purchased the crop and (where appropriate, e.g. potatoes) exported the crop⁹. Cypruvex, another state company, was formed to market and manage the considerable citrus fruit industry located in the north, acting as a marketing board and much more. At the same time the Ministry of Settlement and Rehabilitation made land and grants available for start-up farmers in the north¹⁰.

There is limited access and little publicly available data on the development, scale and performance of the state sector in northern Cyprus. A case study based on a series of interviews with the founder and former director of one such company is therefore instructive¹¹. The interview material provides an insight, not only into the development of institutional innovations designed to alleviate strategic market inadequacies, but also, at a more general level, the role of the public sector,

⁹Their method of payment appears to be standard, a practice followed by TÜK, State Production Farms, Cypruvex and the CTCCB: they pay the producers a fixed price on or soon after delivery of the crop, after the deductions of credit (in kind or cash, for seeds and inputs) have been made. Just prior to the designated settlement date for accounts (31 July for the CTCCB's Carob Division, 30 September for grain) a premium is paid to the farmers on the basis of the respective P&L (reflecting, amongst other things, fluctuating domestic and world market prices). For certain crops such as potatoes and carobs there is usually a surplus, so a premium is regularly paid to the farmers, for other crops, such as cereals which can not be produced economically in northern Cyprus, a certain amount of pooling through the states monopoly buying capacity and budgetary transfers means that the state body simply pays a fixed price for the crop after delivery, and that price includes a price support subsidy, so no premium is paid on settlement of accounts.

¹⁰ Grants were mostly in kind, eg. redistributing assets abandoned by Greek Cypriots, such as livestock, seeds, fertilizers, tractors etc., with distributed at the local level being done by Village Co-operatives: Morvaridi, B. "Demographic Change, Resettlement and Resource Use", in Dodd 1993. *op. cit.*, p. 224.

¹¹ This is an approach taken by other researchers working in northern Cyprus, see particularly Behrooz Morvaridi: "Demographic Change, Resettlement and Resource Use", "Agriculture and the Environment" and "Social Structure and Social Change", in Dodd 1993. *op. cit.*, pp. 219-268. My interviews with Ozalp Sarica, were carried out in his office, at the EMU, on the 17/3/95, 21/3/95, 24/3/95.

dominated by a nationalistic Turkish-Cypriot elite, in the establishment and management of a *de facto* separate economy concentrated in northern Cyprus.

One of the first public sector companies to be created and a key development of the enclaved period (1964-74), was the establishment by the "State" Planning Organisation of an Import / Export company, Eti Ltd.¹², with the principal objective of maximising economic co-operation between the Turkish-Cypriot community and Turkey¹³. A measure of its perceived significance can be gauged by the fact that the Director General of the "State" Planning Organisation, Ozalp Sarica, retired as a matter of public policy to head Eti in 1972. Although the company was set up by the public sector, from the outset it had aimed to attract private sector levels of control and efficiency by making shares available to the general public. Initially however, Eti was set up like a co-operative, with its traditional quasi public sector role in the Cypriot market place. Like earlier co-operative organisations, Eti was set up to provide a service not adequately provided by the private sector.

The value of creating a company like Eti for the small regionally dispersed, enclaved Turkish-Cypriot community, was significant, particularly if it wished to remain autonomous. Two years after its creation, during and after Turkish military intervention in 1974, Eti's role became central. The head of the company, Ozalp Sarica, was in Ankara during the first stage of the military operation, launched on 20 July 1974¹⁴. This first stage secured a beachhead effectively linking the Nicosia enclave, with its St Hilarion ramparts, and the sea. The head of Eti was summoned to the Foreign Ministry and requested to arrange and co-ordinate re-supplying the Turkish-Cypriot community, during and after military operations. The first

¹²The business activities of Eti Ltd. are described in the 1987 Almanac as being the import and distribution of essential foodstuffs. Rustem 1987. *op. cit.*, p. 224.

¹³ Interview with Ozalp Sarica, *op. cit.*

¹⁴As the head of Eti, Ozalp Sarica spent most of his first two years in Turkey, from 1972 to mid '74, establishing links between Turkish manufacturing interests and the Turkish Cypriot community.

shipment of 2000 tons of foodstuffs was arranged using two civilian ships, with transshipment to the shore around the Kyrenia beachhead, via military landing craft. Prior to the second stage of the Turkish military operation, which commenced on 14 August 1974, this process was repeated 3 times; however, on the third occasion, just prior to the second stage, the landing crafts used the Kyrenia port area, which had been secured. During the military operations of 1974, private Turkish cargo shipping was used to re-supply the Turkish-Cypriot population. The shipping companies charged unusually high rates reflecting the risks involved by operating in a war zone. By September, however, prevailing conditions were secure enough for the main port of Cyprus, Famagusta, to become operational again. As it was now behind Turkish lines, Famagusta harbour became accessible to Turkish approved traffic only. So Eti now used it for the regular docking of commercial, 1000 ton cargo vessels, bringing in regular shipments of goods via the port of Mersin in southern Turkey.

After the war, however, external and internal constraints persisted, so the operations of Eti were expanded, allowing it to trade in more markets, not just Turkey. In the immediate post "Peace Operation" phase, Eti began trading directly with the UK, purchasing medicines, spare parts and special food stuffs that were unavailable or difficult to obtain in Turkey. Some of the same ships travelling between the UK and Famagusta, in the following few winters, carried citrus fruit out after bringing in some of the more sophisticated essential supplies direct from the UK market. Trade was so significant that Eti set up a subsidiary in London specifically to manage citrus exports from northern Cyprus and specialised imports from the UK.

1976 saw another significant expansion of Eti's operations. In that year, it organised a direct trucking service from London to Famagusta via Mersin, purchasing two 30 ton trucks to ply the route twice a month. In the same year Eti bought its own ship,

a 600 ton vessel, to operate between the port of Mersin and Famagusta. Originally it flew a Danish flag then it opted for lower costs associated with flying the Panamanian flag. During peak periods, even this vessel was employed to carry a cargo of citrus, this time to Trieste in Italy, particularly if the products were destined for European destinations other than the UK, such as Romania (which imported the lower quality citrus products of the northern Cypriot citrus groves). For a time Eti's small ship also found it profitable to operate between Trieste, Famagusta and Haifa. The object however of the continued operation of Eti, was to make sure nothing was lacking in the northern Cypriot market, rather than finding new and profitable areas of business to exploit. Increasingly, other specialised state and quasi-state companies were formed to manage specific areas of the economy, and take the initiative in their respective areas of interest. In the important citrus industry, Cypruvex was formed in 1975 as a government agency responsible for the marketing of citrus products. After 1978 Eti's 600 ton freighter and its two trucks were handed over to a new public company, Cyprus Turkish Maritime Co. Ltd., specifically created to handle the unique transport requirements of the unrecognised "Turkish Federated State".

Eti is overwhelmingly a public company. As Director General, Ozalp Sarica argued for a greater proportion of the company's shares to be made available to the public, with incentives (such as making dividends non-taxable) applied to make those that were available more attractive. None of this was to happen, so the private sector's stake in Eti remained low, at around 25%. However, this is still a significant personal success on the part of the company's founder, Ozalp Sarica, who battled against the insistence of (mainland) Turkish advisors, to allow some private sector involvement in Eti. His success proved to be unique, Eti remained the only public company permitted to open its ownership to the private sector, in the form of registered shares.

Eti still operated out of Nicosia, Famagusta and Kyrenia (in 1995), fulfilling its basic objective of supplying the people of northern Cyprus with what the market fails to provide, and more generally as a wholesale purchaser and retail outlet for a diversity of products, from medicines to motorcars. It was founded as a substitute for market enterprise in a period of market failure. The failure to open more of its operation to the market is perhaps a consequence of the perceived likely failure of the market to move into more of its area of operations. Seemingly the concerns of the Turkish advisors were similar to previous Turkish-Cypriot preoccupations; strategic security interests. However, the creation and development of Eti is another example of short run expediency, carried through into the long run. As a public sector substitute for free market activity, the role of Eti was critical at certain points in Turkish-Cypriot economic history, particularly during the transition to the establishment of a *de facto* Turkish-Cypriot economy in the north. Whether a public sector trading company such as Eti was entirely necessary in the 1990s and whether the public sector should have retained such a level of control, in terms of shares, is open to debate. However, in its central role in supporting and maintaining a Turkish-Cypriot economy in the north and in its disbursement of activities, Eti has directly and indirectly spawned much state sector activity. Much of this activity has continued to play a leading role, well after the conditions which justified its existence have diminished or disappeared.

The role of Turkish-Cypriot co-operative institutions¹⁵

Agricultural development¹⁶ or utilisation was critical to the economic and political success, and even survival of a Turkish-Cypriot (as opposed to a Turkish) entity north of the UN Buffer Zone. In the absence of sufficient labour, private investment funds, clear and secure property rights, co-operative institutions in general and the Cyprus Turkish Co-operative Central Bank (the CTCCB) in particular, played a critical role in the re-development of agriculture in the north. The role of the CTCCB, and the scale of its operations, can partly be gauged by the fact that in 1993 the CTCCB employed 436 permanent and 283 temporary staff¹⁷. In the same year independent co-operatives, including the Dept. of Co-operative Development, employed a total 515 full time staff¹⁸. Altogether, employment in co-operative

¹⁵The material in this section is based on a series of interviews with senior members of the Turkish Cypriot Co-operative movement, both at the level of the Co-operative Central Bank and the Independent Co-operatives. The writer alone is responsible for any erroneous assumptions and conclusions drawn from making connections between diverse interview material and data. Interviews began with Mr Suleyman Kiryagdi, General Co-ordinator & Acting Secretary and General Manager of the Cyprus Turkish Co-operative Central Bank, carried out on the 20-21/4/95 in his office; and Mr Gulhan Alp, Chief Accountant at the CTCCB, carried out on the 21/4/95, 02/5/95, 09/6/95, 28/7/95, 8/8/95 and 11/8/95 in his office. They were followed by a series of interviews with Mr Cafer Arseven, the Chief Registrar at the Department of Co-operative Development, the Prime Ministry, which took place on the 3/8/95, 8/8/95 10/8/95 & 16/8/95 in his office; and with Mr Ertugrul Uzun, the Chief Auditor, at the Department of Co-operative Development, the Prime Ministry, on the 3/8/95 & 18/8/95 in his and the Chief Registrar's office. There followed a series of interviews and tours of independent co-operatives: Beginning with an interview with Mrs Emel Uzun, the Manager of the Government Employees Savings Bank, Nicosia, (established in 1958) between 12.00 & 2.00 p.m., 8/8/95 in her office. This was followed by an interview with Mr Ergun Sever, the Secretary of the Famagusta Turkish Co-operative Bank (founded in 1944), between 10.00 & 11.00am, on 10/8/95, in the Chief Auditor's office and in the presence of Mr Uzun. Followed again by an interview with Mrs Sadiye Onculay, Manager, The (Elementary School) Teachers Co-operative Savings Bank, Nicosia, in her office between 10.30am - 12.00pm, 16/8/95 and a guided tour of PAYAK Ltd., Multi-Purpose Co-operative, Nicosia, with Chief Registrar, Mr Cafer Arseven, between 12.15 & 1.15pm, 16/8/95. This in turn was followed by an interview and a tour of the plant with Mehmet Vechi, the Manager of the Karpas Co-operative Tobacco Sales Co. Ltd, Yeni Erenkoy (Yialousa, established in 1964), between 10.30am and 1.30pm 29/8/95, & between 2.00pm and 4.00pm, 12/9/95.

¹⁶ As mentioned earlier, due to its central role, in the economic development of a Turkish Cypriot economy in northern Cyprus, agriculture will be dealt with in depth in the following chapter.

¹⁷ Interview with Mr Gulhan Alp, *op. cit.*

¹⁸ Interview with Mr Cafer Arseven, *op. cit.*

institutions in northern Cyprus amounted to 9% of total employment in 1993¹⁹. In 1998, the CTCCB alone was the second largest employer in northern Cyprus, second only to the government²⁰.

Since the 1940s, every village in Cyprus had at least 1 co-operative society. Every member of a village who worked in the village and who was over eighteen, was a member of the village co-operative; this is still largely the case in northern Cyprus, despite the upheavals of the recent past. Until 1959, the Turkish-Cypriot co-operative movement shared the same history as Greek-Cypriot co-operation; until then the co-operative movement in Cyprus was bi-communal. Co-operation was also the pervasive organisational structure in the indigenous Cypriot economy at the time. Much of its original inspiration lay in the British administration of the island. However, on 9 September 1959, under the Zurich agreement, the departing British Colonial Administration separated the Greek and Turkish Co-operative Central Banks and independent co-operatives from their single, bi-communal organisations. Like religion and education, these key economic institutions were to come under the authority of the separate communal chambers which the departing British Administration had set up. Turkish-Cypriot village co-operatives came under the authority of the Turkish-Cypriot Communal Chamber, just as the Greek ones came under the control of their own Communal Chamber (until it was dissolved following the 1963 constitutional crisis). Co-operatives in mixed villages were generally separated on communal grounds, with the British issuing financial sweeteners to ease the transition.

¹⁹ "Turkish Republic of Northern Cyprus", 1994. Statistical Yearbooks 1993. northern Nicosia: "State" Planning Organisation, Prime Ministry, p.133.

²⁰ <http://www.coopcb.com>, Sept. 1998.

Of the Co-operative Central Banks, both the Greek and Turkish subsequently provided long term credit and development loans through their local Credit Societies, present in almost every village. The Development Fund provided finance to both Co-operative Organisations. After December 1963, cut off largely from the Republic's Central Bank, the Cyprus Turkish Co-operative Central Bank (CTCCB) received long term credit facilities from Turkey, both from the public and the private sector. Isbank²¹ provided the private sector support backed by aid from the Turkish Central Bank.

Following the events of December 1963, many local independent co-operative societies ceased to function (becoming inactive - see Table 4.1). During and immediately after the communal fighting, 90 villages had been displaced. In them were 56 credit societies, 15 consumer co-operatives, and 2 multi-purpose co-operatives, a total of 73 independent co-operatives which became immediately inactive. By 1965, continued sporadic violence and unbroken economic sanctions meant that a total of 81 independent co-operatives were inactive: 61 credit Societies, 16 consumer societies and 4 multi-purpose societies²². During the years that followed, particularly the difficult years of embargo and the flaring up of periodic communal violence, further displacement and economic difficulties caused other co-operatives to cease operations. It must be noted, however, that the real blow to Turkish-Cypriot co-operatives, as to their economy generally, occurred during and immediately after the fighting of December 1963. Things only gradually began to improve for independent co-operatives after 1970. Some new societies were created and the first moves were made to rationalise the provision of independent co-operatives by replacing or merging poorly performing, specialised, co-operatives

²¹This was only partly a private sector organisation the state owned a sizeable share holding (minority holding) but the major share holding was held by the Turkish Republican Party. Interview with Suleyman Kiryagdi, *op. cit.*

²² Interview with Mr Cafer Arseven, *op. cit.*

with multipurpose co-operatives, a form that particularly suited the economic situation of the enclaved, dispersed and spatially segregated Turkish-Cypriot community between 1964-74.

After 1959 and even 1963, there remained some bi-communal local and particularly crop and production related co-operatives. Partly because of the population structure and local communal divisions of labour, inter-communal co-operation continued in areas spared the worst violence, being a necessary element of some local economies. Again (arguably) reflecting the population structure, the controlling share of bi-communal co-operatives was usually Greek Cypriot, meaning that they would exclusively use the Greek-Cypriot Co-operative Central Bank's clearing facilities. Until 1974 Greek and Turkish-Cypriots shared such key sub-sectoral co-operatives as: Wine, Tobacco and Carob (all of which were the leading Cypriot producers), all were controlled by Greek-Cypriots. From 1963 to '74 there was some collaboration between separate independent local Greek and Turkish-Cypriot co-operatives in the purchasing of imports, such as fertilisers (to benefit from bulk purchasing discounts) and between the CTCCB and Greek-Cypriot controlled parastatals. This was to end with the massive upheavals of the summer of 1974. With the ethnic segregation that followed, some of the Turkish-Cypriot refugees from 1974 (well over half the Turkish-Cypriot population) brought their co-operatives with them (for example the Turkish-Cypriot Limassol Co-operative Bank still exists and is now a thriving Kyrenia based bank), some created new ones and others joined existing Turkish-Cypriot co-operatives located in the north.

Table 4.1 The number and status of Turkish-Cypriot independent co-operatives							
		21/12/63	15/12/65	31/08/73	late 1974	31/12/87	3/8/95
Credit Societies	Active	173	114	130	140	87	88
	Non-active		61	47			
Consumer Societies	Active	97	81	58	58	31	15
	Non-active		16	41			
Savings Banks	Active	18	18	20	20	23	24
	Non-active			2			
Multi-Purpose Societies	Active	29	23	18	18	101	85
	Non-active		4	21			
Total active		317	236	226	236	242	212
TOTAL		317	317	337			

Note: data after 1973 is for active co-operatives only.
Source: Interview with Mr Cafer Arseven, Chief Registrar at the Department of Co-operative Development, the Prime Ministry, 3/8/95, 8/8/95 10/8/95 & 16/8/95.

Local independent Turkish-Cypriot co-operatives suffered particularly during the 1964-68 period. Some co-operatives were dissolved, others lay dormant only to be revived after 1974, and particularly after 1976 which was a period of rapid change and growth in co-operation in northern Cyprus when the new Turkish-Cypriot Department of Agriculture began to decentralise the organisation of the agricultural economy. In 1973 there were 337 independent individual Turkish-Cypriot co-operatives, of which only 226 were still active. By late 1974 the total number had been reduced to simply 236 active independent co-operatives. After the rationalisation which began in 1976, the total number of independent co-operatives increased slightly, while the composition changed dramatically. In 1973 7% of active co-operatives were multipurpose co-operatives; after the rationalisation begun in 1976, that had risen to 41%. So the co-operatives that arose from the economic chaos of the 1960's, mostly after 1976, were different from the ones that had ceased operating. The new societies would no longer merely provide rural credit or retail services, but a range of services and products which included encouraging and even specialising in development financing, with indirect and even direct involvement in other industrial sectors (though usually sectors with strong backward and forward linkages with agriculture).

A few new co-operatives were formed in 1974, while many existing co-operatives were merged or dissolved as members of various dormant co-operatives, from villages that no longer had a Turkish-Cypriot population, were dispersed and re-settled north of the UN Buffer Zone. Until 1976, when the Turkish-Cypriot co-operative movement experienced its major re-organisation, co-operatives that were active in 1973 remained in business north of the UN Buffer Zone, while inactive co-operatives largely remained so also. By 1976 it was considered that there were too many of the wrong sort of co-operatives, many of which were no longer functioning. Many members of formerly southern located co-operatives were dispersed throughout the north or had migrated, so this period of rationalisation was necessary. The trend towards the expansion of multi-purpose co-operatives, a trend that was begun before 1974, was put into operation, as multi-purpose co-operatives performed a critical function of distributing agricultural and subsistence prerequisites in the now sparsely populated north. The number of Credit Societies and Consumer Societies was cut dramatically (see Table 4.1), the number of Savings Banks remained fairly static, while the number of multi-purpose co-operatives increased more than four-fold. 83 new co-operatives were created to replace co-operatives formerly located in the Paphos, Limassol and Larnaca regions. These new co-operatives were all multi-purpose co-operatives, created to rationalise provision so that Turkish settlers and Turkish-Cypriots in abandoned Greek-Cypriot villages would have only one co-operative, but one that offered a full range of services, from agricultural credit to retail services. Multi-purpose co-operatives were seen as the new panacea, providing vital services to the many recently abandoned villages of north Cyprus. Villages in the north that had always been Turkish Cypriot, generally retained their existing co-operatives and if they were functioning successfully, a plurality of them was permitted to continue operating.

In some senses the functioning of Turkish-Cypriot co-operatives in the north, particularly the agricultural co-operatives, has conformed more with the concept of pseudo co-operation, fulfilling quasi-state functions, rather than with concepts of local, independent co-operation. The Ministry of Resettlement re-distributed food, agricultural inputs and machinery through local co-operatives societies²³. The CTCCB gave credit to local Credit and Multi-purpose Societies and they in turn passed it on to their members. This formed 90% of all credit issued by independent Credit Societies, who had formerly issued credit from their own reserves, (hence their independence). Much of this agricultural credit came originally from the state Central Bank, in the form of subsidised credit for agricultural purposes. Thus the CTCCB and other agencies re-cycled assets and public funds through local independent co-operatives as part of government economic policy. At a pragmatic level, it is more expensive for individual co-operatives to act alone (importing etc.). Because of the special rates it can demand (due to bulk purchasing) the CTCCB has supplied many of the products dispensed by the local co-operatives. This is particularly with regard to agricultural imports, for which the CTCCB has remained the key supplier. However, a few local independent co-operatives, such as PEYAK Ltd (a large urban multi-purpose co-operative), have, through their large retail sector, directly imported many goods themselves (mostly from Turkey).

Most Turkish-Cypriots have remained members of co-operatives, especially lower income groups and, automatically, government employees (which, together, covers almost every Turkish-Cypriot in northern Cyprus). Personal lending comes from local co-operatives' own resources, but this is almost exclusively an urban and a Turkish-Cypriot - rather than Turkish - phenomenon. The credit from Savings Banks (also a mostly urban form of co-operative) is only in the form of personal

²³ Morvaridi, B. "Demographic Change, Resettlement and Resource Use", in Dodd 1993. *op. cit.*, p. 224.

loans. Savings Banks do have access to CTCCB funds but mostly provide their loans from their own reserves. If they have their own reserves, personal loans are approved by the local committee, but if they need access to CTCCB funds, credit needs to be approved by the CTCCB Board of Directors.

There has reportedly been equal access to the credit facilities of local co-operatives though, when it comes to personal loans, there has been a distinct urban bias in terms of the resources and the co-operative's main function. Access to credit facilities are also strictly controlled and highly centralised. Any credit deriving from the CTCCB has to be approved by the elected Board of Directors. Any credit provided by an independent co-operative, from its own reserves and over a certain limit, has had to be approved by the office of the Registrar of Co-operative Societies, in the Prime Ministry. That independent credit limit has always been relatively low. In 1994, the largest single individual credit that an independent co-operative society could make from its own reserves, before referring it to the Registrar for approval, was 4 million Turkish Lira (approx. US \$114). The Registrar of Co-operative Societies also has other far reaching powers, being theoretically free to discharge the elected council of the CTCCB, and appoint a new one, if it is believed that the CTCCB is not carrying out its duties efficiently.

Originally designed to facilitate the provision of agricultural credit, the functions of the CTCCB widened considerably after 1974. With its increased scope, the power of the CTCCB within the co-operative movement in northern Cyprus and the economy generally, has increased considerably. For a time it was the main importer of food, groceries and construction materials, working alongside Eti through two of its commercial divisions and maintaining over a 60% gross share²⁴. From around 1983, after the immediate disruptions which followed war and *de facto* division had

²⁴ Interview with Mr Gulhan Alp, *op. cit.*

been overcome to the extent that northern Cyprus declared itself independent, that share of strategic commodities and materials gradually fell to below 30%, though the CTCCB remained the sole importer of key agricultural inputs, such as fertilisers and fodder composites.

Whilst it may have contracted in the depth of its operations, the CTCCB has not done likewise in terms of breadth. The organisation continued to expand the scope of its economic operations in the north, a sign of its relative economic strength, or the continued weakness of alternatives. The main aim of the Co-operative Central Bank and independent co-operatives generally, was to provide liquidity to their members. All subsequent diversifications, such as the CTCCB into the Dairy Products and Animal Fodder industries, allegedly followed these objectives; however, the role of the co-operative movement is generally perceived as more strategic than that. Both the dominance of agriculture in the economy of the north and the unique problems facing the region after Turkish military intervention in 1974, have led to those requirements being interpreted fairly liberally. Underlining its dominant role in the economy of the north, there are currently 17 divisions of the Co-operative Central Bank, 11 of which are in non-banking activities. All divisions are directly under the authority and management of the Co-operative Central Bank head quarters in Nicosia. A key aim of the CTCCB appears to be maintaining industries that have a key supply or employment role in the "TRNC", particularly those with direct and strategic links with agriculture. However, the continued presence of such a large, centralised co-operative organisation in such a small economy, appears to be another example of how short term expediency has been carried into the long term.

Of the 6 Banking divisions in 1995, 5 are domestic branches and they all stem from the Nicosia Banking Division which was established in 1959. Guzelyurt (Morphou) and Iskele (Trikomo) are both relocated branches from Paphos and Larnaca

respectively. The Famagusta branch was established in 1972 and established a University (EMU²⁵) sub branch in 1988. The Girne (Kyrenia) branch was established in 1980. In 1978 a separate Foreign Banking Division was set up; formerly foreign services (letters of credit for the Industrial and Commercial Divisions etc.) were provided by the Nicosia Branch. In 1962 the CTCCB set up an insurance agency which was established as an agent of the Seker Insurance Co. of Istanbul.

The operations of the 11 non-banking divisions have been subdivided into commercial and industrial divisions, both directly managed by the CTCCB in Nicosia. Of the commercial division the oldest is the Nicosia Cold Stores, Foodstuffs & Supplies Department, which was established in 1960, just after the separation of the co-operative movement by ethnicity. Before 1974 the Nicosia Cold Stores, Foodstuffs & Supplies Department had stores in Limassol and Famagusta. After the move north, the Limassol stores were replaced by stores in Karaoglanoglu (Ayios Yeorgios, near Kyrenia). This gave the CTCCB stores in the main urban centres, the two seaports and the airport in the north. The main function of this division of the CTCCB has been to import groceries and other products but especially vital products: Sugar, Grain, Salt. Eti and the Supplies Department of the CTCCB have been the only importers of sugar and grain (for the recent²⁶ proportions imported by the latter, see Table 4.2 below). As one of these state or quasi-state importer's proportion has dropped, the other's has increased²⁷. Whilst sugar was still officially a restricted trade even in 1995, grain was de-restricted in 1990. Despite the nominal existence of a free market, the import and distribution of grain was essentially still controlled by Eti and the CTCCB who, alone with the state Grain Commission, controlled the entire grain supply of northern Cyprus in

²⁵Eastern Mediterranean University, Famagusta.

²⁶ Earlier data was unavailable, (interview with Mr Cafer Arseven, *op. cit.*).

²⁷ Interview with Mr Gulhan Alp, *op. cit.*

1995. The existence of the Cold Stores, Foodstuffs & Supplies Department of the CTCCB makes the purely economic justification for the foundation of Eti less secure.

Table 4.2 Percentage of two vital basic foods imported by the Cyprus Turkish Co-operative Central Bank					
	1989	1990	1991	1992	1993
Sugar	62 %	-	24 %	46 %	30 %
Grain	18 %	11 %	14 %	45 %	-

Source: Series of interviews with Gulhan Alp, Chief Accountant at the CTCCB, 21/4/95 - 11/8/95.

The Nicosia Cold Stores, Foodstuffs & Supplies Department began as the sole CTCCB supply department. In 1974 it was referred to as the "Trading and Wholesale Supply" Dept.²⁸. The first structural re-organisation occurred in 1978 when the Building Materials and Agricultural Requisites divisions were hived off. In 1985 Famagusta Cold Stores, Foodstuffs and Supplies became a separately managed division of the CTCCB. The Famagusta Cold Stores, Foodstuffs and Supplies Dept. has the same function as in Nicosia, only it buys from the Nicosia division (rather than from abroad) and distributes them to its clients in the region. The Famagusta division is also the main regional agent of the Dairy Products Industry, another division of the Co-operative Central Bank (the CTCCB) and the main supplier of dairy products in northern Cyprus. The Famagusta Cold Stores, Foodstuffs and Supplies Dept. acts effectively as a wholesale distribution agent for the Dairy Products Industry, for which it receives a commission.

The Building Materials Marketing Department is based in Nicosia, with stores in Famagusta and Guzelyurt (Morphou); its key imports are: cement (from Turkey), wood (from Sweden), iron, motor pumps (for irrigation) and galvanised tubing. Eti and (more recently) private companies also import these products. Because many of these products were perceived strategic and therefore proscribed by the (Greek

²⁸ See CTCCB Annual Report for 1974, p. 12.

Cypriot) Government in the 1960s, the Turkish-Cypriot leadership has had a traditional interest in their procurement and distribution.

Table 4.3 *Proportion of construction steel imported, profit and loss and the no. of employees of the Building Materials Marketing Dept. of the Cyprus Turkish Co-operative Central Bank*²⁹

	1989	1990	1991	1992	1993
Market share in con. iron %	10%	-	13%	17%	11%
Net P&L in current US\$	-\$86,935	-\$387,555	-\$366,934	-\$463,005	-\$710,363
Number of employees	18	19	18	17	18

Source: Series of interviews with Gulhan Alp, Chief Accountant at the CTCCB, 21/4/95 - 11/8/95.

The Agricultural Requisites & Supplies, Machinery & L.P. Gas Filling Station Division was formerly another part of the original supply department. The three main agricultural supplies co-ordinated and purchased by this division of the CTCCB are: fertilisers (for which it remained the sole importer), seeds and agricultural machinery. This division also manages a liquid petroleum (LP) gas station (KOOPGAS) in Gonyeli, 5 miles Northwest of Nicosia. (LP gas is the main cooking and heating fuel in northern Cyprus.) There is also now a private LP gas supplier in northern Cyprus (Agap) and together they supply the total LP gas requirements of the north³⁰.

The CTCCB established a shipping agency, Denko, in 1976 in Famagusta to help with the customs and shipping requirements of the industrial and commercial units of the CTCCB, the independent co-operatives and the economy of the "TRNC" more generally. This was done in view the north's lack of recognition and the strength and hostility of Greek interests in the international shipping industry.

²⁹When the facilities, profit and loss and particularly the number of employees of the CTCCB are read in the abstract, their significance is easily lost. It is worth constantly being reminded of the size of northern Cyprus. With a population below two hundred thousand, GNP peaked in 1990 at under \$600 million (in 1990 US dollars). Again, earlier data was unavailable (interview with Mr Cafer Arseven, *op. cit.*).

³⁰ Until 1990, wholesale LP gas supplies came from the south, supplied by Mobil in a complicated routine which involved changing drivers and number plates before proceeding through the Ledra Palace, UN check-point. Since then supply facilities have been constructed on the Karpas Peninsula. Liquid Petroleum is imported from Turkey and delivered via the Karpas, to one of the two filling stations mentioned above to be bottled.

However, at the same time Eti off-loaded its transport equipment and responsibilities to the newly founded public concern: Cyprus Turkish Maritime Company Ltd. So the creation of Denko is another example of the overlapping functions of state and quasi-state sector organisations in what is a tiny economy.

The Industrial Divisions of the Co-operative Central Bank are like Britain's old nationalised industries; an amalgam of poorly performing, formerly failed private businesses (in the case of the independent co-operatives taken over by the CTCCB). The Dairy Products Industry (Division) was established in 1958 as an independent co-operative, "Dairy Products Co-op Ltd", but because of financial problems it was absorbed by the CTCCB in 1969, after which its activities were enlarged from pasteurised milk and Hellim (Cypriot - Halloumi) cheese production, to UHT milk in 1970. In 1985, there was a further diversification into orange and grapefruit juice production.

Table 4.4 Cyprus Turkish Co-operative Central Bank's share of cows milk market	
1989	49 %
1990	43 %
1991	44 %
1992	48 %

Note: northern Cyprus is self-sufficient in cows milk, so what the CTCCB produces also represents market share.
Source: Series of interviews with Gulhan Alp, Chief Accountant at the CTCCB,
21/4/95 - 11/8/95.

Overall the Dairy Products Industry produces around 70% of the local dairy requirements of yoghurt, cheese and milk and has provided considerable exports, mostly to the Middle East. Due to transport problems, and consequently competition from other producers (particularly the Republic of Cyprus), these markets are said to have declined, as goods have been theoretically required to go through Turkey,

increasing costs³¹. This is perhaps reflected in the considerable losses reported by the division throughout the 1980's (see Table 4.4 below).

Table 4.5 Dairy Products Ind. (Division of the Cyprus Turkish Co-operative Central Bank), profit & loss & no. of employees, 1984-93

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Net P&L in ths US\$	-\$80	-\$30	-\$360	-\$190	-\$40	-\$60	\$140	\$110	\$140	-\$20
Employees*	115	101	99	45	35	92	95	93	104	105

*Employment figures include temporary staff.

Source: Series of interviews with Gulhan Alp, Chief Accountant at the CTCCB, 21/4/95 - 11/8/95.

For most of the 1980s, there had also been substantial exports to London, mostly through the (CTCCB's) KOPEX subsidiary. Like Eti, the CTCCB had set up a wholly owned subsidiary in its main overseas market. KOPEX's speciality was imported Hellim (Halloumi) cheese for the London Cypriot market, but it also marketed other products such as Sun Flower Oil. KOPEX set up as a UK registered, limited liability company in 1983. It ceased operations however in 1989 because of mounting debts (see Table 4.6).

Table 4.6 Kopeks Ltd., final net P & L in thousands of current US\$

	1987	1988
Net P&L in ths US\$	-\$20	-\$20

Source: Series of interviews with Gulhan Alp, Chief Accountant at the CTCCB, 21/4/95 - 11/8/95.

Another business failure, this time absorbed by the CTCCB, was Ayko (Shoes). As production expanded, so its performance deteriorated further (see Table 4.7). Established in Nicosia in 1972 as an individual co-operative society, mounting financial problems forced Ayko into being taken over by the CTCCB on 1 April 1990. Its plant has not been upgraded since it was installed in the early 1970s, which is partly why Ayko's products are restricted to the domestic and particularly the local (Turkish Cypriot) military market. In civilian production, competition

³¹ Interview with Gulhan Alp, *op. cit.*

comes from cobblers; very small production units, using traditional non-unionised labour, and who can produce at very low costs. Also foreign, mostly Turkish production, which has advantages in terms of greater economies of scale and greater access to style innovations, out perform Ayko in the domestic market. There has also been increasing competition from Turkey in the important domestic military boot market, where economies of scale play a decisive role. So despite increasing productivity, Ayko's recent performance has still been very poor (see Table 4.7 below).

Table 4.7 AYKO, profit & loss, output & the number of employees, 1990-93				
	1990	1991	1992	1993
Net P&L in current US\$	-\$14,662	\$7,143	-\$142,976	-\$169,173
Output in pairs	25,868	57,621	63,144	55,736
Employees	42	51	57	62

Source: Series of interviews with Gulhan Alp, Chief Accountant at the CTCCB, 21/4/95 - 11/8/95.

Some of the other industrial divisions of the CTCCB are a more obvious extension of the operations of an agricultural co-operative organisation, particularly in the context of the market irregularities and impurities still facing the Turkish-Cypriot community.

The Animal Fodder Industry's factory was, however, established in the Nicosia enclave in 1973. Subsequently, the Ministry Of Agriculture also ran a fodder factory (Animal and Farm Producing Enterprise) concentrating on livestock feed, effectively producing the balance over what the co-operative enterprise produces. Since the late 1980s there have been some private fodder producers, mostly in the poultry feed market.

The Oil and Margarine Industry Division of the CTCCB (Zenko) was established in 1974 in Karakum (Karakoumi) 4 miles east of Kyrenia, taking over a formerly Greek owned margarine production unit. Zenko has concentrated on producing sunflower oil products but also trades in olives and olive oil. The plant essentially

packages imported raffinate, supplying around 40% of the domestic oil and margarine market³² with imports, mostly from Turkey. Zenko also buys producers' olives, which it packages and exports or sells locally. Olives and olive oil production is yet to be fully commercialised (as is true in the south). Zenko merely buys and markets excess production. There are however other exporters, packagers and distributors of olive products in the north.

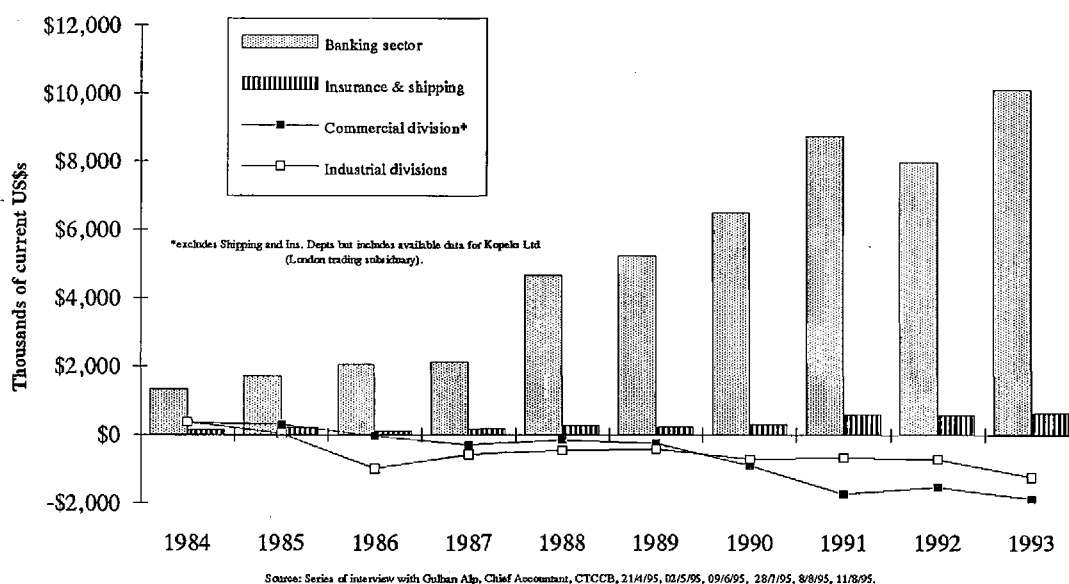
The Turkish-Cypriot community had their own carob kibbling plant which was lost as a result of the war in 1974. It was established in 1974 in Yalova, near Limassol, but after Turkish military intervention, production was relocated to a formerly Greek owned coastal plant between Salamis and Iskele (Trikomo). The plant buys carobs from local producers, breaks them, extracts the seeds (which are used in the cosmetics industry), classifies both products and exports them to markets in Western Europe, particularly the United Kingdom.

The operations of the Co-operative Central Bank (the CTCCB) have expanded for two reasons: first, as a substitute for free market activity in a sparsely populated small unrecognised economy, and second, when a co-operative sector company is in trouble the Co-operative Central Bank absorbs it. Such a commitment is seen as providing for the credit requirements of agriculture (or at least its members). When the Dairy Products Industry (Co-operative) got into trouble it was taken-over by the Co-operative Central Bank and so, more recently, was AYKO Shoes. However, when the wholly owned London subsidiary, KOPEX, got into trouble in 1988, it did not do the same. This was partly because Eti had its own London subsidiary and also because the activities of London based Polly Peck were at their height (see below) and the benefits to the north Cyprus economy of continued access to the London market via KOPEX were limited. The benefits to the north Cyprus

³²*ibid.*

economy of AYKO Shoes, another co-operative doing badly, also look limited. The Co-operative Central Bank did not, however, envisage having to pull the plug on one of its locally evolved members (though it has largely gradually withdrawn from retailing in the north, as the private sector expanded). It sends in its managers to troubled co-operatives to ensure that trading is conducted with propriety and relative efficiency, but rationalisation that entails mass redundancies of "members" (all employees of co-operatives are automatically members) is beyond its effective remit. The state sector on the other hand has introduced some such rationalisations in some industries under its control, but despite the fact the right have always dominated Turkish-Cypriot politics, direct privatisation is neither popular nor pervasive.

Figure 4.1 *Profit & loss accounts of the various activities of the Cyprus Turkish Co-operative Central Bank, 1984-1993.*



What seems clear from observing the recent accounts of the various economic activities that the CTCCB has been involved in (see Figure 4.1), is that only its core activities (banking along with insurance and shipping) is CTCCB management efficient. A few closely related and historically linked industries, such as carob kibbling and animal fodder production are also profitable concerns. In both industries, however, the CTCCB operation has acted as either a marketing board or

a monopoly respectively. Where there is competition in all but the financial services and international trade sectors, CTCCB management finds it difficult to compete successfully.

Despite the breadth of scope of the Co-operative Central Bank, its declared largest single service was (in 1995) still the provision of short term credit to agriculture, mostly credits in kind and in the form of agricultural inputs³³. Long term credit is provided by the Central Bank which may use the Co-operative Central Bank as a vehicle for development, though this is no longer common. The latter form of credit runs from 3 - 6 years, though increasingly since its establishment in 1993, the Development Bank has taken responsibility for all long term credit facilities. Long term strategic investment in specific sectors, for reasons of long term economic planning have been made by the Central Bank or, in the case of the government's more recent priorities, by the Ministry Of Tourism. These institutions will subsidise loans made to specific sectors by the banking sector, of which the CTCCB is a key player. Its individual members, however, have rarely requested capital for business expansion or diversification³⁴. Most borrowing approved by the board of the CTCCB is for the purchase of variable inputs or, increasingly, consumption spending, cultural hospitality: weddings and circumcisions. In the north, the application of co-operative credit from the CTCCB has not diversified much in terms of its lending to individuals and independent co-operatives. The organisation's size and financial strength has meant that it has been exploited as a tool of wider government policy, and as a substitute for public borrowing and expenditure³⁵ (see Tables 5.1 and 5.2).

³³Interview with Suleyman Kiryagdi, *op. cit.*

³⁴*ibid.*

³⁵Interview with Ozalp Sarica, *op. cit.*

The co-operative movement in general, and the Co-operative Central Bank in particular, were highly strategic institutions during the transition to a separate Turkish-Cypriot economy. In the aftermath of 1974, co-operative institutions coordinated by The Ministry of Resettlement, the CTCCB and lubricated by Turkish finances, channelled Turkish-Cypriot development along a designated path, repopulating an ethnically cleansed region at the same time as it re-commenced economic activity in one of the regions three main sectors, agriculture. The continued pervasiveness of both central and local co-operative institutions, suggests that these substitutes for free market activity have succeeded in providing for the transition of a constrained, primitive economy based in fortified refugee camps into something vastly more complex and superior. They have done this while also providing an element of continuity. If the recent performance of the industrial and commercial divisions of the CTCCB is representative of something more widespread, then there were costs involved in confining an economy within an improvised institutional framework, essentially designed and expanded to fulfil short term necessities and political objectives.

The economic role of organised religion

New state sector companies were created to re-establish economic activity in the north, abandoned by most of its workforce and managers. The co-operative movement assisted this process, concentrating on the key agricultural sector. The co-operative movement also provided continuity with the past. Another important economic institution which could likewise assist in the economic adjustment process, aiding re-development with management skills and financial capital, whilst also providing some continuity, was the religious foundation, Evkaf.

Evkaf is an Islamic organisation founded in Cyprus in 1571, when the island came under Ottoman rule. The aims of the organisation are religious, communal and cultural: the advancement of Islam, the relief of poverty, education and the protection of the community and community interests, such as religious property. After 1905, Britain increasingly took over the responsibility of education from Evkaf. With the outbreak of the First World War in 1914 and the entry of Turkey on the side of the Central European powers, Britain also took responsibility for appointing the delegates of Evkaf, a situation which continued until four years before independence in 1956 (at the beginning of Britain's war with Greek-Cypriot nationalist guerrillas) when it was handed back to the Turkish-Cypriot community. Under British rule, the Evkaf Office was absorbed by the colonial administration and administered as a part of the Colonial Office. In 1944 the Immovable Property Law converted large areas of Evkaf leasehold property to freehold, in many cases transferring ownership to Greek-Cypriot tenants, particularly in the Varosha and Morphou area³⁶.

The Evkaf and Vakfs Law of 1955 began a process of devolving power from the executive to the Turkish-Cypriot people, ruling that Evkaf was to be administered by a council elected by the Turkish Community. At the same time, Governor John Harding returned all Evkaf properties that had been put to other uses, granting £1 million compensation to the Turkish-Cypriot community³⁷. The first election to the Evkaf Council took place on 15 April 1956, when the seven member governing Supreme Council was elected, with the Turkish-Cypriot delegate to the colonial executive committee and the Mufti being appointed as ex-officio members. Special members were appointed to look after the administration of mosques and other religious buildings, but who were also responsible to the supreme council. With

³⁶ Interview with Ozalp Sarica, *op. cit.*, also Rustem 1987. *op. cit.*, p.121.

³⁷ Morvaridi, B. "Social Structure and Social Change", in Dodd 1993. *op. cit.*, p. 264.

Cypriot independence in 1960, the administration of Evkaf came under the jurisdiction of the Vakfs and Religious Affairs Office of the Turkish Communal Chamber. After the establishment of a "Provisional Administration" in 1968, Evkaf was administered as a separate Ministry in the "Administration", ending a brief period of relative political independence.

Evkaf was responsible for the first large scale Turkish-Cypriot foray into the tourist industry, sponsoring the building of the 72 room Saray Hotel in the centre of Nicosia in 1958. Evkaf began operating it after the withdrawal of foreign management in 1969. Since then, and particularly after 1974, it has diversified its economic interests further. 1974 was a blow to the Evkaf foundation, as most of the properties it owned and managed were in the south³⁸. It has compensated for that by taking over abandoned property in the north. Since 1974, the Evkaf foundation has branched into banking, with the establishment in 1983 of the Cyprus Vakiflar Bank³⁹, into agricultural estate management, and has extended its real estate⁴⁰ and tourism interests to the management of shopping centres, apartments, land development, casinos⁴¹, as well as to further hotel management such as Kyrenia's oldest and most famous hotel, the Dome⁴². In 1987, one explicitly conservative estimate put the value of Evkaf property, excluding mosques and ancient monuments, at around £800 million sterling⁴³, approximately four times greater than the 1987 GDP in northern Cyprus.

³⁸ Rustem 1987. *op. cit.*, p.121.

³⁹"The Activities of Modern-day Evkaf", *Cyprus Today*, 30/ 7/1994.

⁴⁰ A small business survey, conducted in 1993 by students at the Girne American University, found that out of the 71 small businesses in Kyrenia High Street that responded, 18% rented their premises from Evkaf. Management 402, Small Business Seminar, "Kyrenia Survey", Tutor, Ufuk Ozaktanlar, the Girne American University.

⁴¹ Morvaridi, B. "Social Structure and Social Change", in Dodd 1993. *op. cit.*, p. 265.

⁴² See Scott 1998. *op. cit.*, p. 149.

⁴³ Rustem 1987. *op. cit.*, p.121.

Evkaf had a largely obscure economic role following the disruption caused by the breakdown of the constitution in December 1963. Initially it concentrated on damage limitation, managing current expenditure to reduce the need for subsidy from highly limited central funds, repairing fixed capital assets: mostly mosques and other religious buildings. The period accentuated the need for change, from a period of direct subsidy from the central budget, to the maintenance of a self sustaining separate budget and, because of the demands of military service, this had to be accomplished with a skeleton staff. The Director General of Evkaf between 1964-68, Ozalp Sarica, set up a unit to reorganise Evkaf property management. It also fell to him to implement a new law that had been prepared prior to 1963 and which removed the supreme council of Evkaf from the rigors of day to day politics, by transferring responsibility from elected members, to members appointed by the Turkish-Cypriot administration for a fixed term (5 years, with the possibility of re-appointment). Once it had recovered from the wider violence and political traumas of the mid 60's and within the exogenous constraints facing the community, Evkaf provided management and capital for development, proving a valuable substitute for private investment and entrepreneurial skills, very scarce resources in the Turkish-Cypriot community.

Vakf has been defined as "the principle of tying up property for the sake of Good and to earn Divine Mercy. Evkaf is the plural of Vakf."⁴⁴ As the economic role and power of the Evkaf Foundation has grown, so it has courted controversy. There have been reports that Evkaf has failed to maintain investment in religious works while it increased its temporal portfolio⁴⁵. The allegation is that Evkaf has concentrated on profit making and empire building rather than the spread of Islam and the relief of poverty. However, given the context, much of any such criticism is

⁴⁴ *ibid.*, p.119.

⁴⁵ Morvaridi, B. "Social Structure and Social Change", in Dodd 1993. *op. cit.*, pp. 265-6.

inevitable. In the post-74 sphere, Evkaf was obliged to play an increasingly important economic role in the reconstruction and re-development of assets north of the UN Buffer Zone, having lost many traditional real estate assets both in the latter part of British rule and during *de facto* partition. In many ways, Evkaf was merely regaining the economic strength it had lost during British rule, though in the absence of other major economic institutions and in the context of a modern economy, its role was far more visible.

Three pre-existing institutions were critical to the political and economic objectives of a newly established population north of the UN Buffer Zone: The co-operative organisation, Eti and Evkaf. If the vestiges of an independent economy were to be created behind Turkish military fortifications, particularly an economy with a Turkish Cypriot, rather than a Turkish identity, then in the absence of significant human and financial capital, clear and secure property rights, an expanded role for Eti, the co-operative organisation and Evkaf was essential. It is a fine distinction, but the State Economic Enterprises, and the other public sector organisations that were modelled on them, were *ad hoc* Turkish measures, created to take the place of Turkish-Cypriot entrepreneurs. Whilst Eti, the co-operative organisation and Evkaf, began in some ways, to look like State Economic Enterprises, they had more political importance because their roots were in Cyprus (admittedly for Eti, not very long) before *de facto* partition.

Tourism in the north; beginning again

Despite the founding in November 1974 of Cyprus Turkish Tourism Enterprises Ltd., most public initiatives were aimed at re-establishing an agricultural economy. Particular emphasis was focused on the lucrative export sector (citrus and potatoes).

Meanwhile a little noticed phenomenon was taking place; tourism in northern Cyprus was rapidly eclipsing export agriculture as the dominant foreign exchange earner. Chaotic and disorganised as it was in the immediate aftermath of 1974, yet a partly private sector miracle was nevertheless taking place. In the ten years before the Turkish-Cypriot administration made a concerted effort to develop tourism in the north, 1977-1986, tourism on average generated over 90% as much revenue as all the north's visible exports put together⁴⁶, not just agriculture.

One reason for this may be that Turkish-Cypriot involvement in tourism prior to 1974 was extremely limited. Out of 116 hotels Turkish-Cypriots owned two⁴⁷, one of which was the Saray in Nicosia, built and managed by the Evkaf Foundation⁴⁸. This situation is perhaps a direct consequence of the breakdown of the constitution in 1963, which saw Turkish-Cypriots concentrated in mainly urban, fortified enclaves. Before 1963 coastal tourism in Cyprus (where, following global trends, rapid growth subsequently occurred) was at a very primitive stage. By 1963 the number of visitors to Cyprus was rising rapidly, tourist arrivals having risen by 34% on the previous year, however, they had just taken four years to recover from the effects of the violence that preceded independence. After fighting broke out in December 1963, tourist arrivals tumbled again, taking another four years to recover⁴⁹. Because Turkish-Cypriots were marginalized (whether involuntarily or not) by the upsurge of violence, they were excluded from subsequent development,

⁴⁶Figures derive from a written response to correspondence by Ahmet Zeki Bulunc, Under Secretary, State Planning Organisation, Prime Ministry, Nicosia and also: "Turkish Republic of Northern Cyprus" 1979-1991 Statistical Yearbooks 1978-90. northern Nicosia: "State" Planning Organisation, Prime Ministry.

⁴⁷ Lockhart, D. G. 1997. "Tourism to Malta and Cyprus" in Lockhart, D. G. and Drakakis-Smith D. (eds.) Island Tourism: Trends and Prospects. London: Pinter, p.163.

⁴⁸Built from 1958 by Evkaf, opened in May 1964 and operated by a foreign owned company until 1969 when Evkaf took over the management.

⁴⁹Using the Dept. of Statistics and Research's definition of "tourists" which includes temporary visitors plus visitors staying more than 24 hours and requiring a transit visa but excluding "excursionists" staying less than 24 hours. Republic of Cyprus, 1995. Statistical Abstract 1993. Nicosia: Ministry of Finance, Dept. of Statistics and Research, pp. 58, 62.

which was concentrated in Greek-Cypriot areas (and either Greek-Cypriot or foreign owned establishments). Tourism increasingly centred around Varosha⁵⁰ and Kyrenia with most rapid growth occurring in the late 1960's and early 1970's. Before 1970 there was a total of one 4 star and three 3 star hotels in the Famagusta region. Between 1970-4 twenty two hotels in these categories, half of them 4 star, were completed and a total of 31 new hotels with a star rating were added to the seven that had existed before 1970. In Kyrenia 16 new hotels with a star rating were added to the 8 that existed there before 1970⁵¹.

Turkish-Cypriots were involved in some tourist sector employment in Greek areas, though this tended to be at the menial end of the spectrum⁵². Indirectly, in the old city of Famagusta (where the Turkish-Cypriot population of that area was concentrated) and in the more dispersed Nicosia enclave, they may have benefited from some small increases in revenue directly and indirectly from tourism after tension eased in 1967/8. Most of the Turkish-Cypriot population of Kyrenia had migrated a few miles south into the Nicosia-Geunyeli enclave, so few benefited from increasing volumes of tourists there. Generally the Turkish-Cypriot economy was excluded from tourism, being either urban and enclaved or rural and away from tourist areas.

⁵⁰The Golden Sands area (of Varosha) was formerly a British Military Leave Centre. In 1961 development on site amounted to concrete bases laid to accommodate some 800 tents, along with various auxiliary British military buildings. Even then the UN (1961. UN Programme of Technical Assistance; the Thorp Report. NY., UN, P. 55, paragraph 32) was still suggesting possible uses for the site: "if continued as a tent camp, it might attract local tourists, but such facilities would not satisfy most of the tourists whom Cyprus wishes to attract." It advocated a holiday bungalow site which would utilise the old mess-hut and military rest-room as the central buildings. Within 10 years the site became a Cypriot Costa, giving its name to the largest Hotel built in Cyprus. Ironically two key buildings on this site, the Golden Sands and neighbouring Sandy Beach Hotels, have reverted part of the area back to its original function, a military recreation and administrative centre, this time for the Turkish Military. Lockhart 1997, *op. cit.*

⁵¹Republic of Cyprus. 1973. Cyprus Hotels Guide 1974. Nicosia: Cyprus Tourism Organisation.

⁵²Martin J. 1993. "The History and Development of Tourism", in Dodd 1993. *op. cit.*, pp. 341-342. Martin mentions the name of five Turkish Cypriot entrepreneurs, including the Evkaf Foundation, involved in tourism before 1974.

After the summer of 1974, the Turkish-Cypriot administration gained control of 55% of the island's coast line, "the most valuable natural resource of Cyprus"⁵³, an alleged 82% of tourist accommodation and 96% of hotels under construction⁵⁴. The new Turkish-Cypriot administration took steps to re-establish the industry in the region by expropriating abandoned Greek-Cypriot property. In the first week of February 1975, Ercan airport began operating propeller aircraft (Fokker 28's)⁵⁵ to destinations in Turkey. That year Ministry of Tourism statistics indicate that 28% of the 1973 bed capacity was available to the industry. By 1980 bed capacity had risen to 34% of the 1973 capacity⁵⁶. The relatively small Turkish-Cypriot population lacked both the skills and the capital to utilise the natural resources and the tourist infrastructure that generated income in the north of Cyprus prior to the summer of 1974. Cyprus Turkish Tourism Enterprises Ltd. (CTTE) was set up to manage the former Greek and foreign tourist infrastructure, using Turkish capital and know-how and concentrating its resources on the larger hotels, such as the Salamis Bay and the Kyrenia Marina, which minimised transitional costs, while it maximised bed capacity. Two joint ventures with the private sector were also embarked upon, whilst appropriately skilled London Turkish-Cypriots were encouraged to return to lease smaller hotels and boarding houses from Turkish-Cypriot authorities and Evkaf. In 1986, the state's CTTE still controlled over two thirds of all open tourist facilities in the north⁵⁷, although by 1992 only 17 of the 132 star rated hotels and hotel apartments, abandoned by Greek-Cypriots in 1974, were being used for purposes of tourism. The vast majority of the newest and most developed tourist

⁵³UN Security Council, 21 August 1992. "Report of Secretary General on the Mission of Good Offices in Cyprus", New York, S/24472, paragraph 25, p.5.

⁵⁴ Lockhart, D. G. 1993. "Tourism and Politics: the example of Cyprus", in Lockhart D.G., D. Drakakis-Smith and Schembri J. (eds.) The Development Process in Small Island States. London: Routledge, p.236.

⁵⁵Subsequently these were upgraded to DC9 jets, then Boeing 727's and currently they are operating the latter with A310 Airbus.

⁵⁶ Martin J. 1993. "The History and Development of Tourism", in Dodd 1993. *op. cit.*, pp. 345-346.

⁵⁷Olgun M.E. 1993. "Economic Overview", in Dodd 1993. *op. cit.*, p.322.

area, Varosha, was fenced off by the Turkish Army in 1974 and remains derelict today⁵⁸. A total of 47 hotels remain in closed military areas, 40 in the Famagusta district and 7 in the Kyrenia district. Of the rest, one has become a hotel school, another is used by United Nations Forces, three have become Turkish Security Forces Officer's Clubs, another two are used by the Turkish Retired Officers' Association (TESUD). Two hotels on the fringes of the fenced area have become student halls of residence and at least another two are used by the military as accommodation blocks. Another hotel, formerly the Dolphin in Kyrenia, is currently (1995) used as a Military Hospital.⁵⁹

Seemingly the Turkish-Cypriot authorities and their Turkish advisors had other priorities when planning the development of a region with an extensive abandoned tourist infrastructure. Initially tourism seemed to have a low priority, though external constraints may have played a part in the formation of public and private strategies. Transport problems, shortages of capital and skill shortages may have played a part in the regime's decision to concentrate on agriculture. Property rights again remained a problem, with even newer incentives constrained by the issue of renewable annual leases on "state" land rented to hotel operators. Bottle necks affecting international communications, information and the marketing of the region, mostly deriving from its lack of diplomatic recognition and the power of the Greek lobby within the wholesale travel market, have increased costs and limited the availability and diversity of access routes for international tourists. The Republic of Cyprus has declared all points of access to the region other than the UN

⁵⁸Other than four hotels on the fringes of the area, one of which, the Palm Beach, was taken over by Polly Peck, two were converted into EMU student halls of residence and another became a Turkish Army Officer's Club. Within the fenced area, as mentioned in a footnote above, the Golden Sands and the Sandy Beach Hotels are being used by the Turkish military.

⁵⁹Much of the details relating to current uses of tourist infrastructure relies on information deriving from a conference on tourism, "Don't Kill the Goose: Tourist Destination Development" Conference, 30/5 to 1/4/ 1995, Girne American University, Kyrenia, particularly a table presented by Douglas Lockhart which subsequently appeared as Table 9.2, p.164 in Lockhart 1997, *op. cit.*

monitored Ledra Place check-point, illegal points of entry⁶⁰. No visitors can enter the Republic from the north and visitors are discouraged (though not prevented) from visiting the north from the Republic⁶¹. Due to ICCA⁶² rules about dealing with non-states, there are still no direct flights to the region, aircraft having to touch down in Turkey first, increasing fuel costs by an estimated 25%. There are also reports of limited availability on flights during peak season, and difficulties in reaching the region from countries other than Turkey, Britain and to a lesser extent Germany⁶³. Major wholesalers do not tend to sell holidays to northern Cyprus, leaving marketing to small independent retailers, particularly those specialising in selling holidays to Turkey. Exposure seems to be partly dependent on the level of Turkish and Turkish-Cypriot presence in a third country, perhaps accounting for the relatively high levels of tourists from the UK and Germany, almost to the exclusion of other third countries.

The foundation of five universities in the region, four of which use English as the medium of instruction, has brought in large numbers of relatively wealthy foreign students (mostly from Turkey) to the resorts of Famagusta and Kyrenia, and created new employment for the more remote former mining town of Lefka. The service sector in these areas is given a constant supply of customers to make up for the low volumes and / or high seasonality of international tourist flows. Demand in

⁶⁰ "From the Greek Cypriot point of view, pre-1974 Greek property still belongs to its original owners, and tourists visiting Northern Cyprus at the end of the 1970s were threatened with prosecution in the British courts for use of stolen goods and trespass." Scott 1998. *op. cit.*, p. 143.

⁶¹ Tourists in the Republic are permitted to visit the north once per visit but only during daylight hours. They must apply to enter in person after 8.00am and before 1.00, purchase nothing in the north and return by 5.00pm. Tourist information given out both by the CTO and independent travel agents such as Thomson, describe the region as "inaccessible due to Turkish Occupation" (map of Cyprus in the Thomson Holiday Representatives' Guide to Cyprus, April 1993, Thomson Tour Operators Ltd).

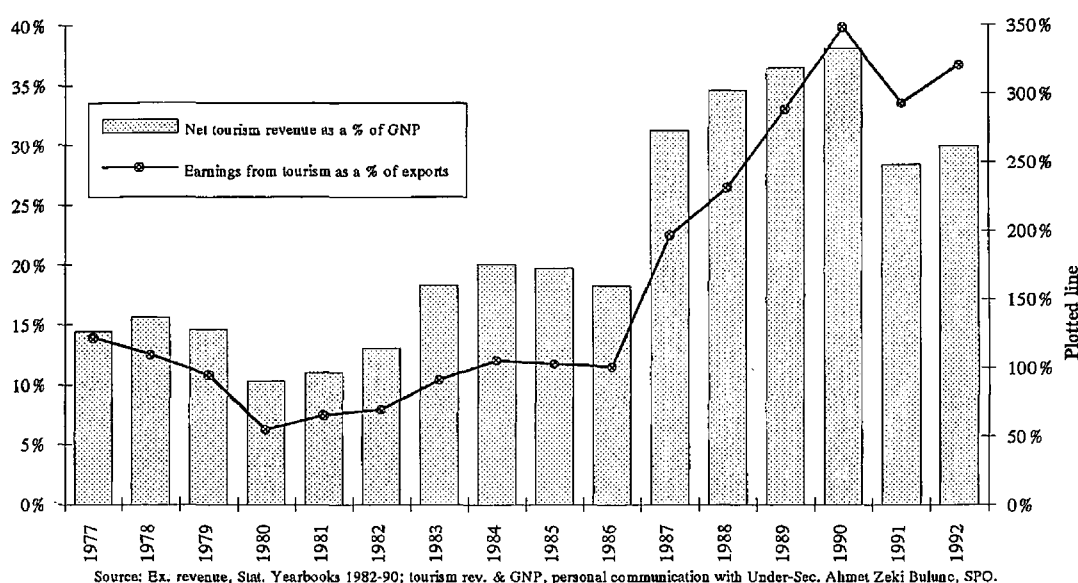
⁶² International Civil Aviation Organisation. Travel in which the passengers stay on the same aircraft throughout the whole trip from a third country are available only from the UK, and these only became available in the 1980's.

⁶³ "Don't Kill the Goose: Tourist Destination Development" Conference, 30th March to 1st April 1995, Girne American University.

Famagusta particularly seems to have received a greater stimulus from EMU⁶⁴ students than from international tourists, occupying in subsidiary buildings alone 25% of open pre'74 tourist hotels most of the year round.

The figures however, on the contribution of tourism to the wider economy, are still impressive (see Figure 4.2 below). Despite the view of other researchers⁶⁵, tourism has made a significant contribution to income in northern Cyprus.

Figure 4.2 *Revenue from tourism in northern Cyprus as a % of GNP and export earnings (at producer prices).*



During the 1970s, 90% of tourists to northern Cyprus came from Turkey⁶⁶.

Lockhart and Ashton⁶⁷ revealed that this lack of diversification led to the slump of

⁶⁴Eastern Mediterranean University, originally a Higher Technical Institute offering diplomas equivalent to British Higher National Diplomas in electrical, mechanical and civil engineering, the institute reopened in 1979 and became the first university in Cyprus 1986. Student numbers in 1991 were approx. 4000, with a total staff of 500 including over 200 academics.

⁶⁵"I was struck by the contrast between the obvious (recent) significance attached to tourism in the media, public pronouncements and the plans of individuals, and its insignificance in terms of GDP and numbers of tourists." Scott J. 1995. "Identity, Visibility and Legitimacy in Turkish Cypriot Tourism Development." University of Kent, Dept. of Social Anthropology, PhD Thesis, p. 1.

⁶⁶"The figures published by the Turkish Cypriot State [sic] Planning Office for tourism present a number of problems. All foreign passport holders entering North Cyprus by air or by sea are counted as visitors, including permanent residents, foreigners legally working in the country, and (illegally) Turkish migrant workers... The net result of these qualifications is to overstate the number of tourists

the early eighties, when Turkish arrivals dropped significantly. As they point out however, "many Turkish tourists visit for short periods, often to shop for lower priced goods [due to lower rates of taxation on some imported durables] and tend to stay in cheaper accommodation or with friends." In 1986 tourism was, seemingly belatedly (see Figure 4.2 above), identified as "the driving force of the economy"⁶⁸. An agreement with Turkey provided additional financial assistance. The Five Year Development plan of 1987 aimed at reducing seasonality, increasing the average length of stay and diversifying the sources of tourism. Some of this, it was hoped, would be accomplished with the help of incentives provided in the Tourism Promotion Bill (1987) offering low rents, tax and duty exemptions, and the right for foreign investors to repatriate profits.

Table 4.8 *Direct financial incentives to the tourist industry*

'000's of current US\$'s

	1987	1988	1989	1990	1991	1992	1993
Waivers of import duties	\$191.6	\$2,928.7	\$12,370.4	\$23,944.0	\$3,225.3	\$3,301.2	\$1,631.9
Charter flight support				\$13.4	\$70.8	\$30.7	\$57.8
Marketing subsidies				\$231.9	\$161.8	\$90.0	
TOTALS	\$191.6	\$2,928.7	\$12,370.4	\$24,189.3	\$3,457.9	\$3,421.9	\$1,689.7

Note: The other major subsidy to the tourist industry has been preferential credit facilities.

Source: Mehmet Baha Karan & French R. 1995. "The Structure & Financing of a New NTO for Northern Cyprus", paper presented at "Don't Kill the Goose: Tourist Destination Development" conference, 30/5 to 1/4/95, Girne American University, Kyrenia.

As a consequence development did occur, most notably with Polly Peck's six prestige projects (only three of which were completed before its demise) and more prosaically, with the expansion of small new tourist facilities. In revenue terms the effects seem to be spectacular (see Figure 4.2 above) though in some senses this must be seen as testament to the failure of other sectors, particularly visible exports. (The drop in revenue in 1991 represents the effect of the Gulf War, an effect

by a considerable margin." Akin S. & Warner J. 1994. "A Descriptive Analysis of North Cyprus Tourism", p.379, in *Tourism Management*, Vol. 15, No. 5, pp. 379-388.

⁶⁷Lockhart D. & Ashton S. 1990, "Tourism in Northern Cyprus", *Geography*, Vol. 75, No. 3 pp. 255-58.

⁶⁸Solsten, E. 1993. *Cyprus: A country study*. Washington: Federal Research Division, Library of Congress (Area Handbook Series) p.144.

mirrored in the south.) In terms of employment the effects of expansion in tourism have been less marked. Between 1983 and 1990, employment in tourism increased by just over 1% as a percentage of total employment⁶⁹. Some diversification of the originating countries of tourist arrivals did progress, albeit slowly (see Figure 4.3 below). By the late 80's the proportion of tourists from Turkey, compared with other arrivals from other (third) countries, had dropped to approximately 75%.

In December 1990, the President of the Board of Directors of the "state's" Cyprus Turkish Tourism Enterprises said: "The reconstruction in the true sense of the word happened in 1986... [because] first the average 10% increase [in arrivals] prior to 1986 has suddenly leaped to the range of more than 20%. More significant than that, the number of visitors from countries other than Turkey, which were stagnant prior to 1986, suddenly began to rise by 40%."⁷⁰

⁶⁹Between 1983 and 1990 employment in tourism increased by 930 people or by 1.1% as a percentage of total employment: personal communication with Ahmet Zeki Bulunc, Under Secretary, State Planning Organisation, Prime Ministry, Nicosia.

⁷⁰Mr Husrev Cagin, President of the Board of Directors of Cyprus Turkish Tourism Enterprises, speaking at "Structural Change in the Economy of the TRNC", conference, EMU, 3-4 December 1990.

Figure 4.3 *Number of tourists from countries other than Turkey visiting northern Cyprus, 1976 - 1990.*

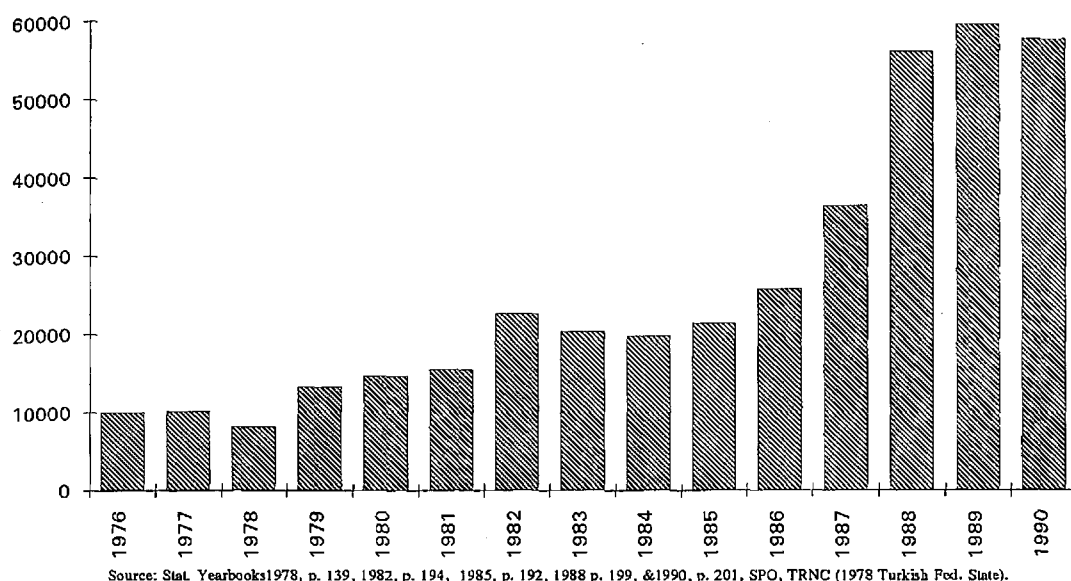


Figure 4.3 above shows the total number of recorded foreign tourists from third countries (i.e. from countries other than Turkey) visiting northern Cyprus⁷¹. Over the entire period this adds up to 391,099 foreign tourists (from countries other than Turkey), though this almost certainly includes many Turkish-Cypriot expatriates holding foreign (particularly British) passports. (This assumption is based on the fact that in 1992, 58% of those counted as foreign tourists did not use tourist accommodation⁷².) With these figures comparisons with the south are too tempting to resist. In the same year, the south attracted nearly two million foreign tourists⁷³ and in the last four years for which there are published records (1987-1990) 72 % of

⁷¹"Given the nature of tourism patterns, it is convenient to divide the holiday-makers into two groups: those from Turkey, and those from other countries. We shall refer to the latter group as 'foreign' tourists". Akin S. & Warner J. 1994. *op. cit.* p.379.

⁷²UN Security Council, 17 December 1993. (Unpublished) "Report of the team of experts on the economic benefits of the Varosha and Nicosia International Airport package", p.10, section 13.

⁷³1.99 million, *ibid.*, p.16, section 21d, paragraph 2. (Between 1989 and 1991 the average number of foreign tourists visiting the south was 1,414,400, calculated from, Statistical Abstract 1991, Republic of Cyprus, 1993).

them stayed in Hotel accommodation⁷⁴. Of the two million arrivals in 1992, 39% stayed in Ayia Napa and Paralimni⁷⁵ alone, exceeding (in that year, and in the "Government controlled" part of the Famagusta region alone) the total number of (third country) foreign tourists who have ever visited northern Cyprus since the *de facto* partition of 1974. The beaches and historic sights around Famagusta, what the UN described as "destination-rich environs" revealing "major potential in terms of its sites of historical interest, its excellent beaches and an environment that has largely been spared over-development"⁷⁶, lay within easy reach of this huge potential market. Underlying the discrepancy between potentials and actual utilisation of assets, tourist accommodation in the south had a capacity of 70,000 beds in 1992, whilst in the north the figure was 7,500 and the occupancy rate was 57% and 31% respectively⁷⁷.

While the Turkish-Cypriot leadership may have grasped the potential, tourism still seems to have attracted considerably less emphasis than agriculture. Yet tourism has been by far the most important sector in terms of foreign exchange earnings (see Figure 4.2), while it remained peripheral, at least until the mid to late 1980s, in terms of official attention. The establishment by the state of Cyprus Turkish Tourism Enterprises Ltd. meant it was able to utilise a small proportion of existing tourist infrastructure to generate revenue, though subsequent development has been slow. In the mid to late 1980s, the new found state enthusiasm, along with the growing strength of Polly Peck International, gave foreign tourism, particularly third country tourism (i.e. non Turkish), a big boost; however, both compared with

⁷⁴Republic of Cyprus, 1994. Statistical Abstract 1992. Dept. of Statistics & Research, Ministry of Finance, Nicosia. Average hotel occupancy of all foreign tourist, 1987 to 1990, calculated from information given in table 6, p.69 (hotel occupancy includes accommodation at "hotel apartments" which amounts to approx. a third of all hotel occupancy).

⁷⁵Central Bank of Cyprus, 1994. Thirteenth Annual Report of the Board of Directors, 1993. Nicosia: Central Bank, p.22.

⁷⁶UN Security Council, 17 December 1993. *op. cit.* p.16, section 21d & p.19 section 31 respectively.

⁷⁷*ibid.*, p.10, paragraph 13.

the situation that had existed prior to Turkish military intervention, and with the situation in the south, subsequent achievements were modest. Granted, security concerns and the presence of some international sanctions were a constraint, and yet the boost the industry received in 1986, following pro-active state action, could have been attempted ten years earlier. Other than five (mainland) Turkish owned hotels in Kyrenia⁷⁸, the large scale, up-market, private sector initiative of the late 1980s, fizzled out with the demise of Polly Peck. The Turkish-Cypriot private sector largely remained on the fringes, managing smaller boarding houses, gift shops, food and entertainment establishments. However, much tourism and much private sector activity in the 1970s and 1980s were dependent on just this, particularly the gift shops which, for tax reasons, attracted much of the mainland Turkish tourism, which accounted for the vast majority of foreign visitors.

The trend of private entrepreneurial activity in the north

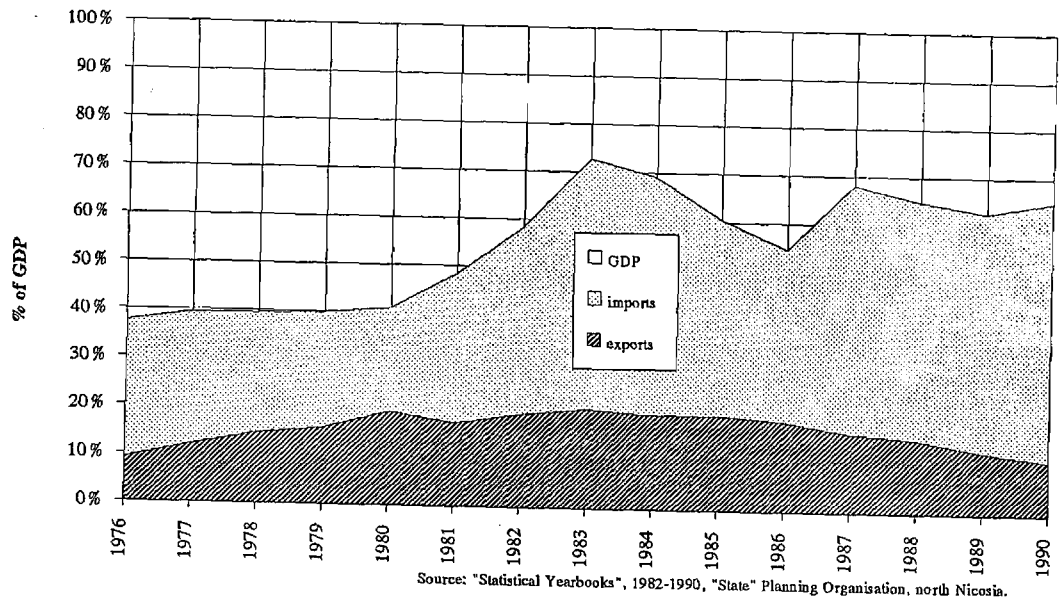
Like most small economies, northern Cyprus has a visible trade deficit. The scale of the trade deficit however, undermines the significance of exports, visible or otherwise (see Figure 4.4 below) and of treating northern Cyprus as anything other than a separately administered province of Turkey. The bald figures are however officially qualified with the argument that much of the imbalance is due to the consequences of the "gift fair" trade⁷⁹, a key private sector activity that emerged after 1974. This trade determines that most imports are registered as such, whilst re-exports are truly invisible. The problem occurs as a result of the imbalance of bureaucracy affecting the parties to a transaction. The importer deposits local currency with a Bank in exchange for a letter of credit, or foreign currency, with

⁷⁸ Scott 1998. *op. cit.*, pp. 148-9.

⁷⁹ Interview with Suleyman Kiryagdi, General Co-ordinator & Acting Secretary and General Manager of the Cyprus Turkish Co-operative Central Bank, 20-21//04/95.

which the goods are imported. Most of these will arrive in the customs shed at Famagusta where the items are registered as imports. The same goods are sold to individual travellers from Turkey, who pay less tax in northern Cyprus for the same goods, in the same currency and who have no equivalent bureaucracy to deal with. They have not needed to provide foreign currency, and will usually export the goods without declaring them. Goods sold in the "gift fair" trade are thus registered as imports consumed locally, but are really re-exported in exchange for "local" Turkish currency. The scale of (mainland) Turkish arrivals, over 60,000 in 1975, over 100,000 in 1978, most of whom stayed less than five days, and visited northern Cyprus primarily to shop, tends to suggest that "gift fair" was significant and may lead to distorted interpretations of trade statistics.

Figure 4.4 *The value of trade in the "TRNC" represented as a percentage of GDP.*



The problem with this official assessment, is that the scale of imports and the scale of its imbalance with recorded exports does not rise with the level of Turkish short

stay arrivals or diminish with the reported decline in the role of "gift fair" (see Figure 4.4). "Gift Fair" may play some role in the level of trade imbalance, though its significance is debatable. The tiny size of the economy must not, however, be forgotten before this is dismissed out of hand.

In the early post '74 phase, the underdeveloped Turkish-Cypriot private sector concentrated on this "gift fair" trade for the Turkish visitor market. This was the sum, non-agricultural, role of the private sector, according to sources in the CTCB⁸⁰, whilst the state sector, supported by co-operative institutions and the Evkaf foundation, re-organised agriculture, industry, transport and communications, and the tourist sector. The concentration of private entrepreneurial talent in such a limited field is perhaps evidence of its under developed character, at the time of the *de facto* division; it is also revealing of political constraints and disincentives affecting potential private sector investment.

According to the same sources⁸¹, trade in the "gift fair" market has since declined, as Turkish visitors have more recently been purchasing less in northern Cyprus, on account of economic developments in Turkey. However, according to other sources⁸², because of the shopping (and gambling) element of the Turkish visitor trade, tourists from Turkey still had the highest multiplier effect on the Turkish-Cypriot economy between 1986-1990. This statement, however, is difficult to verify as disaggregated tourism data was not available, and given the nature of the trade and the economy, data on Turkish Lira expenditure by foreign visitors is difficult to estimate.

⁸⁰Interview with Gulhan Alp, *op. cit.* and interview with Suleyman Kiryagdi, *op. cit.*

⁸¹*ibid.*

⁸²Olgun M.E. 1991 Socio-Economic Profile of the Turkish Cypriot Community and the Main Issues to be Addressed in Preparing for a Political Solution to the Cyprus Problem. northern Nicosia: Olgun Consultancy Services for the UNDP under the Development Support Services, p.2.

Having gained some capital and experience in the "gift fair" market, many entrepreneurs subsequently moved from supplying foreign demand to supplying domestic demand, importing foodstuffs and construction materials, competing with Eti and the co-operative organisation. Trade in domestic supply implies increased commitment and faith by local capital in the local market. Returns on new investment depends on local consumption spending and stock requires more fixed capital commitment (imported electronic goods do not require refrigeration and are more portable and potentially liquid than a similar value of perishables or construction materials). As the private sector increased its share of this new market, the Co-operative Central Bank's and Eti's share fell. It was, however, a declining share of a growing market, suggesting that the private sector was responding to continued shortages.

Despite the preferences of the dominant politicians in the north, many sectors of the economy have not encouraged private entrepreneurial activity. In the dairy industry prices have been controlled, as they were, largely, in the fodder industry; this makes the prospects of a profitable return for a local entrepreneur less likely. The co-operative and the "state" sector dominate these markets. Fixed prices still exist in sheep and cattle fodder, so the "state" and the CTCCB provide for almost 100% of the industrially produced fodder market. In the parts of the market not regulated, where prices are not fixed, private sector activity has taken off. In the late 1980s, the private sector moved into poultry fodder production, to the extent that the largest single producer of poultry fodder is now a local entrepreneur, Mastafa Hadji Ali Enterprises, who began production in 1988, originally to satisfy his own demand (he is also the largest fresh chicken producer in the "TRNC"). Seemingly, where profits are not constrained by price controls, the private sector has developed capital and managerial resources to exploit local market opportunities, successfully

competing with the longer established position of the "state" and the quasi "state" sector in the market place.

The sectors which are open to the market and deregulated are the sectors in which the co-operative organisation has lost market share. As in the south, both before and after 1974, each village had a co-operative grocer (as the population did not have enough capital for the invisible hand to necessarily provide one). Consumers co-operatives (retailers) were set up, buying goods from co-operative wholesale markets (in the Turkish-Cypriot community they have always been divisions of the Co-operative Central Bank). While co-operative wholesale markets still exist, increasingly village co-operative stores have closed in the north (as in the south), because competition from the private sector has recently proved irresistible. Some of the population has had enough capital to provide retail services more efficiently than co-operative institutions, and more of the population have more disposable income to sustain competition in the wholesale and retail sectors. In the domestic shoe industry too, co-operative production cannot compete with antiquated but de-regulated private domestic production. Here quasi-public enterprise is battered by both sides: greater economies of scale from overseas producers and the de-regulated labour market of small domestic cobblers' workshops. Ultimately when controls have been removed, the private sector has been attracted by simple profits, and has recently consistently out performed co-operative organisations in retailing, supply and even production⁸³. Seemingly, despite the lack of a political settlement, where once there were missing markets, which had to be regulated and controlled by state and quasi-state institutions, markets have arisen. Whether as a consequence of excessive bureaucracy, crowding out or of security and political considerations, the private sector has played a small but increasing role in the development of a

⁸³Interview with Suleyman Kiryagdi, General Co-ordinator & Acting Secretary and General Manager of the Cyprus Turkish Co-operative Central Bank, 20-21/04/95.

Turkish-Cypriot economy. For most of its history however, that role has been mostly limited to a few niche markets in the retail sector.

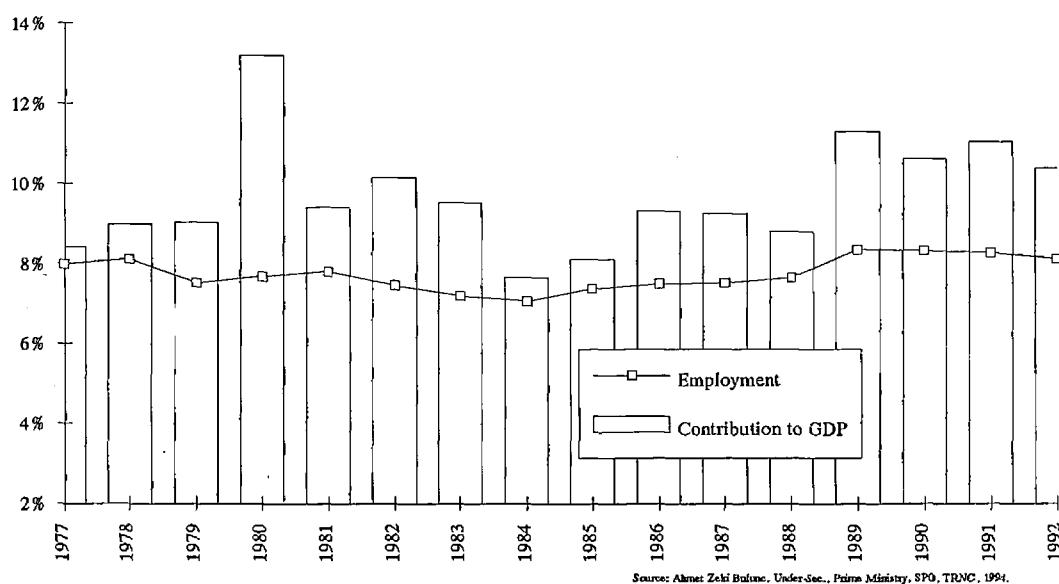
Attempts to re-establish a manufacturing sector

Much of the fixed capital assets in the industrial sector, taken over by Turkish-Cypriots in the summer of 1974, proved to be more of a burden than an asset. The fixed capital was, allegedly, mostly old technology⁸⁴, formerly utilised by family run businesses that were very small by modern standards, and perhaps only likely to be efficiently run by those families. In these circumstances, however, human capital had been developed, managerial and entrepreneurial skills refined. When they were relocated, the Greek-Cypriot refugee former businessmen had already learnt potentially expensive lessons. They had established markets and marketing skills, built up supply chains and co-ordination skills, so with new capital and plant they could more efficiently exploit new and existing markets. (At least this was the logic behind the distribution of government sponsored reconstruction initiatives in the south.) When the Turkish-Cypriot State industrial enterprises took over their old assets in the north, they had to re-learn the lessons without the cost advantages and

⁸⁴Interview with Ozalp Sarica, 17/3/95, 21/3/95, 24/3/95.

flexibility of family business structures. Former managers argued that much of the industrial capital assets proved to be hardly that, without the human capital that went with them⁸⁵. Without the acquired skills and organisational patterns, all they had taken over was a lot of antiquated (and by the time they got round to utilising it) rusting technology, that was both difficult and expensive to run⁸⁶.

Figure 4.5 *Manufacturing employment & output as a % of total employment & GDP in the north.*



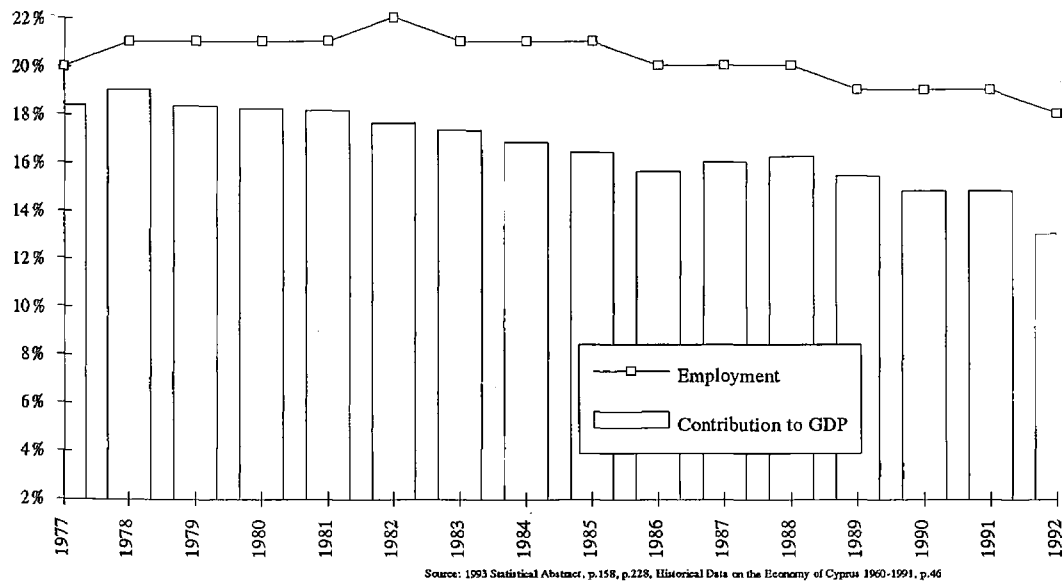
Still, while the manufacturing sector was small and fairly static (in terms of employment generation) it proved to be relatively productive. Manufacturing in the

⁸⁵Interview with Suleyman Kiriagdi, formerly a manager of two state industrial enterprises and currently General Co-ordinator & Acting Secretary and General Manager of the Cyprus Turkish Co-operative Central Bank, 20-21/04/95.

⁸⁶There is a Greek Cypriot proverb which translates as: "Give a man cucumber and he'll tell you it's bent".

north consistently contributed proportionately more in output than it absorbed in labour inputs, which is more than can be said for the manufacturing sector in the south (see Figures 4.5 and 4.6). With a manufacturing sector between a third and a half the size of the sector in the south (in terms of the respective shares of the workforce) the north looks (on the basis of "official" statistics) to have considerably higher productivity. Manufacturing in the north is generally beset with many of the same problems as the south, its political history has also provided some unique ones: a small domestic market; a limited resource base; small-scale, artisan based production systems with low productivity; high transport costs due to the political situation and the low volume of trade; cheap imports from Turkey; and a difficulty attracting and raising new investment.

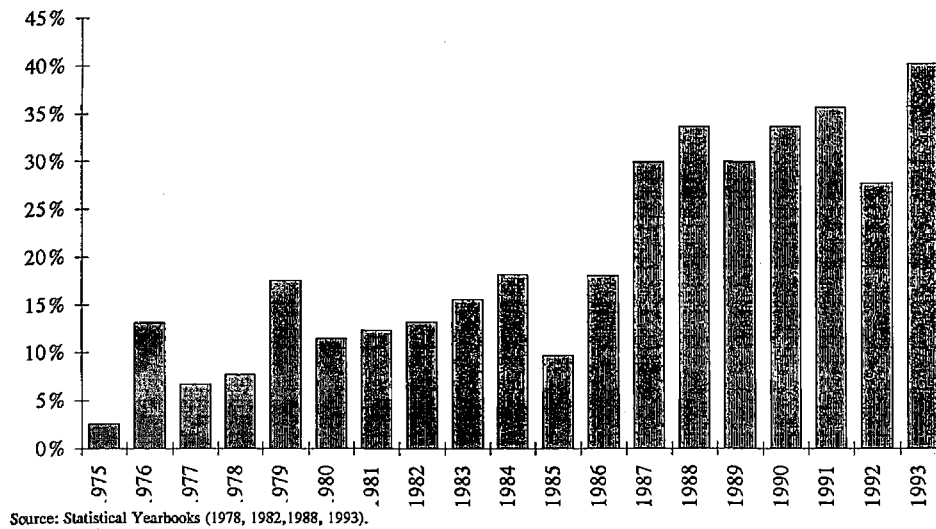
Figure 4.6 *Manufacturing employment & output as a % of total employment & GDP in the south.*



Hence revitalising industry was a much slower process in the north, but under the stewardship of the "state's" Cyprus Turkish Industrial Enterprises Holding Co.

Ltd., Turkish-Cypriots eventually got some industry up and running after only about two years of neglect, the priority sector having been agriculture. Much of this industry was geared around the utilisation of existing infrastructure, manufacturing petrochemical products: plastic goods, detergents, and steel pipes. Between 1976 and 1980, Turkey was the key market for manufactured goods, which would purchase anything and everything that could be produced in Cyprus at the time, as much because of its own economic problems, as with the need to make its recent conquest pay. Most manufactured goods were made specifically for export to Turkey, inputs for which (Polypropylene and PVC granules etc.) were imported from third countries, in this case mostly West Germany. In the petrochemical market: plastic products, cables, polythene and polypropylene bags, paint, detergents, where northern Cyprus acted only as a finisher, two years of production were pre-booked by Turkish importers in the late '70s. Turkey's foreign exchange problems at the time were the root cause of these industrial initiatives. Using Turkish Lira, northern Cyprus thus acted as an extension of Turkey's import substitution policies, admittedly a small one, but one that was also beyond the scrutiny of international lenders (who may have encouraged other adjustment criteria).

Figure 4.7 *Manufacturing exports as % of total exports from the northern Cyprus.*



However, this unique market for Turkish-Cypriot manufactured goods did not last. Once the economic crisis of the late 1970s was over, Turkish-Cypriot production could not compete with production costs in Turkey. Therefore the composition and the direction of Turkish-Cypriot manufactured goods changed. Early key export items, such as steel pipes, which represented 36% of manufactured exports between 1977-1980, (85% in 1977) disappeared from the list of export items⁸⁷. However, manufacturing exports recovered and as they grew more indigenously Turkish-Cypriot (rather than being the activity that had taken place there before 1974, or Turkish advisor inspired), they grew in importance. By the late 1980s, manufacturing exports from northern Cyprus made a significant contribution to visible exports (see Figure 4.7 above), whilst their basic composition and direction look surprisingly similar to those from the south. Exports from the north were

⁸⁷By 1981 steel pipes had disappeared from the list of export items, having gone from an 85% dominance of manufacturing exports to nothing within four years. They reappearing for one year in 1982 with less than a percentage share of manufactured exports and again in 1985 and '86, completely disappearing from the official list of important export items published the State Planning Organisation subsequently, "Turkish Republic of Northern Cyprus" 1979-1994 Statistical Yearbooks 1978-1993. northern Nicosia: "State" Planning Organisation, Prime Ministry.

dominated by: textiles, footwear and processed agricultural products and by 1990, a very high proportion were going to the United Kingdom (67.2%)⁸⁸. However, other than the activities of Polly Peck in the period, most manufacturing enterprises were conducted by either state or co-operative enterprises. It is then perhaps ironic, that the Turkish-Cypriot leadership talked in terms of the free market when its market was so constrained. In the south, while the Greek-Cypriot leadership talked in terms of safety nets, subsidies and regulation, its market seemed to flourish.

Change in economic direction; rhetoric or reality?

In 1979 a major political split occurred over economic direction. Five years after the war, the economy of the Republic of Cyprus was again growing rapidly, by contrast the north was lagging. Even the "President" (Denktash) is recorded as having admitted in his much quoted statement that: "we are in the middle of a crisis both in our commercial and economic life"⁸⁹. Two former Prime Ministers (Necat Konuk and Osman Orek) broke from the ruling Party of "President" Denktash (National Unity Party - NUP) and formed a new party (Democratic Peoples Party) favouring the re-establishment of a working relationship with the south (in an "independent, non-aligned, bi-regional and bi-communal, sovereign, federal, Cyprus Republic, purged of all foreign bases"). This, they hoped, would encourage economic growth and development in the north for Turkish-Cypriots. Arguably this encouraged the rump of the ruling party to look for an alternative route to economic growth that did not necessitate political compromise. Tim Hindle has argued that

⁸⁸Olgun 1991. *op. cit.*, p.16.

⁸⁹Halkin Sesi, 16/12/78, quoted by Dodd, 1993. *op. cit.*, p.177.

this was the point at which Denktash's NUP began to look abroad for friendly capitalists, or latterly for successful Turkish-Cypriots, who could apply new capital and acquired entrepreneurial skills to restructuring the economy of the north⁹⁰. Turkey did not seem to offer much hope of providing the necessary capital stimulus. In March that year, the Ecevit Government fell and the military took over. The *Economist* described Turkey as the "sick man of Europe again". At this point the spot-light, in the form of a Turkish-Cypriot representative in London, fell on Asil Nadir, a successful London Cypriot who already had some very small economic interests in northern Cyprus.

When the Military took over in Turkey in 1980, Turgut Ozal (the former World Bank economist) was put at the helm of economic policy and began to introduce open market reforms. In April 1980 the first new commercial regime was drawn up in northern Cyprus, with help from Turkish experts. The immediate impact of the changes on the economy of northern Cyprus, was a significant rise in the cost of living which was followed by a new wave of strikes and wage disputes as disgruntled workers attempted to maintain real wages. By the June 1981 elections for the President and the Legislative Assembly, "the left-wing parties could openly campaign on the slogans of the 'down-trodden worker'...[which] owed a good deal to the severe economic troubles..."⁹¹

Unlike the south, northern Cyprus did not benefit from a period of reduced industrial conflict. The immediate post war period, characterised in the Republic as having historically a very low number of man-days lost in industrial disputes (see Figure 2.23), did not seem to be followed in the north⁹². Whilst the war had for a while homogenised preferences in the south, the threat from Turkey acting as a

⁹⁰Hindle T. 1991. The Sultan of Berkeley Square: Asil Nadir and the Thatcher Years. London: Macmillan, p.11.

⁹¹Dodd 1993. *op. cit.*, p.119.

⁹²*ibid.*, pp. 108, 111.

force of national cohesion, changes in the north were of necessity, socially divisive (put crudely, how were the spoils of war to be divided)⁹³. Suddenly a bourgeoisie had to be created and cemented with the re-distribution of those spoils⁹⁴. Early difficulties in establishing and maintaining the efficient utilisation of assets and the early reversal of economic policy, heavy dependence on the Turkish economy, itself going through a prolonged period of structural adjustment, created macro economic problems (inflation but according to official figures, not significant unemployment) which contributed to industrial tension. Despite the fact that the "state" clamped down hard on militant workers, (an eleven day electricity workers dispute was banned by the "Government" in Sept. 1981) as prices rose, workers withdrew their labour to maintain real incomes. This almost inevitable sequence of events, very much a symbol of the period world-wide, was not however, followed in the south. Although real per capita GNP declined there by 15% in 1975, between 1975 and 1979 man-days lost in industrial disputes were 80% lower than in the previous five years⁹⁵.

Whilst debate took place in the north about the role of the state as the key economic player, following the political changes in Turkey, so the story of recovery becomes more complex. If the rise of Polly Peck was seen as the most decisive act of privatisation, there is (perhaps as elsewhere) little evidence of the success of this significant change in the ownership and control of key economy sectors (export agriculture and increasingly third country hotel tourism). Below and on the following pages, the gradual rise of PPI as the dominant force in the region's key

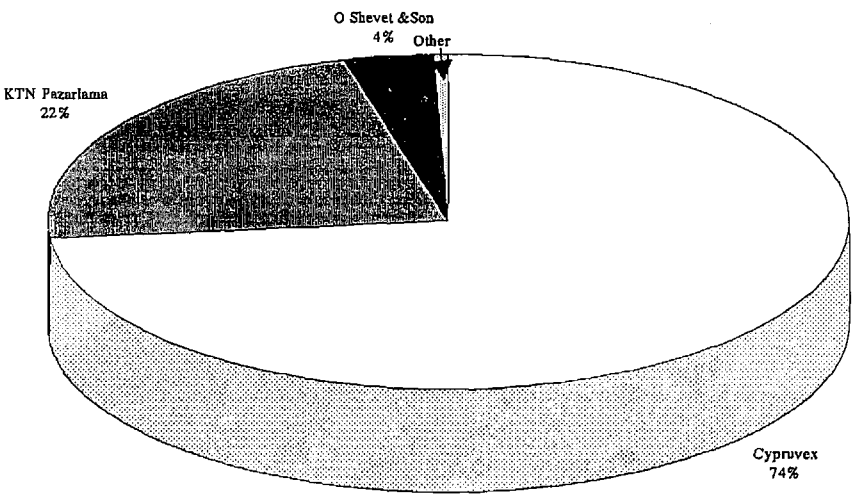
⁹³ Scott 1998. *op. cit.*, pp. 143-59.

⁹⁴ "It is a common complaint that the points (land distribution) system and land distribution has favoured only a political elite and those with powerful *torpil* (connections). People say that it has resulted in a class of nouveaux riches, often referred to as '1974 millionaires', and the relative impoverishment of a significant portion of the Turkish Cypriot population." *ibid.*, p. 153.

⁹⁵ Republic of Cyprus, 1992. 1960-1990 Time Series Data. Dept. of Statistics and Research, Ministry of Finance, Nicosia, p.12. Republic of Cyprus, 1994. Labour Statistics 1993. Nicosia: Ministry of Finance, Dept. of Statistics and Research, pp. 117-118.

export sector (the citrus industry) and its subsequent decline is mapped out (Figures 4.8 to 4.12).

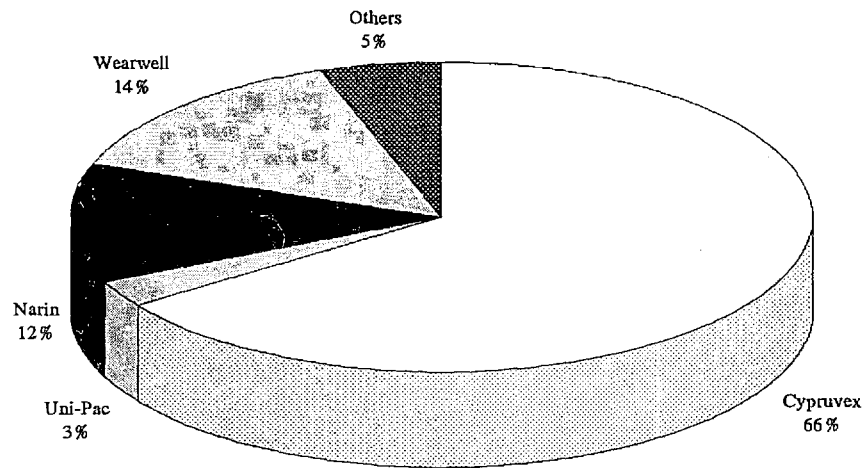
Figure 4.8 *Composition of Turkish-Cypriot citrus exporting companies in the 1974/75 season.*



Source: Annual Reports of the Agricultural Inspection Office, Port of Famagusta.

Initially trading under the name of Nadir's original public company (Wearwell) and the recently acquired vehicle for northern Cypriot "development", Uni-Pac (a northern Cypriot subsidiary of Polly Peck), Asil Nadir owned companies made their first appearance in the citrus export market in 1981 (Figure 4.9). His impact on the composition of citrus exporting companies was rapid. Concentrating citrus exports under the brand name Sunzest, in the following season (Figure 4.10), Polly Peck completely dominated the north's most important export by 1989 (Figure 4.11).

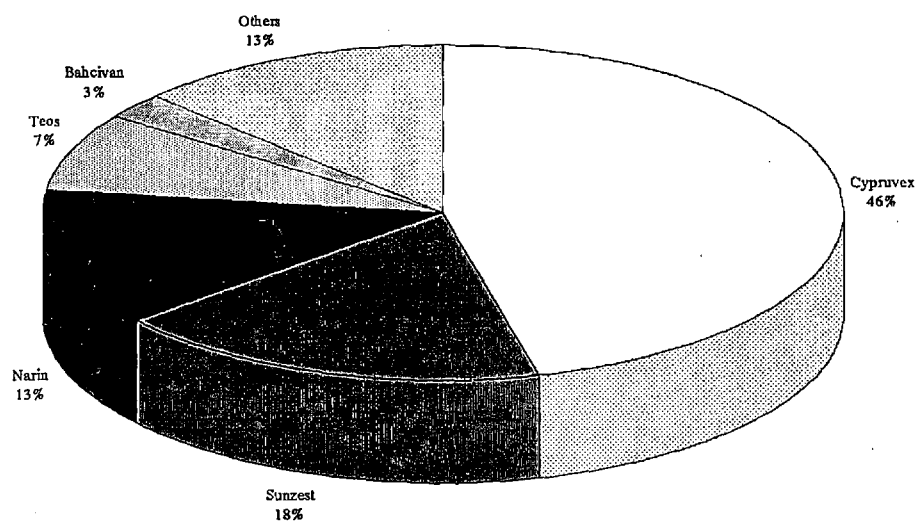
Figure 4.9 *Main Citrus Exporters in the 1981/82 season.*



Source: Annual Reports of the Agricultural Inspection Office, Port of Famagusta.

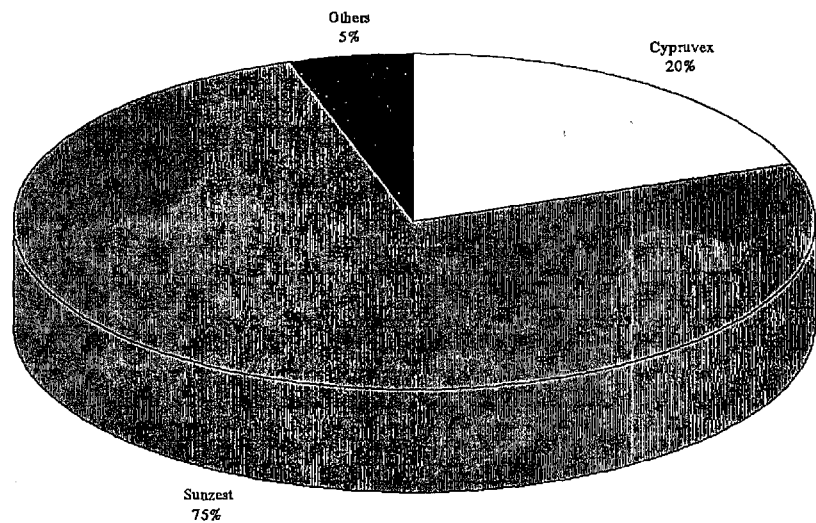
The impact in terms of the trade balance, the change in GDP, per capita income and the composition of employment is far less obvious, which is relevant considering both the importance of the sector (see next chapter) and the small size of the economy. After 1983 Asil Nadir's enterprises quickly assumed the dominant position formerly occupied by the "state's" Cypruvex (Figure 4.8). The key export sector (if not, for most of the early period, the key sector of the economy) moved from a "state" monopoly to effectively a private monopoly with little, so far, visible signs of improved efficiency from the front end (total volume of sales). This story comes to an abrupt end in December 1994, when a seriously disabled Sunzest was taken over by the "state's" Cypruvex. Considering the circumstances, this can not be viewed as re-nationalisation from a public policy perspective, but seemingly just the state again providing goods and services not supplied efficiently by private enterprise.

Figure 4.10 *Main Citrus Exporters in the 1983/84 Season.*



Source: Annual Reports of the Agricultural Inspection Office, Port of Famagusta.

Figure 4.11 *Main Citrus Exporters in the 1989/90 Season.*

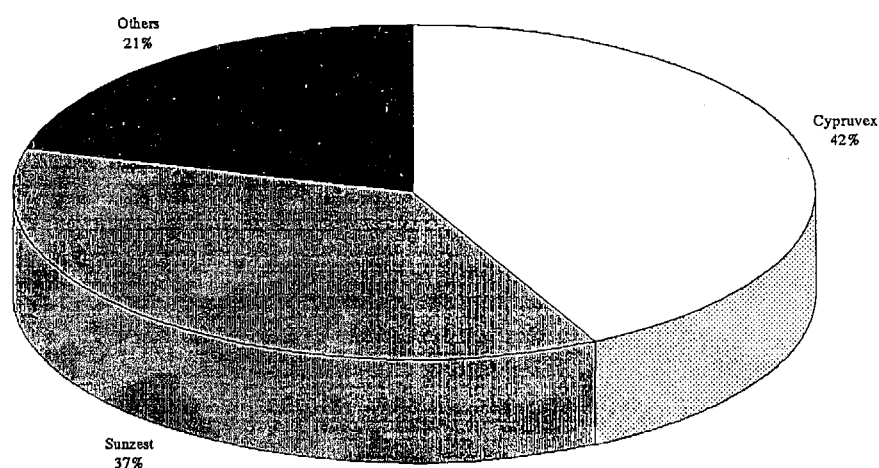


Source: Annual Reports of the Agricultural Inspection Office, Port of Famagusta.

To complement this story, and the extravagant claims in Polly Peck company accounts, the change that had taken place in the economy was significant enough to have turned political rhetoric around. By the late 1980's the dominant critique was no longer concerned with inefficiency and under-utilisation but with monopolistic control and hegemony. The major challenger in the 1989 presidential campaign,

Ismail Bozkurt (who secured 32.1% of the vote) warned that if Denktash won "this country will be known as Nadirland".⁹⁶

Figure 4.12 *Main Citrus Exporters in the 1993/94 Season.*



Source: Annual Reports of the Agricultural Inspection Office, Port of Famagusta.

However, whilst the Nadir experiment seemed to represent a key element of the export sector and foreign exchange earnings more generally, even in its hiatus Polly Peck was an experimental enclave sector in an economy still dominated by the public and quasi public sector. The politicians seemed to say that the policies of the new right, where they caused social discontent, were forced on them by changes on the mainland. (And of course the ever present "embargo" prevented them being successfully implemented.) Privately, policy makers concede that the new right policies have failed, or failed even to be adopted, because of the preferences of Turkish advisors⁹⁷. Some of the divergence between rhetoric and reality is in the depth of the new right policies, however, external constraints on policy initiatives seem to be acknowledged, whilst the effects of internal constraints persist as the

⁹⁶Dodd 1993. *op. cit.*, p.150.

⁹⁷Interviews with Ozalp Sarica, Suleyman Kiryagdi and Gulhan Alp, *op. cit.*

unspoken spectre behind policy initiatives and the failure to adopt the new macro economic orthodoxy, despite the preferences of politicians and policy makers.

"...there was general agreement that the authorities would have to play a major role in organising, managing and stimulating development. This consensus was more pragmatic than ideological, indeed many favoured free markets and private initiative. The problem was, however, that the market imperfections and rigidities were such that efficient outcomes would not ensue without state intervention. This was also the view of mainland Turks..."⁹⁸

The key changes in the distribution of exporters that have been highlighted above (Figures 4.8 to 4.12), derive from the data set below (Table 4.9). The large swings between the public and private sectors, which have been the subject of this section, have been relatively easily explained; however, the constant rise and fall of a plurality of small and not so small exporters, is more difficult to understand. Some of them are state and quasi state sector companies, such as Eti and the Guzelyurt Narenciyeciler Koop. They, and the other transitory exporters, seem to be exploiting alternative markets with lower grade produce. The large private and public concerns, Sunzest and Cypruvex, concentrated on the lucrative UK market (see Chapter 5). What is curious about the data is the rapid turn over of such companies. If there is such a proliferation of interest in exploiting more challenging markets, with cheaper produce providing lower profit margins, by small private sector operations, why has the state continued to take the lead in the industry, (both with and without Sunzest as a unique, revenue raising proxy, with access to the London money markets)?

⁹⁸Wilson 1992. *op. cit.*, p. 122.

Table 4.9 *Citrus exports from northern Cyprus in metric tonnes, by main exporting company.*

Source: Annual Reports, Agricultural Inspection Office, Port of Famagusta, Ministry of Economy & Finance, Trade Section Data, "Citrus Export".
[Annual] "Summary Of Agriculture Statistics", Ministry of Agriculture, Natural Resources & Energy, north Nicosia.

season	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Cypruvex	19933	34372	56296	missing	missing	missing	missing	61636	53997	67764
Sunzest	0	0	0	data	data	data	data	0	0	26099
Wearwell	0	0	0	x	x	x	x	13251	0	0
Uni-Pac	0	0	0	x	x	x	x	2629	20946	0
KTN Pazarlama	6097	7441	0	x	x	x	x	0	0	0
O Shevet & Son	1000	0	0	x	x	x	x	0	0	0
Teos	0	0	0	x	x	x	x	0	12117	10931
Bahcivan	0	0	0	x	x	x	x	3157	0	3766
ETI igin	0	3592	0	x	x	x	x	0	0	0
ETI Ltd	0	2510	2081	x	x	x	x	0	0	0
Devsan	0	0	2998	x	x	x	x	0	0	0
Adem	0	0	3949	x	x	x	x	0	0	0
Sel Marketing	0	0	0	x	x	x	x	0	0	11564
Narin	0	0	0	x	x	x	x	11761	16162	19613
Others	92	1192	8393	x	x	x	x	1724	7385	6934
TOTAL	27122	49107	73717	x	x	x	x	94158	110607	146671

season	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
Cypruvex	48896	50530	50000	37531	31314	21106	40544	41171	39000	35509
Sunzest	33898	39499	59773	69698	63637	81120	51379	50028	34007	30417
Wearwell	65	0	0	0	0	0	0	0	0	0
Narin	11231	6630	0	0	0	0	0	0	0	0
Teos	5890	9046	2489	1912	0	0	0	0	1332	0
Bahcivan	72	6197	4477	0	0	0	0	162	2713	0
Sel Marketing	0	0	0	0	0	0	0	0	0	0
Cyprosel	12402	0	0	0	0	0	0	0	0	0
Sunrise Marking	0	9275	10241	0	0	0	0	0	0	0
Yorex	0	3241	1488	0	0	0	0	0	0	0
Tarom	0	6238	0	0	0	0	0	0	0	0
Aspendos	0	0	0	0	0	0	0	1641	273	0
New Fruit Ltd	0	0	0	0	0	0	0	3173	198	0
Lemser Ltd	0	0	0	0	0	0	0	5817	3636	0
Narenciye ve Sebze, Birligi	0	0	0	0	0	0	0	1364	713	0
G/yurt Narenciyeçiler Koop	0	0	0	0	0	0	0	2149	707	0
Love Rent A Car Ltd	0	0	0	0	0	0	0	436	539	0
Ulucam	0	0	0	0	0	0	0	778	2578	0
Others	3726	3811	10130	7034	8488	5306	19594	8066	2698	17319
TOTAL	116180	134467	138598	116175	103439	107532	111517	114785	88394	83245

Conclusion

In 1987 there were 10 large public enterprises operating in the "TRNC", in all economic fields, from banking and insurance, manufacturing and to a virtual monopoly of the distribution of petrol and petroleum. Ostensibly a "State" Planning Office objective has been to increase the private sector's stake in public sector organisations. This has not happened, partly because government is loath to shed itself of the control and patronage that ownership bestows. In manufacturing particularly, but even in tourism and agriculture, the state and quasi state

organisations (the CTCCB and Evkaf are almost as dominant) have had substantial control. Regulation and price controls remained pervasive in many sectors of the economy, well into the 1990s.

The leadership's priorities in the matter of public ownership and control reflects not only the constraints facing the economy of northern Cyprus, but also the views of Turkish advisors⁹⁹. It is said that Turkish-Cypriots knew what public ownership meant in Turkey, costly inefficiency, so they wanted to avoid these problems in Cyprus. According to Ozalp Sarica¹⁰⁰, the tax exemptions in the co-operative sector provide one reason for their continued relative success and widespread existence. He has argued that if such tax exemptions were offered to encourage the purchase of shares in public sector companies, share offers would have wider appeal, ultimately providing greater accountability and greater efficiency. Traditional public ownership in northern Cyprus is only half the story. In Sarica's view the benefits of full public ownership, during future possible periods of instability, are wholly outweighed by the costs associated with inefficient and bulky public organisations, top heavy with inappropriate political appointments. However, the other institutions which seem to provide the same functions are, in the case of the CTCCB no more efficient (see Tables 4.3, 4.5, 4.6, 4.7 & Figure 4.1) or, in the case of the post reform Evkaf, no more accountable. The lack of enthusiasm for wider private ownership and privatisation may stem from a shortage of long term incentives. Whether tax breaks can overcome the underdeveloped nature of the market, the international constraints imposed by the lack of political recognition and the ever present problem with property rights, is a matter for conjecture. The recent Nadir experiment also casts doubt on the efficiency and accountability of large scale, private sector solutions.

⁹⁹Interview with Ozalp Sarica, *op. cit.*

¹⁰⁰*ibid.*

Ultimately the failure to act on privatisation policy comes down to a lack of political will, and a seeming lack of economic priorities. (The Polly Peck episode was unique and also derived from public sector initiatives¹⁰¹.) For too long, strategic concerns have dominated Turkish-Cypriot policy makers and their Turkish advisors. For as long as the latter carry with them a letter of indemnity from the Turkish Treasury, under-writing the status quo, it will be a brave politician who challenges a system that has proved both successful and generally popular (particularly if past troughs - i.e. 1964 - are considered, as they generally are in the media and the official rhetoric). The economy of the Turkish-Cypriot community has improved dramatically in the past thirty years, (though this statement depends crucially on the indicators, the weighting and the base year used). No matter that the argument suggests that it is unfortunate for the Turkish-Cypriot community, that history has bestowed on Cyprus two different processes of economic development¹⁰². Skewed economic development and barriers to growth on both sides, seem to point to significant complementarities from economic unification. More important than that, international isolation and a settlement of the wider political problem, seems to be a necessary prelude to increased efficiency and accountability. As elsewhere, rational economic arguments may hold little sway with political elites who seem committed to ensure that two different and unequal economic realities survive. A separate Turkish-Cypriot economy managed to survive as a result of sacrifice and, since 1974, improvised institutional innovation. However, short to medium term solutions have continued into the long term, proving better at delivering initial results in the reconstruction process, than sustaining or selecting quality investment over the longer term. Ironically, a total commitment to separate communal development may ultimately undermine the existence of a separate Turkish-Cypriot identity. The continued widespread use of improvised public and quasi-public sector substitutes

¹⁰¹Hindle 1991. *op. cit.* p.11.

¹⁰²Olgun 1991. *op. cit.* and UN Security Council, 17 December 1993. *op. cit.*

for free market activity, appears to challenge the sustainability of a unique and separate Turkish-Cypriot economy in northern Cyprus, forcing it to rely heavily on mainland Turkish subsidies.

CHAPTER 5: Re-establishing economic growth after war; a short run story.

Related issues

It is important to consider the interplay of politics on the economic direction taken by the two communities as they began their regionally distinct economic life. The choices and direction of economic development, both contrasted and reflected political realities. In the short run, large numbers of Turkish-Cypriots displaced from the south were resettled in rural areas in the north and in agriculture, seemingly to consolidate Turkish military advances. Many rural Greek-Cypriots displaced from their farms in the north, were temporally settled in and around urban areas, where they increasingly found work in factories or on building sites, reflecting the desired impermanence of *de facto* changes.

After the events of 1974, the Turkish-Cypriot leaderships' long term political aspirations had been achieved. Their main outstanding political objective was to consolidate; develop *de jure* from *de facto* status, for the separate and newly continuous region under their control. Effectively, the island's minority community now had access to abundant land and fixed capital resources¹. Its subsequent policy of assimilating its displaced population to land and labour applications was as much to do with political as economic objectives. After 1974, political motives converged with attempts to stimulate economic growth in the areas under Turkish-Cypriot

¹ Scott J. "Property Values; Ownership, Legitimacy and Land Markets in Northern Cyprus", in Hann C.M. 1998. Property Relations; Renewing the Anthropological Tradition. Cambridge: Cambridge University Press. p. 147.

control². By contrast, the newly land and resource scarce (Greek Cypriot) Republic, did not have the same options. Political objectives had failed; Cyprus was neither part of Greece, nor unitary and independent. Economic regeneration in the region still under Government control, conflicted with its avowed primary political priority of re-establishing control over the whole island. Building new sea ports, airports, road systems and, above all, re-housing vast numbers of displaced people to take account of *de facto* changes, seemed to contribute to their permanence. The economy looked on the verge of collapse, with a large proportion of its population without income or shelter. Their higher political ambitions were, however, sacrificed for economic expediency (a step that the Turkish-Cypriot leadership did not take in the 1960's). In the Greek-Cypriot community, long run political objectives and policies that encouraged long run economic growth, diverged after 1974, while in the Turkish-Cypriot community they converged³.

This chapter deals with an analysis of the key sectors and mechanisms generating renewed economic activity in the newly ethnically homogenous, non-communicating regions of Cyprus that followed *de facto* division in 1974; first by analysing one of the dominant theories which explains the recovery in the south, and then by analysing the sector in the north which attracted the most official attention, created the most employment, generated the most income and coincided with political priorities (a policy of permanent settlement). Concentrating a comparative framework on two incongruous sectors, the construction industry in the south and agriculture in the north, does not leave much room for direct comparisons. Both sectors were, however, effective in large-scale labour absorption in the immediate post '74 period, and both were associated officially with the short-term recovery

² It was reported on 30th August 1974, that the leader of the Turkish Cypriot community, Rauf Denktaş, said that Turkish Cypriot fighters had moved in large numbers to support the agricultural economy of north Cyprus. He added that it was impossible to cope with the economic problems facing the community unless large numbers of workers were co-opted from fighting units, *Cyprus Mail*, 30/8/1974.

³ Scott 1998. *op. cit.*, p. 148.

prospects of their respective *de facto* regions⁴. Despite the economic irregularity in choosing such an approach, in historical terms the choice is far less asymmetrical. The theory analysed below, argues that much of the displaced rural population from the north was absorbed by the construction industry in the south. Conversely, much of the population displaced to the north were initially resettled in the areas vacated by new entrants in the construction and manufacturing industries in the urban sector. It does not stretch imagination too far to conceive the transfer of population at two levels, geographical and to a lesser extent sectorally. In this sense Turkish-Cypriots were again constrained economically by political objectives, whilst displaced Greek-Cypriots were effectively urbanised, the population under Turkish-Cypriot control became more rural.

This chapter also allows for a fuller exploration of a major inspiration for this thesis. In re-appraising the economic role of refugees, Roger Zetter has argued that war and *de facto* division have made a positive contribution to economic growth in Cyprus⁵. Whilst initially attempting to disprove his work, this thesis may end up supporting it (see Chapter 6). However, whether it was a Government led recovery in the south, through the medium of the construction industry, as Zetter proposes, forms the basis for half of the analysis below.

⁴"Within the framework of its efforts to achieve the reactivation of the economy in the three areas of the island, the Government gave special emphasis to the construction sector, because this sector, apart from its contribution to investment and employment, effects both directly and indirectly many other sectors of the economy." Republic of Cyprus. Second Emergency Economic Action Plan 1977-1978. Nicosia: Planning Bureau, p.101.

And "The economy of the Turkish Federated State of Cyprus is largely dependent on agriculture...The agricultural sector as in GDP has the largest share of exports." "Turkish Federated State of Kibris" 1979. The First Five Year Development Plan (1978-1982). Nicosia. "State" Planning Organisation, p.5. By 1987 things had changed little: "Historically, North Cyprus has been predominantly an agricultural country. Today, this tradition continues. The North is in fact primarily rural, and some three quarters of its area is used for agriculture, the return from which contributes about a quarter of the national income and over a third of the country's exports. More than a half of the [north of the] island's [sic] labour force is employed in agriculture." Rustem K. (ed.) 1987. North Cyprus Almanac. London: Rustem K. & Bro., p. 83. See also: Morvaridi, B. "Agriculture and the Environment", in Dodd, C.H. (ed.) 1993. The Political, Social and Economic Development of Northern Cyprus. Huntingdon: Eothen Press, p. 235.

⁵ Zetter R. 1992 "Refugees and Forced Migration as Development Resources", Cyprus Review, Vol.4, No.1, pp.7-39.

Comparative troughs

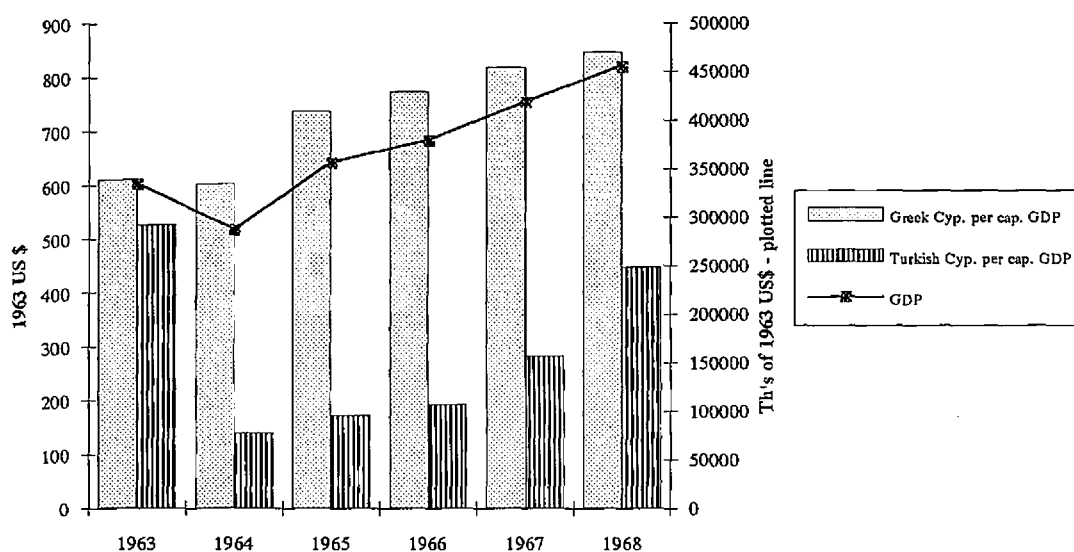
In many ways the Greek-Cypriots were the (little acknowledged) direct economic beneficiaries of the 1963/4 civil war, which effectively removed Turkish-Cypriot competition. Of the Republic "it can be said that for Cyprus, trouble became also its salvation."⁶ What Ozal Sarica meant by this was that as a consequence of the 1963/4 violence, the economy benefited from the military multiplier deriving from the permanent presence of over 2000 well paid UN troops, up to 12,000 less well paid Greek troops, up to a few thousand even less well paid Turkish troops and the new invisible receipt of Turkish financial assistance (which entered Cyprus via the Central Bank). To that could be added the fact that Greek-Cypriots also benefited from the Turkish-Cypriot retreat (as Turkish-Cypriots subsequently did in 1974/5 from the Greek-Cypriot retreat) by exploiting and over-riding property rights, when they drove the Turkish-Cypriot community out of areas of weakness.⁷ Greek-Cypriots also benefited by monopolising public sector employment (30% of which had been reserved for Turkish-Cypriots) and other sectors of the economy where Turkish-Cypriot competition could have been significant. As a result of the events of December 1963, the growth and development of tourism on the island almost completely passed Turkish-Cypriots by⁸.

⁶"Provisional Turkish Administration" 1970. The Economy of Cyprus and the Turkish Cypriot Community. Nicosia: Turkish Planning Organisation, p.11.

⁷See Patrick R. A. 1976. A Political Geography of the Cyprus Conflict: 1963-1971. Ontario: University of Waterloo, Dept. of Geography Publication Series No. 4, pp. 110-111.

⁸Martin J. "The History and Development of Tourism", pp.340-342, in Dodd 1993. *op. cit.*

Figure 5.1 *Change in Cypriot GDP as a consequence of the 1963/4 civil war (in constant 1963 US \$).*



Source: Patrick R.A. 1976, p.109 & Rep. of Cyprus. 1994. "Historical Data on the Economy of Cyprus 1960-1991", p. 34.

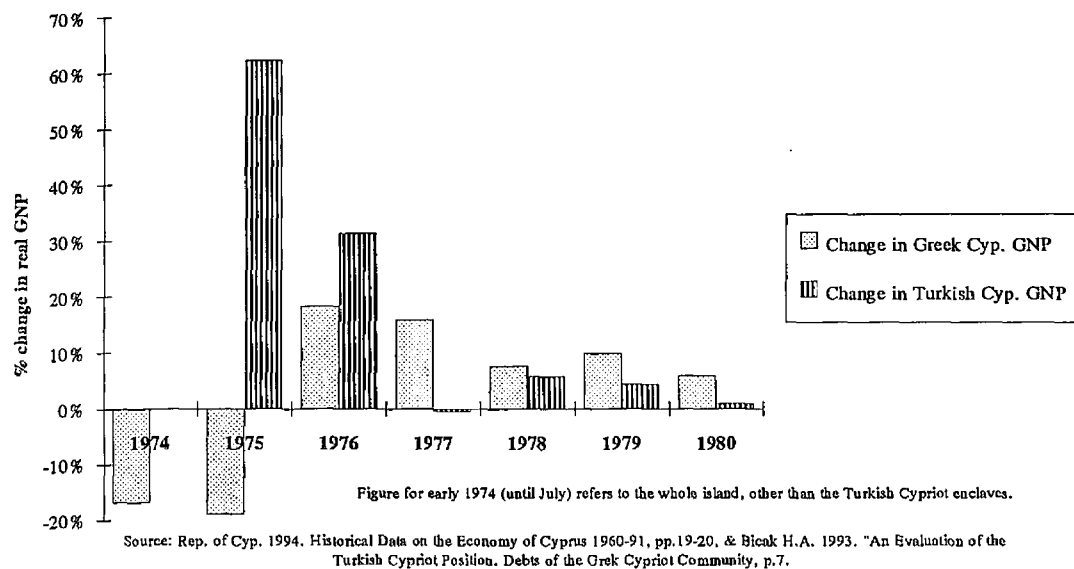
Official sources claim that average Cypriot per capita income fell by 9.5% in 1964 (in constant market prices) and recovered again in 1965, growing by 10.6% from the 1963 figure⁹. According to Patrick's sources, whilst average Greek-Cypriot per capita income fell by only 1.4% in 1964 and grew by 20.6% on the 1963 figure in 1965, Turkish-Cypriot average per capita income fell by 73% and was still 67% below the 1963 average in 1965¹⁰. Turkish-Cypriots experienced the majority of the effects of the political upheavals and the subsequent economic disruption. Greek-Cypriots seemed to be able to capitalise on the Turkish-Cypriot withdrawal. It must be said however that Patrick's figures are based on current factor prices, though the average rise in the retail price index over the period 1963-5 averaged just 0.4%¹¹, so the possibility of inflation distorting the general trends can be largely discounted.

⁹Republic of Cyprus, 1994. Historical Data on the Economy of Cyprus 1960-1991. Nicosia: Dept. of Statistics and Research, Ministry of Finance, p. 34.

¹⁰ Patrick 1976. *op. cit.*, pp. 109.

¹¹*ibid.*, p. 19.

Figure 5.2 *Ethnic distribution of changes in (real) Cypriot GNP after the 1974 hostilities.*



In some ways the difference between 1963/4 and 1974 is a matter of scale for the island as a whole, though perhaps, similarly catastrophic for each respective community. In terms of their recoveries, both the strategies and the results were very different. In a way the Turkish-Cypriots (perhaps of necessity) pursued political objectives at the expense of economic ones, a kind of Palestinian approach, which proved in the long run to be politically successful for them because a powerful regional ally was eventually willing and able to support the community's bluff. By comparison, Greek-Cypriots failed in their political objectives; however, whilst pursuing (failed and failing) political objectives they successfully exploited economic ones, even when they were contrary to their stated political objectives. The events of 1974 concentrated the economic resolve, having removed the possibility of imminent success in high politics which had periodically disrupted the development process in the past.

For the Greek-Cypriots after 1974 the options were limited. Newly land scarce re-settlement strategies not only conflicted with a loud political rhetoric (which refused

to perceive the *de facto* situation as permanent) but also lacked the option of immediately relocating a mostly rural and service-skilled population in the sectors of former economic activity. There was simply not the land or (as yet) the infrastructure although, as previously mentioned, there were potential productivity gains (not generally perceived at the time¹²) to be had from relocating a predominantly small-scale¹³, owner-occupier, rural work-force in the urban sector. With abundant land, fixed capital and a more predominantly urban population, Turkish-Cypriot planners seemingly had a choice as to where to concentrate human capital resources. However, with a US ban on military exports to Turkey following Turkish military intervention in Cyprus, large tracts of unpopulated land may have been more easily negotiated away. The Turkish-Cypriot leadership concentrated economic development in the north on land settlement and agriculture, even when subsequent national income accounts tended to suggest other areas of the economy were more likely to provide greater growth prospects¹⁴. Put simply, the consequences of the 1974 watershed saw forced urbanisation within the Greek-Cypriot population and increased rural settlement of the population under Turkish-Cypriot \ Turkish control.

Confidence and the context of reconstruction in the Republic of Cyprus

On 15th July 1974, the democratically elected President of Cyprus was removed by a foreign sponsored military coup. Within 5 days this was followed by Turkish military intervention which came in two stages. The first stage was a beachhead and

¹²Republic of Cyprus, April 1975. (Unpublished - i.e. "Restricted") "Economic Consequences of the Turkish Invasion and Future Prospects of the Cyprus Economy." Nicosia: The Planning Bureau.
 Republic of Cyprus, 1975. Emergency Action Plan 1975-76. Nicosia: The Planning Bureau.

¹³The 1960 Agricultural Census estimated that the average size of agricultural land holdings was 47 donums (approx. 15.6 acres), coupled by the fact that most individual agricultural land ownership was composed of several scattered holdings.

¹⁴Scott 1998. *op. cit.*, p. 148.

airborne assault which linked the Nicosia-Geunyeli enclave with the sea. This period was characterised by intense fighting and ended with a shaky UN sponsored cease-fire on the 22nd July and five day tripartite talks in Geneva (Britain, Turkey and the newly democratic Greece). Foreign ministers agreed on the 30th July that the areas controlled by opposing forces should not be extended and that a phased withdrawal of military forces should be encouraged. These declarations of intentions did little to stop the fighting. Despite the presence of UN peace-keeping troops and a unanimous Security Council resolution creating a buffer zone between the Turkish army and Greek and Greek-Cypriot forces, the UN was unable to implement it. Turkey continued to re-enforce and re-supply its extended beachhead and Greek, Greek Cypriot, Turkish and Turkish-Cypriot forces persistently broke the cease fire.

The Second Geneva Conference included representatives of the Cypriot communities and formally commenced on the 10th August. Turkey demanded a bi-zonal federation with 34% of the island to be ceded to the Turkish minority¹⁵. Essentially this was what was on the negotiating table and a decision had to be made then and there. Acting President and chief Greek-Cypriot negotiator, Glafkos Clerides, said he was willing to consider the proposals conditional on the withdrawal of all Turkish forces. However, Clerides said he would first have to consult with colleagues, hoping that a smaller proportion of the island could be considered. At this impasse, the Turkish foreign minister Turan Guner withdrew from the talks on the morning of 14th August and simultaneously Turkish forces advanced¹⁶. Within 48 hours Turkish forces had increased the area under their control to exceed the 34% of the island requested in negotiations (perhaps allowing for a negotiating margin). On 16 August Turkey's offer of a cease fire and a return to the negotiating table was accepted.

¹⁵ Callaghan, J. 1987. *Time and Chance*. London: Collins, p. 355.

¹⁶ *ibid.*, pp. 354-355.

Turkey maintains that her objectives were solely the protection of Turkish-Cypriots and not territorial or strategic ambitions or a desire to see Cyprus partitioned, though no attempts were made by the Turkish "Peace Force" to re-establish the constitution (in accordance with the Treaty of Guarantee which, they argue, gave them the right to intervene).

Subsequently taking stock, the government of the Republic of Cyprus had lost control of 37% of territory. As personal security could not be guaranteed, the Greek-Cypriot population had largely withdrawn before the shifting ground of military advance. Similarly 8000 of the 50,000 Turkish-Cypriots living to the south of Turkish front-line positions had withdrawn to the security of the British Sovereign Base Areas.

Greek-Cypriot property rights were no longer secure in the areas under Turkish military control. (It is debatable how secure Turkish-Cypriot assets were in the south, particularly in the immediate aftermath of Turkish military intervention, many Turkish-Cypriots themselves were not)¹⁷. Greek-Cypriot investors and tax payers left behind considerable assets and major infrastructural investment (as noted above) all of which was highly interconnected with the rump economy they maintained control of. Much of this loss was in the form of fixed capital which, when not destroyed was no longer under the control of owners and / or managers. The losses of territory included most of the cereal producing Messaoria plain, the citrus groves of Morphou, the tobacco region of Karpasia, the new industrial areas of Famagusta and of north-eastern Nicosia and the island's most important tourist developments and international transport links.

¹⁷ Many Turkish Cypriots had already been displaced so are (retrospectively?) generally in favour of the process which caused the subsequent dislocation of 1974.

An important side effect of these losses (and what is of interest here), was the potential undermining of business confidence as a consequence of military action. Business confidence was undermined by the wiping out of collateral on which loans and investment finance had been secured:

Moreover, the loss of valuable land or the diminution of its value will deprive a considerable number of owners from their financial basis on which they relied so much for the securing of loans for industrial, commercial or other activities. This is going to be - and already is - a major constraint in the effort for the reactivation of the economy.¹⁸

Even more important, the confidence necessary to supply new fixed capital investment was also undermined by the recent loss of access to investment assets and by the persistent threat of further losses.

In 1999 the UN. still referred to the boundary of the "TRNC" as the "current cease-fire line" which has been "successfully" policed by a UN. military presence (UNFICYP) for a quarter of a century. Whilst Turkish military tactics may seem clear to military analysts now, the limits of their implementation were far from clear to the people of Cyprus at the time (Turkish-Cypriots included). Although this ethnic boundary became increasingly rigid, the region to the south seemed less secure in 1974¹⁹. In April 1975 a confidential Govt. report still talked of the possibility of having to surrender a further 11% of housing stock in vulnerable areas²⁰. An agreed and UN administered cease-fire had failed to hold before, there was no guarantee that it would do so again. There was no military reason (whilst there may have been international political ones) preventing Turkish forces from gaining control of the entire island. This option was allegedly debated in the Turkish

¹⁸Republic of Cyprus, April 1975. (Unpublished) "Economic Consequences of the Turkish Invasion and Future Prospects of the Cyprus Economy." Nicosia: The Planning Bureau, p.22.

¹⁹The front page of the *Cyprus Mail*, 15 September 1974, reported that Turkish military aircraft were again seen over the southern part of Cyprus: "Military sources said another plane made a low swoop over Larnica and gave fresh impetus to rumours of renewed fighting."

²⁰Republic of Cyprus, April 1975. (Unpublished) "Economic Consequences of the Turkish Invasion and Future Prospects of the Cyprus Economy." Nicosia: The Planning Bureau, p.17.

parliament during the unstable period between the fall of Ecevit and the establishment of a new government under Demirel²¹. Whatever the geo-political constraints the threats were very real. In describing the differing political manoeuvres after the cessation of hostilities on 16th August 1974, McDonald said that: "...threats of further Turkish advance to rescue their compatriots, finally resulted in agreement [over 'population transfers', what the Turkish-Cypriot administration refers to as the 'population exchange'] in August 1975"²². The 83% of the population forced into the remaining 60% of the (less productive part of the) island, felt understandably vulnerable, much as the Turkish-Cypriot population, forced into fortified enclaves, had done after December 1963. Neither period seemed to be particularly conducive to investment confidence.

At a human level, the initial attitude of many of the refugees referred to in Peter Loizos' account of the social consequences of the conflict, provides an example of how confidence was undermined²³. Seemingly the effect on the economic choices of refugees was two fold: first there was the constraint of optimism, the expectation of return to former homes and business activity which discouraged the active participation in public or private attempts to re-deploy economic resources (in this case human capital resources) to other economic activities south of the UN buffer zone. Equally important, is the negative constraint (powerful at least in the short run) of the fear of further losses of territory and future investment.

²¹Birand M.A. 1985. 30 Hot Days. London: K. Rustem & Bro, p.10.

²²"The Turkish-Cypriots were intent on segregating the communities while the Greek-Cypriots sought to restore the heterogeneous distribution of population by preventing the movement of settled communities and pressing for the safe return of refugees to their homes." McDonald, 1989, p.20.

²³ Loizos, P. 1981. The Heart Grown Bitter. Cambridge: CUP, p.123, 159.

The role of government in re-establishing confidence in the Republic

The events of December 1963 had seen Turkish-Cypriot economic activity collapse²⁴ and remain practically stagnant for ten years; how did the Republic's (now exclusively Greek Cypriot) economy respond to the events of 1974? Perhaps the circumstances of the war provided a perfect case for a Keynesian demand stimulation strategy. Long run output had dropped significantly, domestic confidence had collapsed, unemployment had risen by 30% (clearly above the "natural rate") and national income had fallen by an average of over 18% in real terms, in both 1974 and 1975²⁵. Cypriot use of demand management would be a case of Keynes without Friedman, government spending restoring investment confidence without the threat of "crowding out". This may be true of the Turkish-Cypriot economy also, though with the unique distortion of property rights and poor international links, further weakening investment confidence. How true is this example of a Keynesian recovery mechanism, even in the Republic? Some have argued that the government of the Republic of Cyprus successfully provided an appropriate Keynesian response to the shock of defeat in war²⁶. More, the recovery was the result of strategic investment by government in a key industry at a time when confidence had collapsed. That investment was strategic because, whilst it had short run political benefits (dissipating anger and discontent as refugee communities were divided, dispersed and provided with welfare), it was also seen as an engine of long term economic recovery.

Roger Zetter challenges the common conception of refugees as a burden to host economies. Using the Greek-Cypriot economy following the upheavals of 1974 as a

²⁴UN Security Council, 8 Dec. 1966. "Report on UNFICYP and the Cyprus Situation for the period 11 June to 5 December 1966." NY. S/7611, paragraph 122, reported that an estimated one third of the entire Turkish Cypriot population needed some form of welfare.

²⁵Republic of Cyprus. 1992. 1960-1990 Time Series Data. Nicosia: Dept. of Statistics and Research, Ministry of Finance, p.11.

²⁶Zetter 1992. *op. cit.*, pp.7-39.

case study, he argues that given enlightened public intervention, refugees can become a positive economic force²⁷. He maintains that his study, uniquely, uses National Income Accounts to assess the impact of the (Republic of Cyprus) Government's re-housing strategy, and that these prove the central role played by the following policy in the recovery. Government provided funds for refugee housing schemes which stimulated the construction industry and simultaneously provided homes, jobs, income and new demand.

Highly interventionist economic development policy, it is argued, with its emphasis on housing for refugees, stimulated a demand led recovery.²⁸

Indisputably, the role of the Government of the Republic expanded dramatically after the *de facto* division of the island. However the debate here is whether it expanded to provide the necessary humanitarian and political response to a massive humanitarian and political disaster or whether it combined that response with a systematic reconstruction policy, aimed at restoring investment confidence, providing an income multiplier to boost demand and ultimately restoring economic viability in a severely dislocated, truncated economy. Clearly both policies enacted simultaneously do not stretch credibility to unreasonable lengths. However, the government's concerns must have mirrored those of the population at large (both the optimistic and pessimistic interpretations referred to above). The Government could not be seen to implement policy which seemed to perceive the territorial changes as being permanent. Such a policy would have conflicted with both its own rhetoric and the democratic constraint (40% of the increasingly most politicised part of the electorate wished to return to their homes and businesses north of the UN cease fire line).

²⁷ *ibid.*

²⁸ *ibid.*, p.10.

Seemingly the main role of the government of the Republic of Cyprus in the economy was securing and directing investment by utilising external loans, grants and foreign exchange reserves. It is the expansion, scale and direction of that investment that is controversial.

The need to intensify efforts for the reconstruction of the economy on the basis of a comprehensive action plan instead of undertaking various *ad hoc* measures as up to now, is imperative. The whole effort must be put on a planned and co-ordinated basis; hence the need for an Emergency Action Plan....²⁹

The public sector is expected to play a leading role in the boosting of investment activity instead of a supplementary or ancillary role as was the case so far.³⁰

The introduction of public works after exogenous economic shocks is not a new method of applying disaster relief. Such policies were, for example, used by the Government of Cyprus long before Keynes published³¹. Zetter's basic premise is more sophisticated and more closely Keynesian³²: government spending did act to alleviate a humanitarian disaster but in doing so tapped under-utilised resources, restoring confidence in a key domestic investment sector and, through an income multiplier stimulated domestic manufacturing, thus rapidly shifting output and employment back to pre-war levels. Fiscal policy and deficit financing facilitated government investment in the construction industry, created homes and incomes for refugees, work and income in the construction industry, distributed income and thus stimulated demand as the newly re-housed, newly urban work-force replaced possessions left behind in the scramble south.

²⁹Republic of Cyprus. 1975. Emergency Action Plan 1975-76. Nicosia: Planning Bureau, p. 11.

³⁰*ibid.*, p. 14.

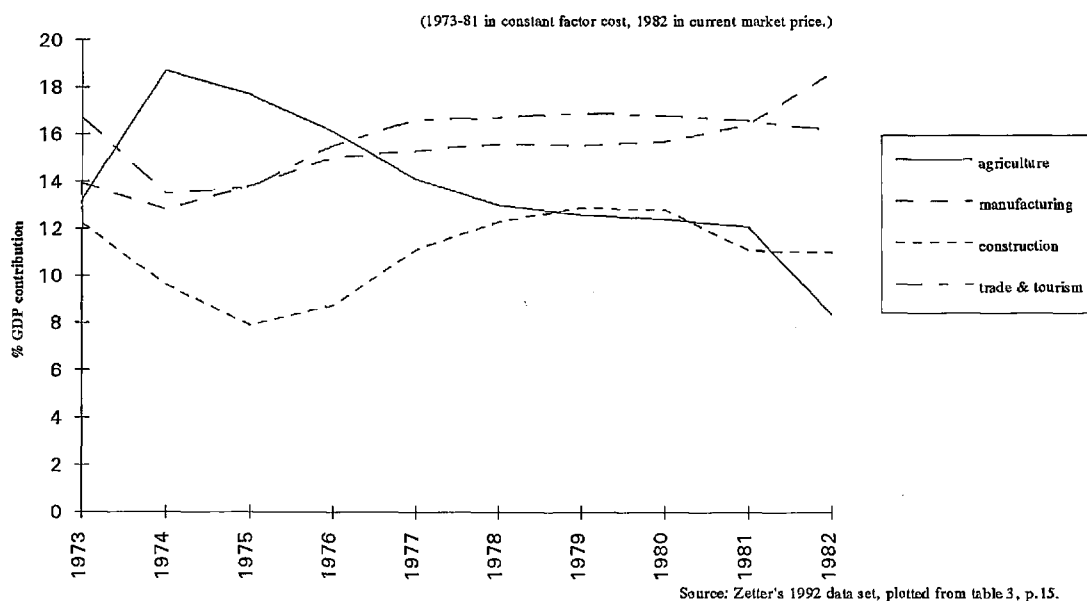
³¹During the drought of 1901 and 1902, the British District commissioner of the Famagusta District, after making a tour of the region promised to call on the Government to continue with public works to help alleviate the problem. Weekly newspaper, *Kyprios*, 23/02/1902, Nicosia.

³²Zetter 1992. *op. cit.*, pp.7-39.

Specifically, it is analysis of national level economic data and policy which provides the missing link... Amongst a wide range of policy initiatives, a large scale housing programme for 150,000 of the refugees [30% of the post-74 population] was established which, it is contended, was the leading proponent for the economic reconstruction... the programme for re-housing the refugees.. was the catalyst [which] stimulated a demand led recovery.³³

Zetter uses the figures below to demonstrate the key role of the construction industry in the recovery of the Republic.

Figure 5.3 *Sectoral distribution of GDP using factor costs (Zetter's data set).*



Citing the *Fourth Emergency Economic Action Plan*³⁴, Zetter concentrates on the period to 1982 when the Planning Bureau estimated that the economy had been largely reactivated. The graph above (plotted from Zetter's data laid out in his third table - see reference above) purportedly demonstrates the "twin pillars" of recovery: the construction industry "largely comprised of [government sponsored] housing construction" and the manufacturing sector³⁵. It also reveals "the pre-emptive

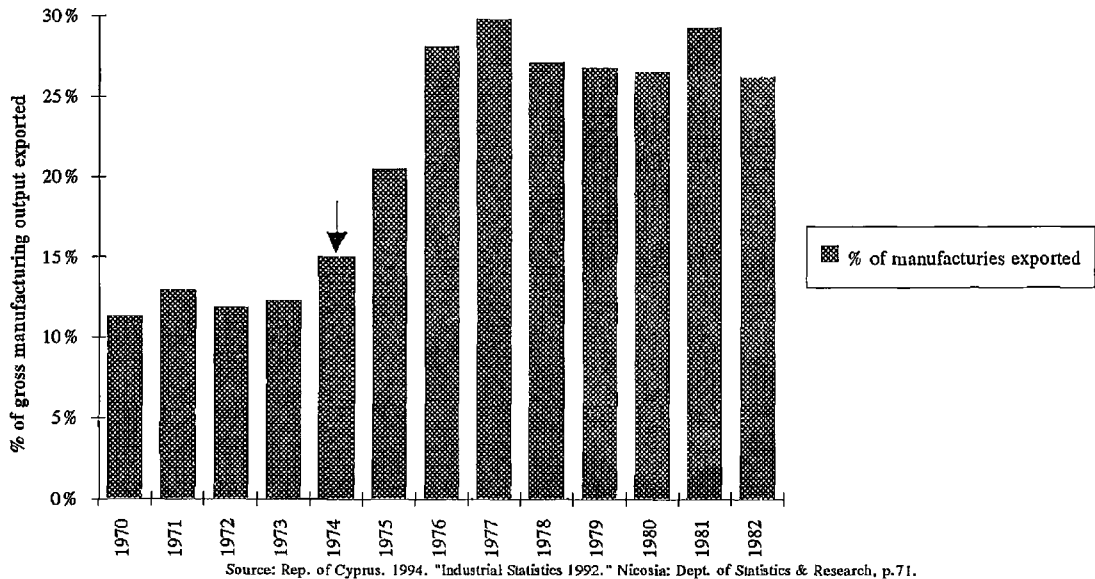
³³*ibid.*, pp.8,10, 25-26.

³⁴Republic of Cyprus. *Fourth Emergency Economic Action Plan 1982-1986*. Nicosia: Planning Bureau.

³⁵Zetter 1992. *op. cit.*, p.14.

growth of the urban based manufacturing sector achieved through [the] rapid expansion of both domestic and export markets"³⁶, which to some extent (and in Zetter's own words) challenges the basic assumptions of his model. An earlier recovery in the manufacturing sector could undermine the economic (though not the political and social) *raison d'être* of pervasive, expansionist government policy.

Figure 5.4 *Manufacturing exports 1970-1982.*

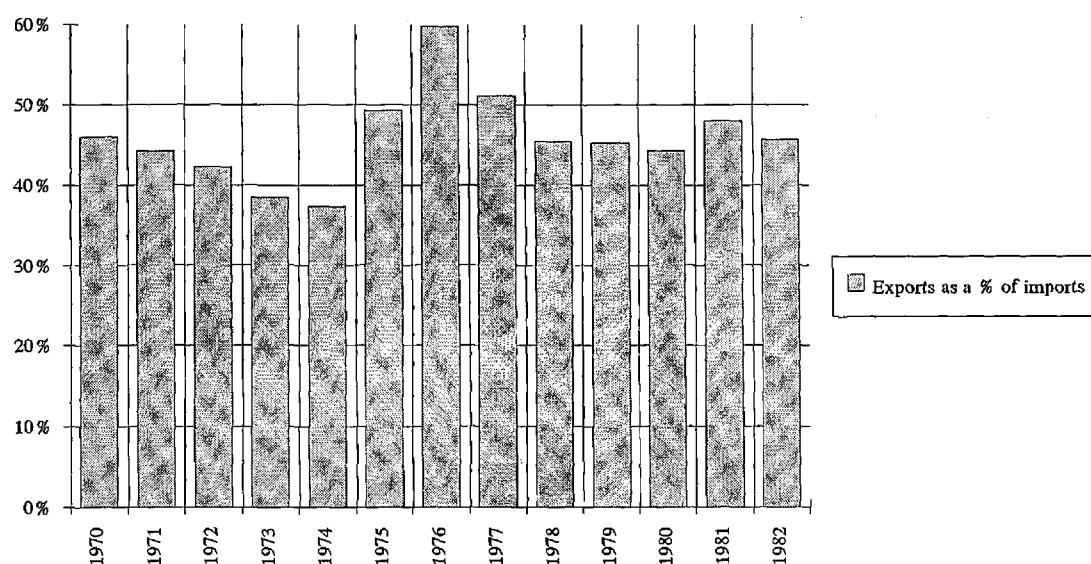


Although Zetter offers both a cohesive and appealing answer to the question of the Republic's rapid economic recovery, in the face of a potential loss of investor confidence it is relevant to question the basis of such a proposition. To what extent did government crowd out private investment and initiative, even in extreme conditions such as those prevailing after the summer of 1974 in Cyprus. To some extent private initiative, in the guise of a growing, export oriented manufacturing sector (see Figures 5.4 and 5.5) had, as Zetter himself seems to acknowledge, already "pre-empted" government investment in the construction industry. Some of the importance of the export performance must be seen in the light of a reduction in

³⁶*ibid.*

imports (Figure 5.5). The extent to which manufactures boosted exports however, making up for the loss of a high proportion of export agriculture and momentarily reversing previously negative trends, could have provided a boost to investor confidence.

Figure 5.5 *Total exports (f.o.b.) as a % of total imports (c.i.f.), 1970-1982.*



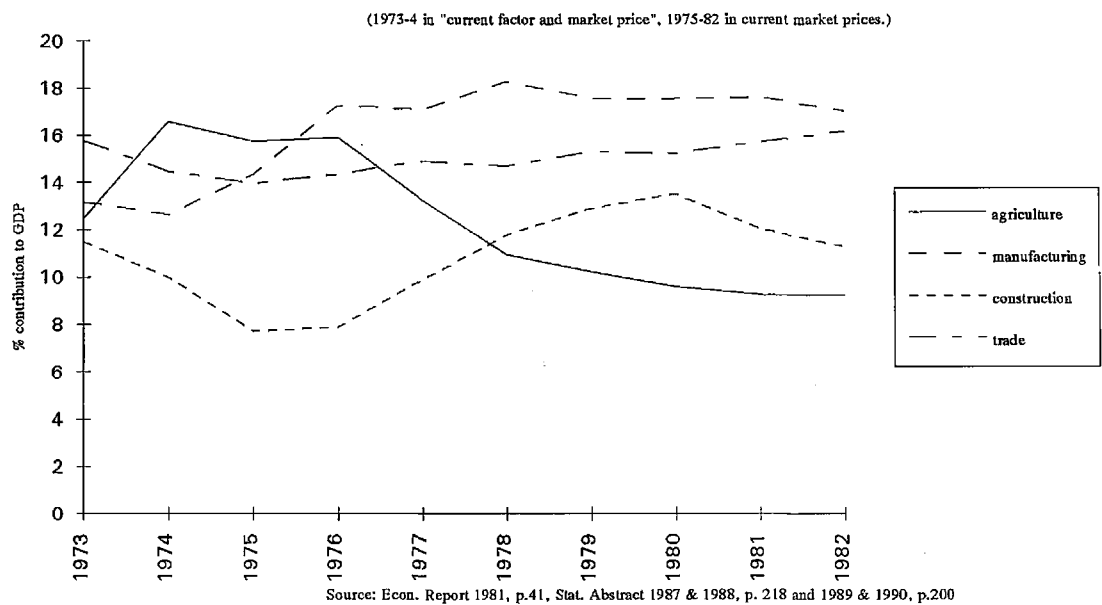
Source: Rep. of Cyprus. 1994. "Historical Data on the Economy of Cyprus." Dept. of Stat's & Research, p.155.

Add to this the possibility that there may well have been investors other than government, with vested interests in maintaining a presence in the Republic of Cyprus; interests which superseded short term profit maximisation and short term risk analysis and the justification for state action becomes less obvious on purely economic grounds. In 1974, the largest landowner was the Greek-Cypriot Orthodox Church. At the same time the largest exporter of processed agricultural products and the largest provider of domestic credit, was the Greek-Cypriot co-operative movement.

The indicators of the 'catalyst'

Zetter's data set (used in Figure 5.3 above) uses constant factor costs (except for 1982). However, when the effect of net taxation is taken into account the story looks a little different (see Figure 5.6 below).

Figure 5.6 *Sectoral distribution of GDP in market prices, 1973 to 1982.*



Because Zetter's argument is essentially a fiscal one, knowing the effect of net taxation is important in gaining an understanding of the wider effect of government policy. Using market prices for the whole data series 1973 to 1982, the relative sectoral distribution of GDP is sufficiently different for the Zetter story to warrant closer analysis. Particularly significant is the distortion of the trends after 1980 using Zetter's figures (Figure 5.3). With market prices (Figure 5.6, above) the trend in agriculture is less terminal than Zetter's data set suggested. Market prices recognise the delayed impact of the loss of agricultural resources on national income (due to favourable climatic and global price conditions), revealing the sector's declining significance and then its stabilisation at around 10% of GDP. Trade

(which includes the increasingly important tourist sector) continues to rise in relative importance if market prices are used, whereas it shows signs of decline if factor prices are used (as in the Zetter data set). Taxation and grants were highly favourable to tourism following the loss to the Greek-Cypriot economy of the two most important Cypriot destinations, Famagusta and Kyrenia. Essentially the inclusion of 1982 data at market prices in Zetter's data set, distorts the impression of the effect of both the war, and the governments recovery programme, on the structure of the economy. Admittedly his inclusion of data for 1986 (not included above) helps to correct some false impressions of the direction of economic change. However, the damage (in terms of the under-emphasis of the earlier impact of the manufacturing sector) has already been done. The implication from the market price data, Figure 5.6, could be that a manufacturing, export led recovery had already taken place before government housing schemes had begun to have the wider economic effect attributed to them by Roger Zetter.

Even by late 1977 there was an increasing number of complaints about the speed of the government's housing programme. Questions raised in the Cypriot House of Representatives about the amount of time refugees had spent in emergency housing³⁷ tend to suggest that refugee expenditure on new household goods played much less of a role in the recovery³⁸. Seemingly the recovery was in place before most of the refugees were out of emergency accommodation. At the end of the year in 1977, the government released a statement in answer to a parliamentary question saying:

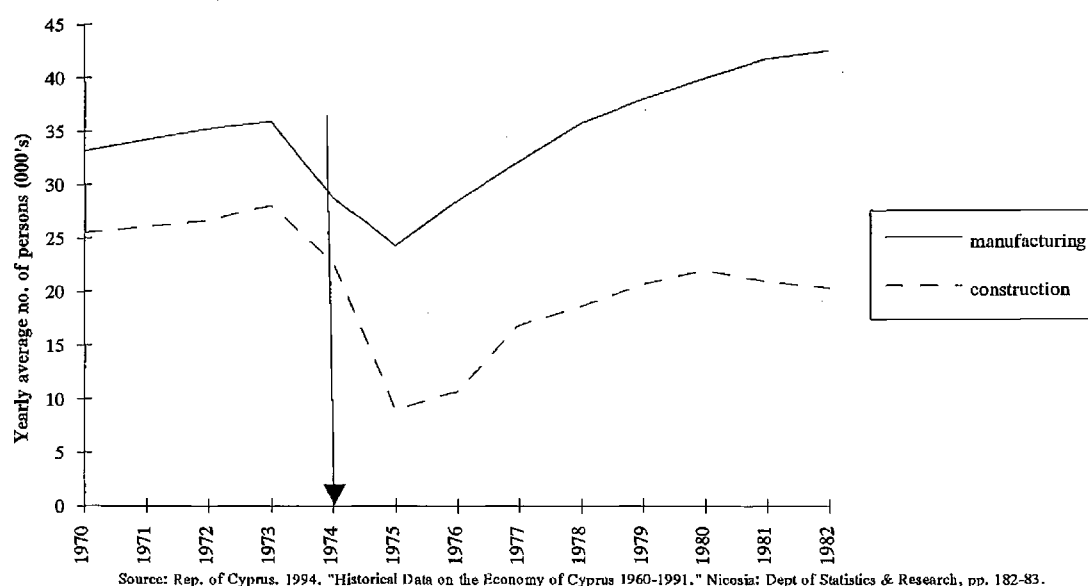
The delay in the building of houses is due to the inability of the construction companies to deal with the workload within certain time limits. The government has taken some measures to make the works quicker and new methods may be imported to increase performance.³⁹

³⁷Parliamentary questions: 28/4/77, 12/5/77, 19/5/77, 20/10/77, Parliamentary Papers for Γ Parliamentary Period, Sessions A & B.

³⁸Zetter 1992. *op. cit.*, p.26.

³⁹Parliamentary Papers for Γ Parliamentary Period, Sessions B, 24/11/1977.

Figure 5.7 *Employment in manufacturing and construction; rise, decline and recovery, 1970-1982.*



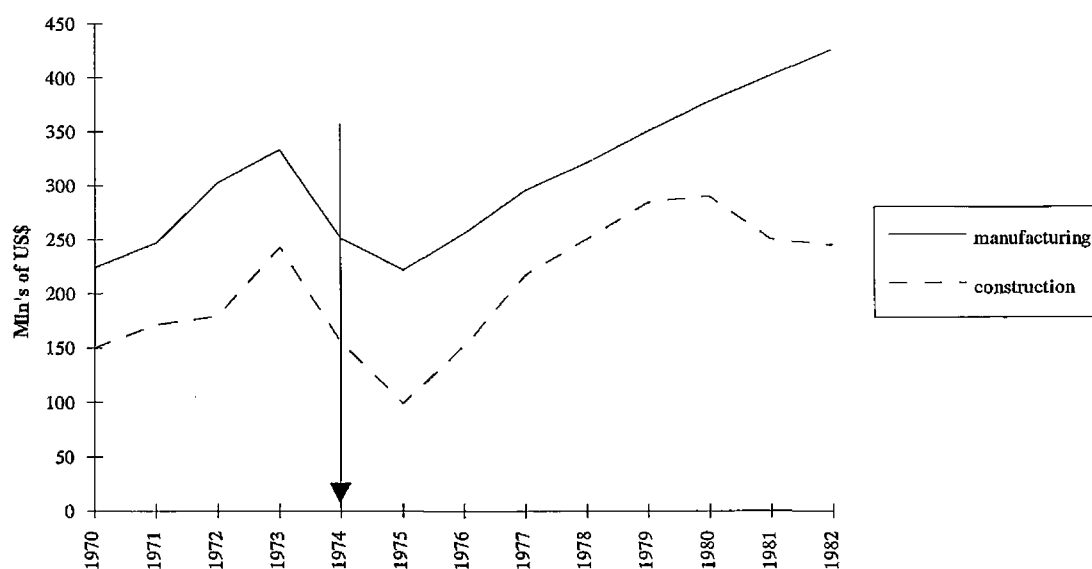
Using either market or factor prices (Figures 5.3 and 5.6), manufacturing seems to have a more profound impact in the immediate post war period 1974-75, before the construction industry's contribution to GDP has finished its post-war decline and long before the multiplier and demand stimulus of new refugee housing has had any impact. Using market prices (Figure 5.6), the impact of the manufacturing sector is more pronounced in that year and continues to grow even faster in its contribution to national income between 1975 and '76. The contrast between the role of manufacturing and the role of the construction industry in the recovery of the Cypriot economy, is even more startling when employment figures are examined. Employment in the manufacturing sector recovered earlier and continued to grow after employment in the construction industry had peaked below its pre-(74)-war level. Particularly significant for the recovery was that employment growth in manufacturing after 1974 was stimulated by export growth, generating crucial foreign exchange which the domestic construction needed to fund imported inputs⁴⁰.

⁴⁰"Worst hit [by the invasion] is the production of construction materials because about 77% of the total capacity and production has fallen into Turkish hands." Republic of Cyprus. April 1975.

If “a leading sector in the process [of recovery] is to be presented... [then] the role of housing” and the construction industry more generally, does not leap out from the “data on the performance of the national economy”⁴¹.

Ultimately the trend in manufacturing, in terms of its contribution to national income, is reversed. Rather than an increasingly growing contribution to national income, as implied by Zetter's statistics (Figure 5.3), manufacturing's relative contribution to GDP very gradually declines after 1978. The impact of the income multiplier and the demand stimulus of the jobs and products of the construction industry (that Zetter argues was so important to the recovery) should have been most effective by then, given the lag between proposal and provision. By this time however, confidence had largely been restored⁴².

Figure 5.8 *Income generated by manufacturing and construction (in constant 1980 prices and US\$), 1970-1982.*



Source: Rep. of Cyprus, 1994. "Historical Data on the Economy of Cyprus, 1960-91." Nicosia: Dept. of Statistics and Research, pp.79-80.

(Unpublished - i.e. "Restricted") "Economic Consequences of the Turkish Invasion and Future Prospects of the Cyprus Economy." Nicosia: The Planning Bureau, p.7.

⁴¹ Zetter 1992. *op. cit.*, pp. 7,10.

⁴² *The Economist*, 27 August 1977. "Miracle in half an Island.", pp. 50-51.

Whilst this argument may seem excessively pedantic, if the effect of government spending in providing refugee housing was crucial to the recovery, that claim may be less powerful if a recovery was already in place. Following the implementation of the Emergency Action Plan 1975-76, the Planning Bureau estimated that public housing schemes had managed to accommodate 9,500 displaced families, though 7,500 of them had been re-housed in vacated and "repaired" Turkish-Cypriot properties. Only 2,000 families had been provided with new public housing.

Given that the number of displaced families is about 50,000... it could be said that the situation still remains very difficult, even though a number of these families succeeded in the meantime in making other more satisfactory housing arrangements.⁴³

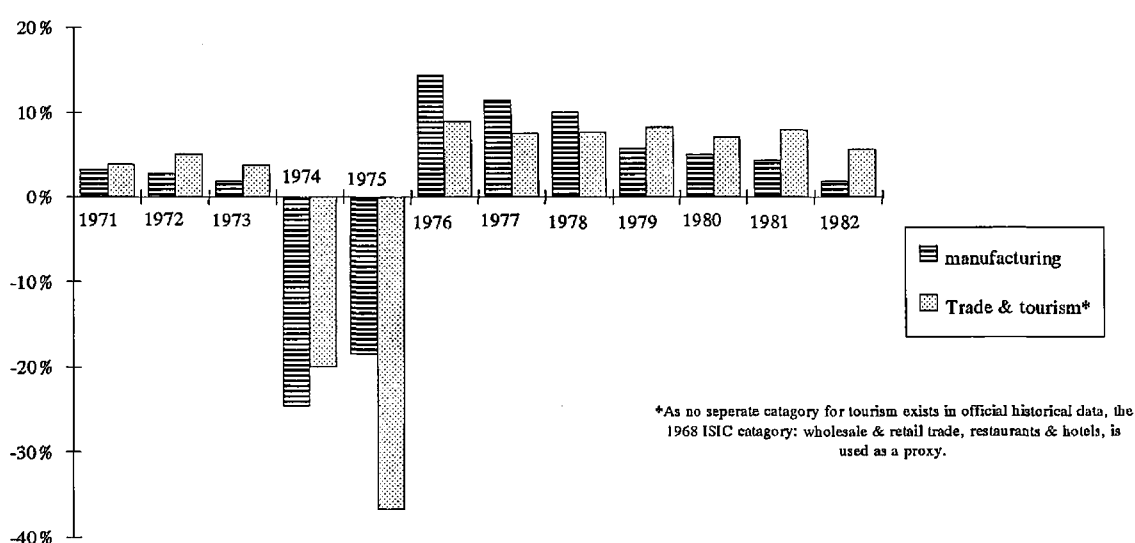
Perhaps the best that can be said of the government's housing programme during the crucial period of the implementation of the [first] *Emergency Action Plan*⁴⁴, was that it helped to alleviate human suffering and a societal breakdown. This means the actions of the state still conformed to classical rather than Keynesian precepts. The implication is that the market and not planning or intervention, was the route of recovery. Some government incentives were directed toward the manufacturing sector though these tended to take effect after the period of most rapid relative growth had already taken place. The best that could be said is that public policies helped to sustain and expand a recovery that was already well underway. The extent to which public investment in the construction industry stimulated recovery, as Zetter suggests, is still unproven. Essentially, increased government intervention in the economy of Cyprus after 1974 seems politically inspired, and was politically, rather than economically, successful (on both sides of the UN Buffer Zone).

⁴³Republic of Cyprus. Second Emergency Economic Action Plan 1977-1978. Nicosia: Planning Bureau, p.153.

⁴⁴Republic of Cyprus. 1975. First Emergency Action Plan 1975-76. Nicosia: Planning Bureau.

Just to put minds at rest that manufacturing, like the construction industry, is not entirely the wrong horse; in 1976 visitors to Cyprus for more than one day were still only 70% of their 1973 level. They were only as high as this because 43.2% of those registered as tourists were Lebanese Christian refugees who briefly stopped over in Cyprus on their way to other destinations⁴⁵.

Figure 5.9 *Percentage change in employment on previous year, by broad sector: manufacturing & tourism, 1971-1982.*



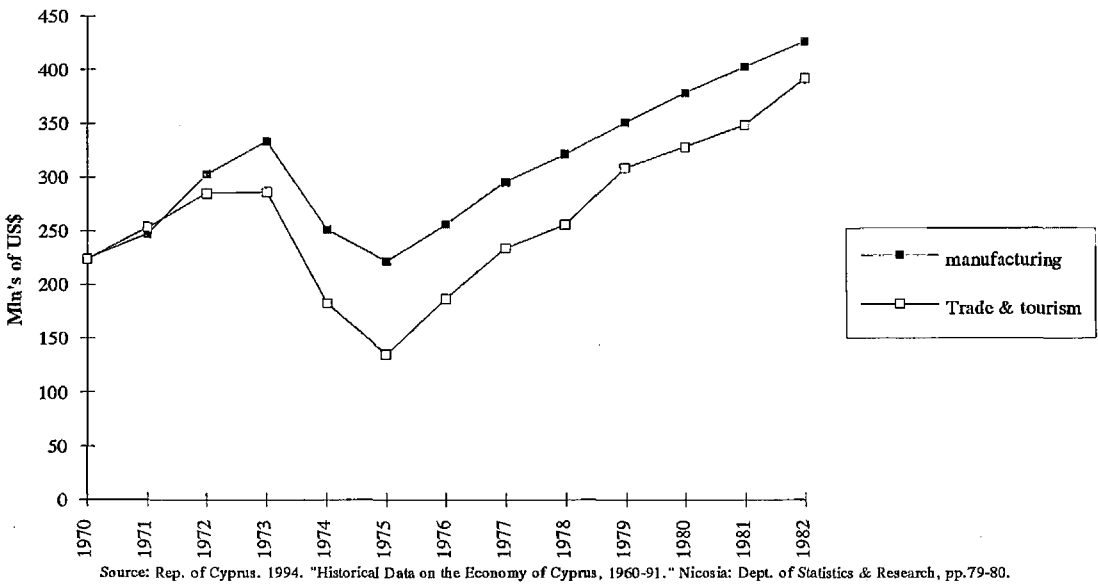
Source: Rep. of Cyprus. "Historical Data on the Economy of Cyprus, 1960-91." Nicosia: Dept. of Statistics & Research, pp.182-83.

As a consequence of 1974 however, employment in tourism had plummeted. From the deeper trough of 1975, average growth of 10% followed the influx of wealthy Lebanese escapees, bringing with them valuable foreign exchange. As argued earlier, the growth from a higher base in manufacturing employment is considerable at 17%. Over the next three crucial years before the second oil shock, growth in employment in manufacturing, a sector already accounting for 18% of employment (compared to 7% in the construction industry and 5% in hotels and restaurants) is more significant than tourism despite the saving grace of the Lebanese influx. According to another (essentially Keynesian) argument, employment generation was

⁴⁵Republic of Cyprus. 1978. Economic Report 1976. Nicosia: Dept. of Statistics and Research, Ministry of Finance, p. 8.

the crucial factor in generating and sustaining a recovery⁴⁶. By the time of the 1979 oil shock, the economy had witnessed a consistent rise in employment and income from tourism which was beginning to have an increasingly important contribution to the external balance, having finally surpassed its 1973 income level (in constant prices). Manufacturing however, retained its position as a more important sector in terms of income and particularly employment until at least the mid 1980's.

Figure 5.10 *The contribution of tourism & manufacturing to GDP in the Republic of Cyprus (in constant 1980 US\$) 1970-1982.*

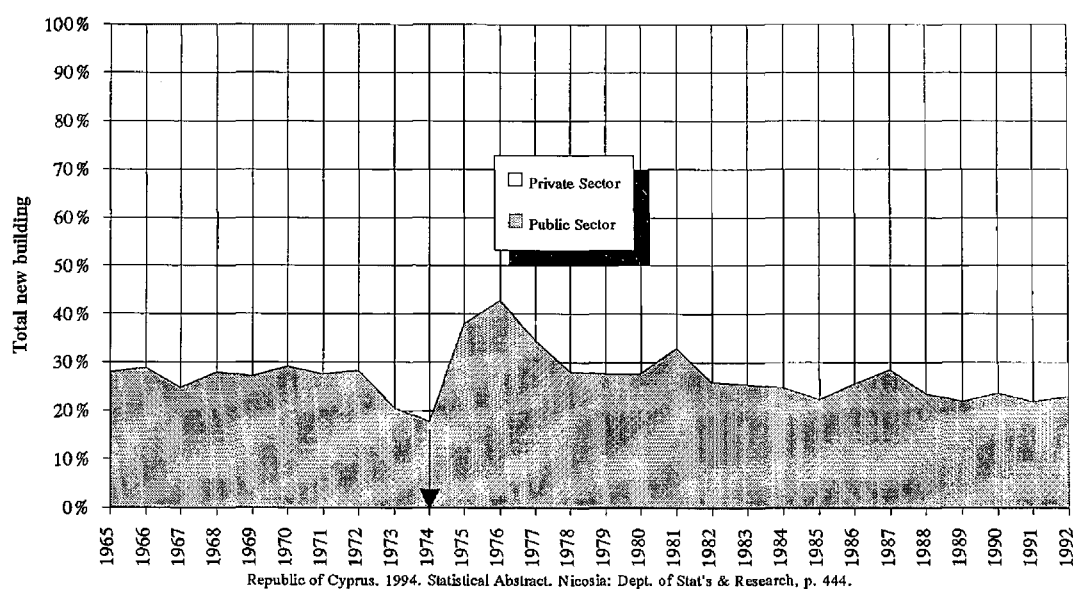


Seemingly, because of the loss of fixed capital, a revival of the construction industry was crucial to the recovery of tourism. Despite its considerable significance, there are problems drawing too wide ranging conclusions about the economic role of the construction industry, and more specifically the role of the public sector in providing permanent emergency housing in the immediate aftermath of the war. The point is that direct government investment was not that significant. Government spending was more important in terms of targeting incentives which

⁴⁶Andreou E. "The Economy of Cyprus during the Last Three Decades" (an econometric study), Conference on "The Development of the Cypriot Economy", Nicosia: Bank of Cyprus, 28-29/4/1995. Andreou argues that fiscal stimulus only worked because it created employment rather than consumer demand (in a tiny open economy like Cyprus).

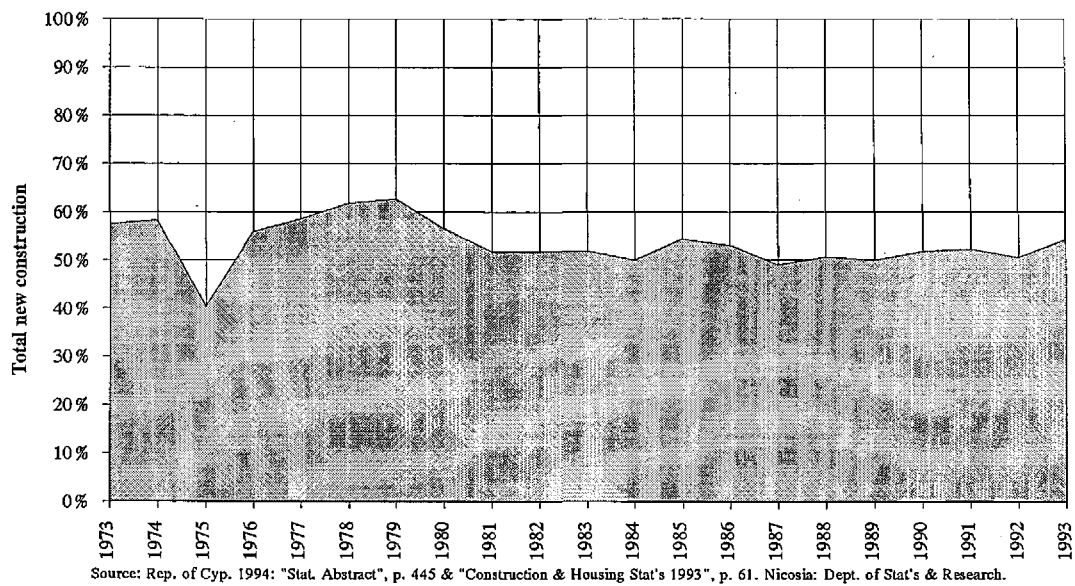
encouraged private sector action, thus restoring confidence implicitly rather than explicitly in raising aggregate demand.

Figure 5.11 *The changing proportion of public sector investment in new building construction, 1965-1992.*



By looking directly at quantitative data on government investment in housing (or the construction industry generally, see Figures 5.11 & 5.12) the conclusion which Zetter reaches is less convincing; the proportion of public sector involvement is surprisingly small considering the context. In qualitative terms however, the argument stands up much better to empirical examination. Taking into account the institutional structure (which Zetter does not), the nature of the private sector, the policies pursued and the incentives deployed, the argument that government policies were strategically important in reinforcing confidence in the Greek-Cypriot economy is perhaps more powerful. At this point however, the theoretical perspective within which the debate can be bracketed appears to have shifted from pure Keynes (Keynes without Friedman) to something broadly in line with the hodgepodge of theories vaguely described as neo-Keynesian (Keynes post Friedman).

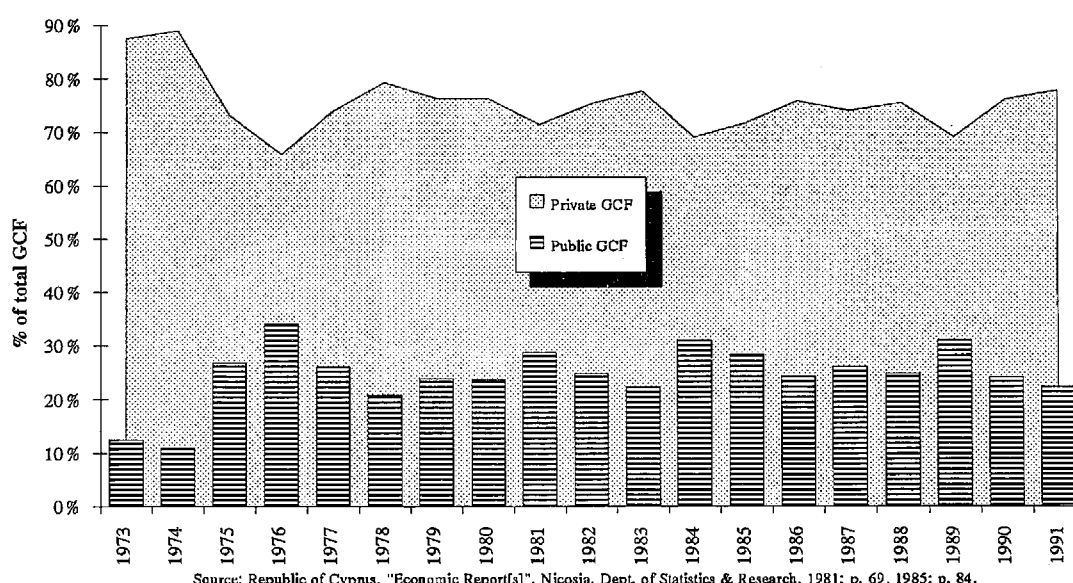
Figure 5.12 *Housing as a proportion of total new building construction, 1973-1993.*



A persistently active private sector

The interesting phenomenon in the south is not the rise in public sector economic activity after 1974 (as happened in the Turkish-Cypriot economy and to a lesser extent in the Greek-Cypriot economy) but the level at which private investment was maintained. Declining from a peak in the early 1970's and at its lowest ebb in the immediate post '74 period, the private sector still represented around 66% of total gross capital formation (see Figure 5.13 below). Without the benefit of hindsight, the simple question of why is difficult to answer in terms of risk analysis and rational expectations.

Figure 5.13 *Gross domestic fixed capital formation (GCF): distribution of public and private sector investment, 1973 - 1991.*



At a time when confidence in the economy looked misplaced, continued private sector investment leads to questions as to the nature of private capital in the Republic. After the loss of nearly 40% of territory, which accounted for an alleged 70% of GDP⁴⁷, the Government's share of investment was not dramatically different in the immediate post war period than in 1981, 1984 or 1989. There does however appear to have been a ratcheting-up of public sector investment. This suggests the dominance of the political rather than the economic rationale for government intervention; the creation of a welfare-state, rather than the restoration of confidence, although what proportion of private investment was represented by the combination of co-operative organisations, or the church funds is still obscure.

The Orthodox Church for example, has traditionally been a large land owner, though during the Makarios period much church-owned agricultural land was transferred to state ownership (in exchange for a state funded stipend for the clergy). Perhaps of necessity the Church has diversified its investment portfolio. Clearly, a considerable proportion of its fixed assets were lost following Turkish

⁴⁷Republic of Cyprus. 1983. Economic Report 1981. Nicosia: Dept. of Statistics and Research, Ministry of Finance, p. 9, amongst many other official sources.

military intervention⁴⁸. Before the *de facto* division of the island in 1974 the Church owned the largest chain of hotels, with at least a hotel in each town. In 1995 it reportedly represented a mere 5% of hotel beds as, since 1990, the church has been withdrawing from direct management of tourist facilities recently managed under the name of Ledra Palace Hotels Ltd. It still, however, controlled 75% of the cement industry (a key export sector in the aftermath of 1974), 5% banking along with a controlling stake in the largest brewing and distilling company in Cyprus (Keo) and more general portfolio investment through the Cypriot stock exchange. Similarly the Church owns a TV station, Logos, founded in 1992 and the performance rights for Hollywood films in Cyprus.

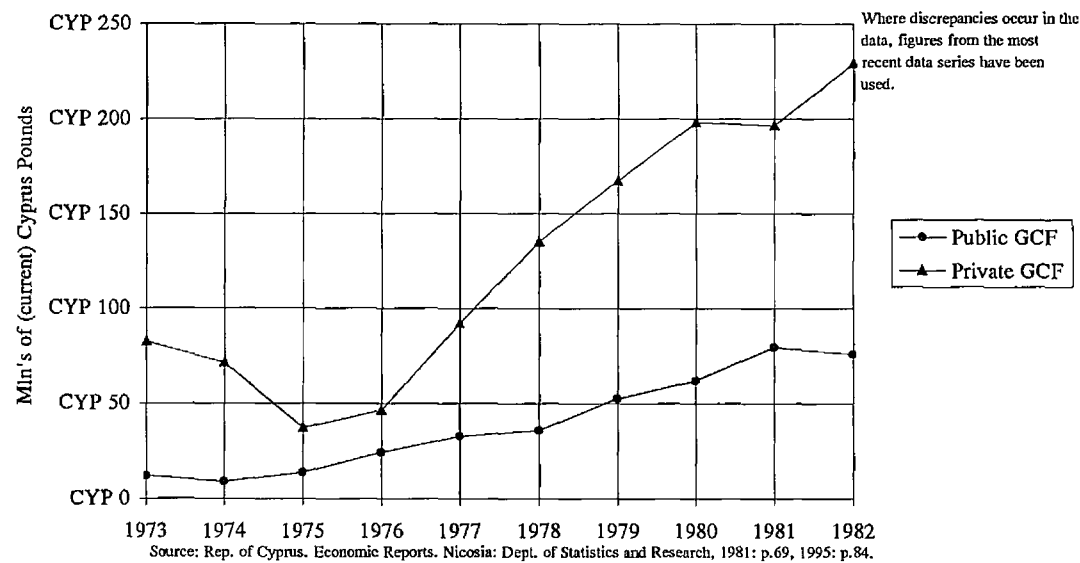
The Church, perhaps the largest single private investor, was not allowed to invest outside Cyprus after 1974 and so had a vested interest in maintaining investment in the island when more independent private investors may have cut their losses. It is however difficult to substantiate both the level and the diversity of Church investment in the immediate post-(74)-war period; nevertheless, five significant investment / diversifications were made in 1975: the huge (in Cypriot terms) Zygi cement factory was opened with a large docking facility that was completed in 1980 (critical for this then key export); the Hellenic bank, in which the Hellenic mining company (100% Church owned) had a large stake, began trading; a plastics factory and a metal pipe factory (industries lost behind Turkish lines) were established in the depressed Paphos region (where Makarios came from). Also Keo, in which the Hellenic mining company had a controlling stake, expanded its operations in 1975. All this evidence suggests that the church is not only a major political force but a

⁴⁸The Church produces but does not publish accounts, (for fear, it is alleged, that they will be exploited for political reasons), it was revealed that amongst the 185 churches and land assets lost following the Turkish invasion were 3 hotels, one The Aspelia Hotel in Famagusta, which had 500 rooms, and another The Evagoras Court, which had 250 rooms. These were large hotels by early 1970s Cypriot standards. Earlier, in 1964, the Church had lost another large hotel, The Ledra Palace, in the Nicosia Buffer Zone, which has since been exclusively used by UNICYP, and for which it has received no rent. Interview with Elias Pantelides, the Director of the Church of Cyprus Audit Dept., and Executive Chairman of Ledra Palace Hotels Ltd, (26/9/95).

major economic force, one that was critical to the post-(74)-war recovery of the Greek-Cypriot economy⁴⁹.

It is interesting that no one has yet dissected private investment in the period following the *de facto* division of the island. The problem seems interesting enough, however to justify some preliminary analysis pertinent to the current debate. In terms of investment decisions and economic behaviour, the Church and/or the co-operative movement are neither a public nor, strictly, private institutions. It is argued here that in instances such as the shocks of 1974, both acted more like the state than as the large, private, institutional investors that they are categorised as. The nature, structure and strategic implications of the Church's and the Co-operative movement's investment made it far less mobile; in neo-classical terms the discount rate it faced was more like that facing the state.

Figure 5.14 Looking for "crowding out"; the share of public and private gross fixed capital formation (GCF) in current prices, 1973-1982.



⁴⁹The material on the Church's economic role derives from an interview with Elias Pantelides, the Director of the Church of Cyprus Audit Dept., and Executive Chairman of Ledra Palace Hotels Ltd, (26/9/95).

Despite the continued levels of private investment, if there was crowding out in the economy of the Republic, the signs are not obvious, at least until after the economic crisis of 1974 was over (see Figure 5.14 above)⁵⁰. In every year after 1976 private investment (as seen in gross fixed capital formation - GFC) was rising faster than public investment. Only in 1974 did private investment fall whilst public investment began to rise, but there are perhaps unique circumstances for that, unconnected with the displacement of investment by the public sector. Only in 1976 is there some evidence of possible crowding out, though it is difficult to know how much private gross fixed capital formation (GFC) failed to enter government statistics (see argument below). What seems more likely is that the quasi-state sector, Church and co-operatives, worked in conjunction with the state, boosting investment when more independent private investors may have shunned Cyprus. The argument is that the state co-opted the large institutional investors into maintaining investment levels. Conversely, the recovery programme worked as planned, marrying some government finance, extended credit facilities and other direct and indirect incentives, with the management of the private sector; a quasi-private finance initiative.

Both the nature of the majority of Cypriot business (small family oriented firms) and the legal basis of Co-operative Credit Societies, also do not allow these suppositions to be fully explored. Consequently, official figures on domestic investment may lead to misrepresentations of economic reality by under representing the private sector (and the quasi-public sector) in domestic fixed capital formation. Co-operatives have been legally constrained from offering credit to companies and individuals for commercial (other than agricultural) purposes. As

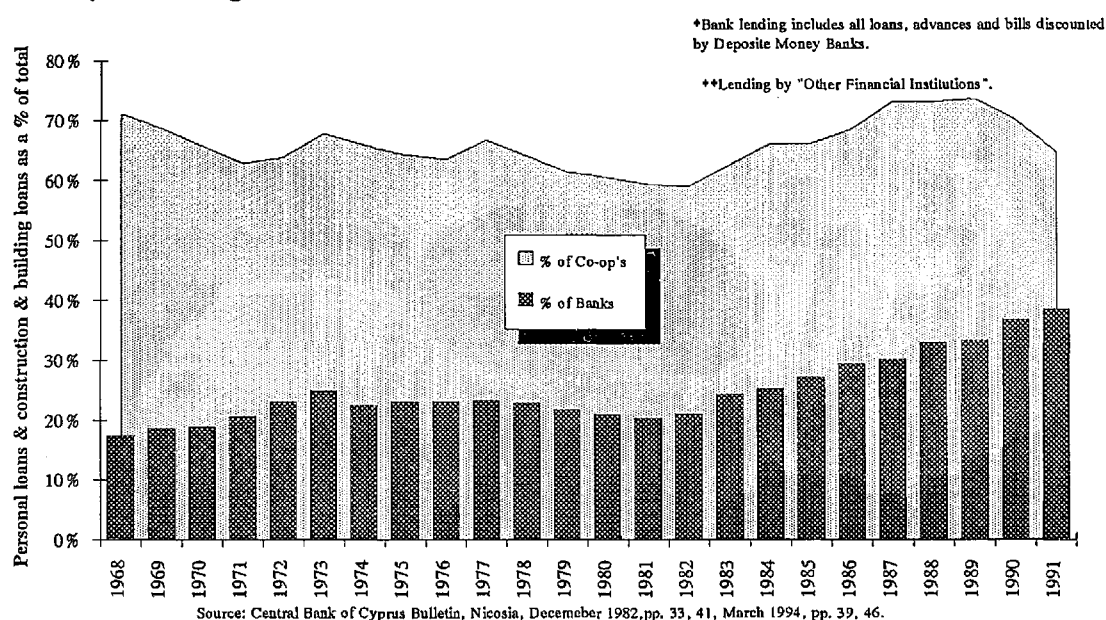
⁵⁰Ideally this should have entailed an econometric exercise, though data limitations prevent the pursuance of such an approach. The data presented above, however, suggests that there was no obvious, significant crowding in the immediate aftermath of 1974.

they account for around a third of credit facilities⁵¹ and as agricultural employment dropped by 60% in 1974/5, the credit facilities they offered and extended could have been crucial in bolstering confidence. However, most borrowing from local credit societies is registered as consumption (i.e. personal loans) or loans for extending domestic private property for non-commercial purposes. The latter may be registered as private fixed capital formation (when funding derives from a quasi-public body - underwritten by the state in times of duress) and also register as a boost to the 1968 ISIC "ownership of dwelling" category when the credit may have more productive purposes in terms of: employment, value added and foreign exchange. The borrower may even tell the secretary of the local credit society on application, what the loan is really for but, because of legal obligations, the secretary may advise how best to register the purpose of the loan⁵². This kind of investment could have been significant, perhaps crucial, in the post '74 era when much collateral had been written off. It does not, however, register in official statistics as commercial investment, let alone assisting in the recalibration of the private / public investment scales of the time. Not only does this form of credit appear officially as a negative economic phenomenon but, at the time, it may have appeared to substantiate a crowding out effect, when it may have been an integral feature of a wider Keynesian demand strategy (as ultimately the Government would underwrite a major failure in the co-operative sector).

⁵¹Interview with Leslie G. Manison, Advisor to the Minister of Finance, carried out on the 15/9/95 in his office in the Ministry of Finance.

⁵²Interview with Andreas Hadjixenphontas, Principal Auditor at the Co-operative Auditing Service (which replaced the Registrar), carried out on the 24/9/95, at his home.

Figure 5.15 *Personal and building loans as a proportion of bank* and credit society** lending, 1968-1991.*

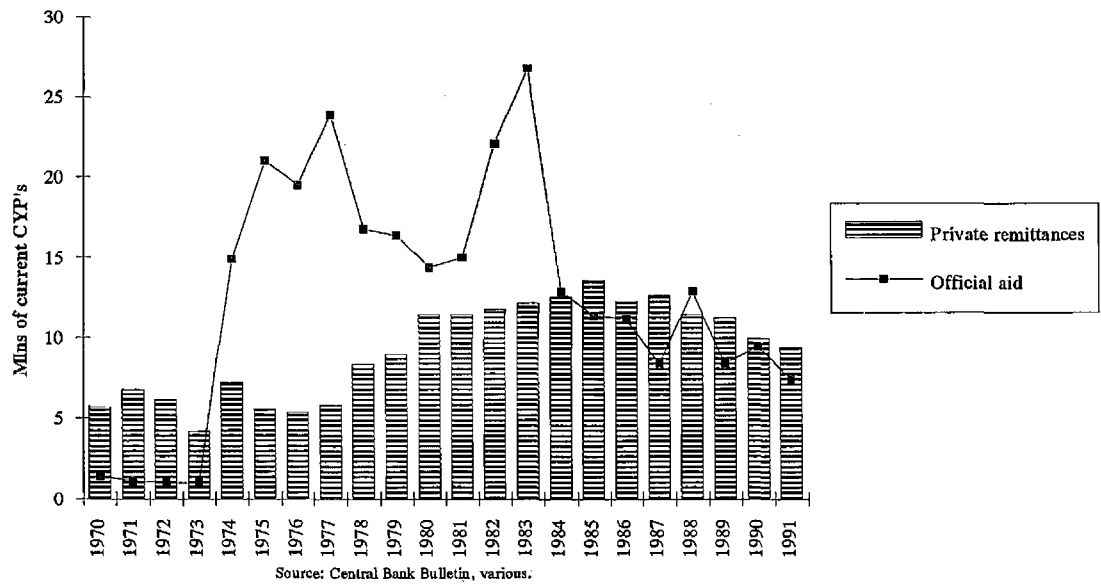


Broad categories have been used above (Figure 5.15) to illustrate something of the scale of credit societies' potentially unperceived role in any recovery. What is also visible is the increasing encroachment of the commercial banking sector upon the market of personal loans after 1981. This is not perhaps the same market though, as there are no institutional reasons why bank lending should be systematically classified falsely. It is more likely that this gauges something of the real rise in consumption lending.

There were therefore two forms of private domestic investment financing that may have assisted in boosting confidence in the economy of the Republic after the losses and insecurity following Turkish action. Along with co-operative investment (which goes beyond the provision of agricultural credit) and the investments of the church, private remittances have played a role in re-establishing economic stability with full employment. Whilst other invisibles (other than aid) declined, remittances, both from the Diaspora and from *émigré* workers, rose by 58% in 1974 and remained relatively stable until 1977 after which they rose sharply again. Aid, however,

dominates international transfer payments from 1974 for a full decade though, in terms of its contribution to GNP (see Figure 2.18), it was only really significant until 1977.

Figure 5.16 *Contributions from abroad; the rise in official aid and remittances, 1970-1991.*



Clearly remittances, co-operative and church investment existed before 1974. The argument here is that they were not so much stepped up as not reduced, as other forms of private investment may have been, given the considerable losses and potential risks. All these forms of private investment (church, co-operative and remittances) were inherently conservative, helping to maintain anachronistic (particularly rural) lifestyles and inefficient production systems. Had the war not intervened, they may have continued to subsidise rural families with scattered holdings, with money and gifts from relatives in London, cheap credit and long leases. Remittances, agricultural credit and church landowning may have helped maintain marginal village economies for longer, had Turkish military intervention not removed a high proportion of them from the Greek-Cypriot economy. In the reallocation of resources from a largely rural sector to an increasingly urban, modern sector, the state was assisted by the major domestic economic institutions,

the former pillars of the rural economy: the church, the agricultural co-operative and remittances of rural migrants. Though, even ignoring the human factor, there were some teething problems. For example the Co-operative movement attempted to adjust from rural to urban sector interests by transforming itself into an industrial holding company. In this it failed dismally, as scandal broke over debt and corruption in 1980. The co-operatives that succeeded in making the transition into the urban sector, did so by doing what they were good at, providing credit, becoming primarily an organisation of local building societies, providing credit and financial services for an increasingly urban based work-force.

The value of Zetter's model in the search for an economic catalyst

Ultimately Zetter's proposition that the recovery in the south emanated from the construction industry (and thus from the main thrust of government intervention) could be reversed. Employment growth in manufacturing created the income and confidence that encouraged new homemaking in refugees; to start, in the words of the Planning Bureau, "making other more satisfactory housing arrangements"⁵³ and / or to encourage or allow more participants in the self help, private sector oriented housing schemes rather than the public sector schemes. Nevertheless, whilst in the specifics of the Cyprus case Zetter's argument may prove not wholly sustainable, the generality of his conclusions are both courageous and inspirational. The Greek-Cypriot economy did appear to be able to turn a political disaster into an economic success. Greek-Cypriot "refugees and forced migration" in the south appeared to be

⁵³Republic of Cyprus. 1977. Second Emergency Economic Action Plan 1977-1978. Nicosia: Planning Bureau, p.153. (Previously quoted).

a “development resource”⁵⁴, rather than having the “retarding effect on the further development of the economy”⁵⁵ that the Government seemed to believe.

However, an important lesson from further analysis of Cypriot data, is the futility of looking for the seeds of recovery and growth in any one sector or policy, particularly without considering the wider institutional context. The construction industry, tourism and manufacturing (and even agriculture⁵⁶) recovered remarkably quickly after the trough of 1974. Government incentives, a relocated refugee work-force, new export markets, increased aid and the positive effects of exogenous factors: climate, the Lebanese war, oil dollars, helped to support that recovery. It is argued here that the recovery was first visible in the manufacturing sector in the year following hostilities; visible because of the sector's resilience in retaining employment and output and in the growing proportion exported. Certain important institutional factors, the church, the co-operative movement and private remittances helped underwrite and sustain the transition of the Greek-Cypriot economy, following the rupture of 1974. Because of this pattern of recovery, the economic role of government has proved less decisive in the south than in the north. However, coupled with the response of other key economic institutions, government policy and a manufacturing boom encouraged and assisted the rapidly widening urbanisation and modernisation of the Greek-Cypriot economy which could have taken decades and absorbed huge subsidies had political circumstances not forced the pace. Zetter came very close to understanding and acknowledging this, and for

⁵⁴ Zetter 1992. *op. cit.*

⁵⁵ Republic of Cyprus. 1979. Third Emergency Economic Action Plan 1979-1981. Nicosia: Planning Bureau, p.3.

⁵⁶ The years 1974, '75 and '76 were particularly good years (climatically) for agricultural production. Despite the loss of citrus production, other crops performed spectacularly well, providing increased export earnings. Potato output, prices and export volumes were at record levels, the latter because of crop failures in the key UK market. As a result, the export of potatoes alone in 1976 accounted for 17% of exports earnings (Republic of Cyprus. 1978. Economic Report 1976. Nicosia: Dept. of Statistics and Research, Ministry of Finance, pp. 2-3, 66).

this reason his argument is critical to understanding the Greek-Cypriot economy following *de facto* division.

Unlike the Turkish-Cypriot experience however, the public sector was not the only mechanism of recovery. Perhaps like the north, political objectives were after all paramount but, unlike the north, economic reconstruction (assisted by perhaps politically inspired government policy⁵⁷) largely took care of itself. Obviously appealing to its instincts, *the Economist* reported that in mid 1975 President Makarios declared that even if government were to initiate an enterprise and finance it completely, it should be left to the private sector to run it because "personal interests would be the motive and incentive" to guarantee efficiency⁵⁸.

Twisting Christodoulou's⁵⁹ argument that the attribution of an "economic miracle" should be backdated to the 1960's, it could also be argued that the roots of the recovery are deeply embedded in that period, particularly the Greek-Cypriot recovery from the communal fighting of 1963. Business development, its institutions and frameworks, were both in place and exclusively controlled by Greek-Cypriots. Unlike the Turkish-Cypriot case, entrepreneurial development had occurred and provided the necessary background to exploit new opportunities in manufacturing, the Lebanese influx, the construction industry. Also unlike the Turkish-Cypriot case, particularly in the early period, the Republic remained a relatively open economy. The recovery owes its development not to a single policy or a single sector but to the relative maturity of private business development and the flexibility and dynamism of local financial and economic institutions that were

⁵⁷Particularly because of the coup which proceeded the *de facto* division of the island, the right had been wholly discredited amongst the Greek Cypriot community. The left (the communist party, AKEL - which regularly polled 30% of the vote) was likely to be the beneficiary of mass unemployment, homelessness, and rising social discontent (an argument outlined earlier), hence the rapid move towards welfare socialism.

⁵⁸*The Economist*, 27 August 1977. "Miracle in half an Island.", pp. 50-51.

⁵⁹Christodoulou D. (November) 1992. *Inside the Cyprus Miracle*. Minnesota: University of Minnesota, Modern Greek Studies Yearbook Supplement, Vol. 2.

able to spearhead a revival aided, (rather than dominated) by government. Even if aid was significant, as is argued by Turkish-Cypriot scholars, it does not appear to have been entirely squandered. Government and the activities of quasi-public sector institutions (the Co-operative sector, the Church and in the Turkish-Cypriot case, Evkaf) may have also acted to restore confidence, but confidence in the relative security of investment is worth little if there is no private sector to invest in. Perhaps the sole "analysis of national level economic data and policy" will not satisfactorily "provide the missing link" in the search for "the catalyst [which] stimulated a demand led recovery" as Zetter suggests.⁶⁰ Understanding the mechanism by which economic activity was reactivated after the hostilities of 1974, needs to be deeper if clues as to which policies were successful, and why, are to be understood. Essentially the single catalyst will always be elusive; not the construction industry, manufacturing or tourism, but a combination of events which were seized upon, consciously or unconsciously, and turned into modernisation and the concentration of more resources on higher value added occupations. This latter Zetter saw, understood and was brave enough to share; this, his contribution in the context of Cyprus, is immense.

The location of a Turkish-Cypriot revival

Zetter argued that the Greek-Cypriot economy recovered due to the state's support of the construction industry. This has been questioned above with some evidence seeming to indicate that employment and exports from the manufacturing sector were more important to the recovery there. Meanwhile Turkish-Cypriot planners concentrated their attention on agriculture, and export agriculture in particular.

⁶⁰Zetter 1992. *op. cit.*, pp.8,10.

Increasingly however, tourism dominated Turkish-Cypriot foreign exchange earnings, though it was not high on the state's agenda in the crucial period before 1986. Concentrating on the most productive economic activities was not likely to be the only, or even dominant priority of the leadership in the north immediately following the war of 1974, even if it were possible in terms of financial and human capital resources. Much as has been argued above about the south, other priorities prevailed for policy makers in the newly ethnically homogenous north Cyprus economy.

The Turkish-Cypriot community had experienced a long and slow recovery from the economic collapse of 1963/4 before 1974⁶¹. That very gradual recovery must be seen in the context of the rapid growth of the Greek-Cypriot economy which averaged 9.8% GDP growth (at constant market prices) after the recovery of 1965, until 1974⁶². Until the exogenous shocks of the Greek coup and Turkish invasion, little changed in the separate economy of the enclaves, making it, if nothing else, easier for the minority community to uproot itself once again; prior to which, considerably lower than average Cypriot living standards prevailed along with low growth, high unemployment and pervasive under-employment. After the 1967/8 relaxation of the embargo, things did improve (mostly due to increased co-operation with both other Turkish-Cypriot enclaves, the Greek-Cypriot economy and the possibility of increased co-operation with the Turkish mainland economy). It was not until Turkish military success brought about *de facto* partition, that real improvements in income, living standards, economic potentials and economic diversification in the community really began to take effect. Seemingly, once the political direction of the community corresponded with the leadership's optimum

⁶¹Bicak H.A. 1993. "An Evaluation of the Turkish Cypriot Position. Debts of Greek Cypriot Community". Paper submitted to the U.N. Representative in Cyprus, table 3, P.8. Patrick 1976. *op. cit.*, pp. 109.

⁶²Republic of Cyprus, 1992. 1960-1990 Time Series Data. Nicosia: Dept. of Statistics and Research, Ministry of Finance, p. 65.

path, policy objectives moved to concentrate more on economic growth, which simultaneously helped to legitimise the new status quo. For as much as economic objectives coincided with the process of ethnic separation, and did not sacrifice the security and the political integrity of the ethnically segregated, developmental objectives became important goals for the Turkish-Cypriot leadership. Economic growth, full-employment, establishing the economic viability of a wide and general settlement over the new (and large) region under Turkish control, establishing and diversifying trading links for its produce, were some of the key fundamental objectives.

Turkish military intervention brought with it the possibility of establishing something more of a functioning economy for the Turkish-Cypriot community. Before 1974, the separate Turkish-Cypriot economy was more a collection of refugee camps, a combination of the force of circumstances and political gesture⁶³. Undoubtedly, the fact that violence periodically flared, retarded economic development, making security considerations paramount in the community's choice of policies. The Turkish-Cypriot leadership nevertheless seemed to carry out something of an all or nothing approach (they would argue, of necessity) to its political ambitions, encouraging (and even enforcing) continued separation when such a route meant more and continued economic hardship for much of the enclaved community⁶⁴. So for various reasons, some of them relating to internal politics, the Turkish-Cypriot community did not recover from the fighting of 1963/4 until after the fighting of 1974 which solved the Turkish-Cypriot leadership's political ambitions. Therefore any examination of recovery programmes must begin after 1974.

⁶³ Patrick 1976. op. cit. , pp. 158.

⁶⁴Field Marshall Lord Carver. "Peacekeeping in Cyprus." in Koumoulides, John T.A. (ed.) 1986: Cyprus in Transition 1960-1985. London: Trigraph, p.31.

With the aid of Turkish troops, the recovery of the Turkish-Cypriot economy began with the creation of a considerably expanded economic realm behind UN Buffer Zones. Although things may seem to, and have been reported to have been relatively stagnant⁶⁵, that is only in the context of comparisons with the region before and after Turkish / Turkish-Cypriot control. On a community level (particularly the enclaved community) things rapidly improved, despite the constraints of a lack of political settlement, diplomatic isolation and vague and ambiguous property rights⁶⁶. At least initially, economic recovery was mostly an inevitable consequence of access to windfall gains, increased Turkish aid and military spending.

There were of course structural disadvantages which delayed recovery. The demands on the region's resources were much less⁶⁷, reduced consumption by western visitors, more soldiers (with much less disposable income than the UN Peace Keepers who were there before) but a much smaller population and no desire or possibility of supplying the relatively resource poor, formerly highly inter-dependent south. There were no gains through inter-regional trade, north and south, and no longer any complementarities. This perhaps has proved a key disadvantage; denying the region any gains through trade, or exchanging inter-dependence with the south (and gains through trade with a dynamic, open, global economy) with

⁶⁵*The Economist*, 27 August 1977. "Miracle in half an Island.", pp. 50-51; Kyle K. 1984. Cyprus. London: Minority Rights Group Ltd, p.16, (quoting a UNDP report); McDonald R. 1989. The Cyprus Problem. Adephi Papers, No. 234, London: International Institute of Strategic Studies, pp.75-76; Lockhart D. and Ashton S. 1990, "Tourism in Northern Cyprus", in Geography, Vol. 75, part 2, p. 163; Christodoulou 1992. *op. cit.*, p.xlvi; Theophanous A. 1995. "Cyprus and the European Union; From Customs Union to Membership." Paper presented at a conference in Tel Aviv on 26/4/95, organised by Jerusalem's Hebrew University, within the framework of the Med-Campus Program, Jerborghenni Economic Co-operation Law Program, p.6... etc.

⁶⁶Theophanous A. 1996. The Political Economy of a Federal Cyprus. Nicosia: Intercollege Press, p.16.

⁶⁷A confidential contemporary government report estimated population density in the island as a whole as 177.4 per square mile. After 1974 the population density in the region under Turkish control dropped by 50%, having previously had a 5% higher population density "indicating a resource advantage". Republic of Cyprus, April 1975. (Unpublished - i.e. "Restricted") "Economic Consequences of the Turkish Invasion and Future Prospects of the Cyprus Economy." Nicosia: The Planning Bureau, p.16.

overwhelming dependence on a generally sluggish Turkish economy. Ultimately, a relatively rich resource endowment has proved a disadvantage in developmental terms by perpetuating the rural or the traditional sector's dominance of the economy.

A small population moved into a relatively resource rich region⁶⁸ formerly devoted to agriculture, mining, tourism and a small but growing manufacturing sector (particularly concentrated in the suburbs of Famagusta and the northern suburbs of Nicosia) between the late summer of 1974 and 1975. Though apparently spoilt for choice, the new population had to exploit the resources that were available in the context of international isolation. The mining industry largely collapsed due to the immediate withdrawal of the US corporation (Cyprus Mines) which had formerly operated the major extractive installations of the region. International tourism from countries other than Turkey, seemed to offer few possibilities for growth in the immediate aftermath of the war, partly because of continued transport difficulties and skill shortages. That left agriculture and industry. With three times the cultivated land available to Greek-Cypriots⁶⁹, agriculture offered the most rapid population and employment absorption prospects and demanded the least short term capital investment, though it did not prove necessarily a perfect resource match (skills match) or offer the most dynamic prospects for long term economic revival.

⁶⁸In terms of the immediate economic requirements of food and shelter: the 37% of the territory that came under Turkish administration contained 41% of non-irrigated and 44.4% of irrigated land, partly because most ground water resources are located in the north (while most surface water resources are located in the Troodos mountains in the south). Greek Cypriots surrendered 50,000 housing units in the north, whilst Turkish Cypriots vacated 15,000 in the south. 95% of quarries for sand, gravel, road aggregate, building stone, marble, the lime producing industry and the island's brick making capacity; in all representing 77% of the total capacity of the construction materials industry. Rep. of Cyprus. 1975. (Unpublished). "Economic Consequences of the Turkish Invasion and Future Prospects of the Cyprus Economy." Nicosia: The Planning Bureau, pp.5-7, 17-19, 21.

⁶⁹(on a per capita basis) Rep. of Cyprus. 1975. (Unpublished). "Economic Consequences of the Turkish Invasion and Future Prospects of the Cyprus Economy." Nicosia: The Planning Bureau, p.18.

However the spoils of war needed to be occupied and rapidly transformed into a working economy, harnessing the support of the people and re-enforcing the *fait accompli* of recent political events. With Turkish support, the proto-state set up a public company (Cypruvex) to manage an agricultural and export sector revival, harnessing the resources and connections of the Turkish-Cypriot section of the co-operative movement, most importantly the Cyprus Turkish Co-operative Central Bank (CTCCB). Another public company, Eti assisted the CTCCB in ensuring the provision of agricultural inputs and (particularly in the initial stage) assisting in the transport and marketing of produce (both Eti and the CTCCB had London subsidiaries and London was the main market for Turkish-Cypriot produce).

If the recent lending and debt of the CTCCB are a guide to earlier experiences, the leadership in the north would have fully exploited any liquidity available to the CTCCB (see Tables 5.1 & 5.2 below, which are the only records of this kind available⁷⁰):

Table 5.1 *Loans by the CTCCB to different categories of borrowers*

	1989	% SHARE	1990	% SHARE	1991	% SHARE	1992	% SHARE	1993	% SHARE
	Millions of TL									
Co-ops	11,163	36 %	24,639	31 %	39,168	32 %	63,076	20 %	112,430	17 %
Individuals	7,668	25 %	20,702	26 %	44,932	37 %	91,728	29 %	157,072	24 %
Gov't bodies	12,272	39 %	33,893	43 %	38,197	31 %	164,802	52 %	386,662	59 %
TOTAL	31,103		79,234		122,297		319,606		656,164	

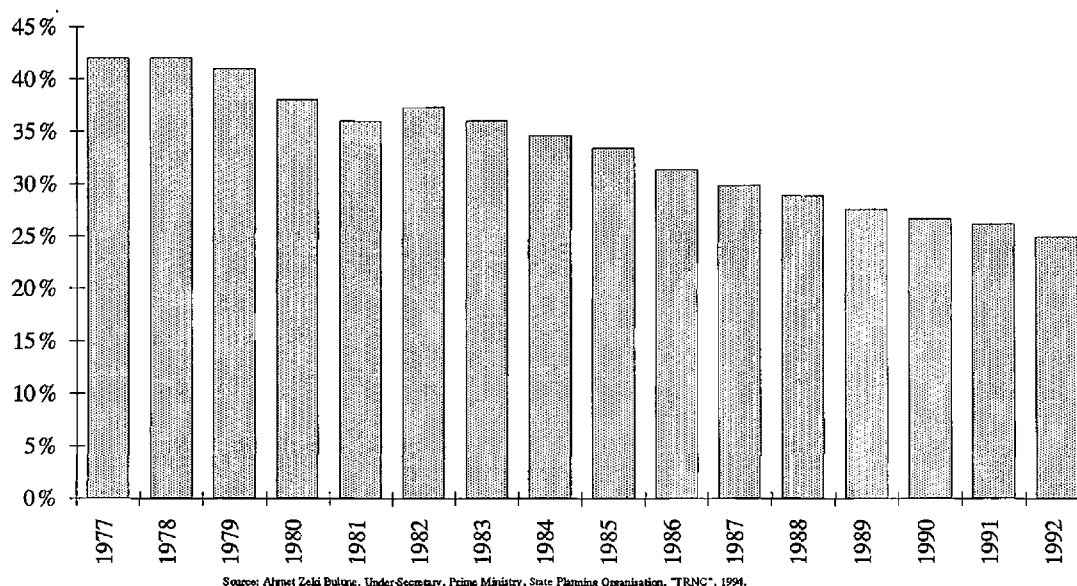
Table 5.2 *Overdue CTCCB credit by category of borrowers*

	1989	% SHARE	1990	% SHARE	1991	% SHARE	1992	% SHARE	1993	% SHARE
	Millions of TL									
Co-ops	3,128	45 %	4,608	48 %	8,742	45 %	9,790	15 %	9,888	5 %
Individuals	986	14 %	1,858	19 %	5,072	26 %	9,941	16 %	20,527	11 %
Gov't bodies	2,783	40 %	3,160	33 %	5,584	29 %	43,975	69 %	161,365	84 %
TOTAL	6,897		9,626		19,398		63,706		191,780	

⁷⁰ Interviews with Gulhan Alp, Chief Accountant at the Cyprus Turkish Co-operative Central Bank Ltd (CTCCB), carried out on the 21/4/95, 02/5/95, 09/6/95, 28/7/95, 8 & 11/8/95, in his office at the CTCCB, in Nicosia.

In the difficult times that followed the collapse of the Polly Peck empire, the Turkish-Cypriot state sector borrowed heavily from the CTCCB and also increasingly delayed repayments. If the CTCCB had access to the significant liquidity of the 227 abandoned Greek-Cypriot Co-operatives in the north⁷¹, then it can be assumed that some would have been used to subsidise the rebuilding of Turkish-Cypriot Agricultural Co-operatives in the north, agriculture and the economy in the north more generally.

Figure 5.17 *Agricultural employment as a % of total Turkish-Cypriot employment, 1977-1992.*

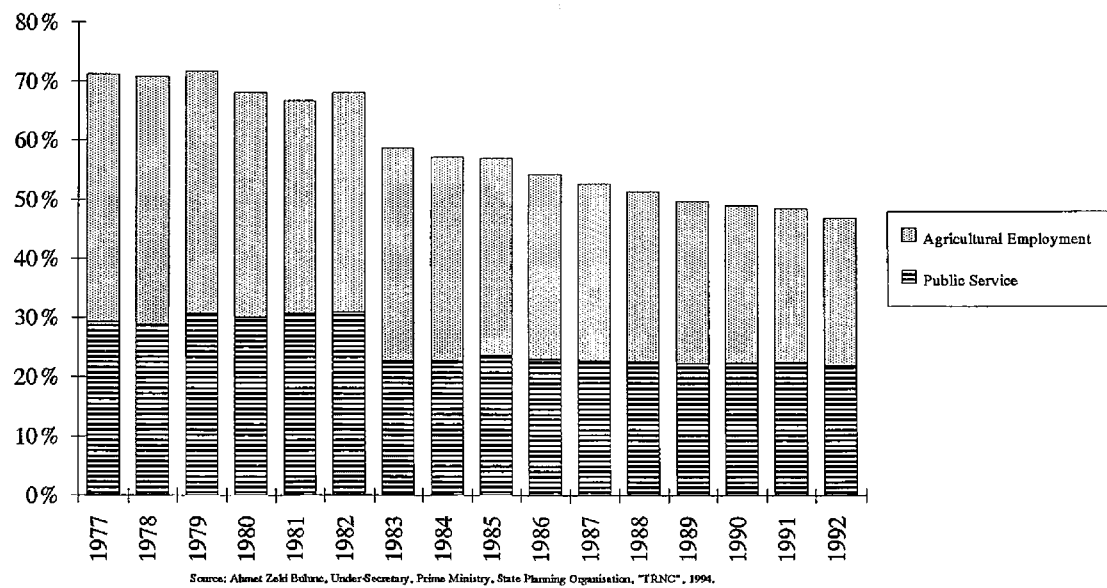


With the dispersal of the population in the north to labour intensive agricultural employment, (see Figure 5.17) the most visible signs of the utilisation of natural resources were achieved. The leadership essentially tapped existing markets through

⁷¹The Principal Auditor of the Co-operative Auditing Service (interview with Andreas Hadjixenphontas *op. cit.*) alleges that large liquid assets existed in some of the richer Co-operative Savings Banks and Credit Societies in the north and the biggest branch of the Greek Cypriot Co-operative Central Bank (then based in Famagusta, which came under Turkish control). Also, despite the disruption of war, the CTCCB Annual Reports and Accounts reveal a 34% rise in total deposits of Cyprus Pounds between 1973-74 and another 73% rise in total deposits between 1975-76. See also, Dept. of Co-operative Development, Annual Report, 1978-1981. Nicosia: Commissioner for Co-operative Development, p.2.

the channels of newly established public or existing quasi-public sector networks, utilising existing investment infrastructures (see chapter 4). The development of the private sector in the period was largely confined to the activities of duty-free sales ("gift fair") to short stay Turkish visitors. Directly and indirectly the state controlled the key employment sector of agriculture, controlling, directly and indirectly: prices, inputs, marketing, distribution, credit and the allocation and terms of leases and land titles. With employment in agricultural, government and the co-operative organisation accounting for such a large proportion of employment in the north (Figure 5.18), sectors generally offering few prospects for much growth in productivity, the economy looked destined to lag behind the south after the initial recovery brought about by windfall gains.

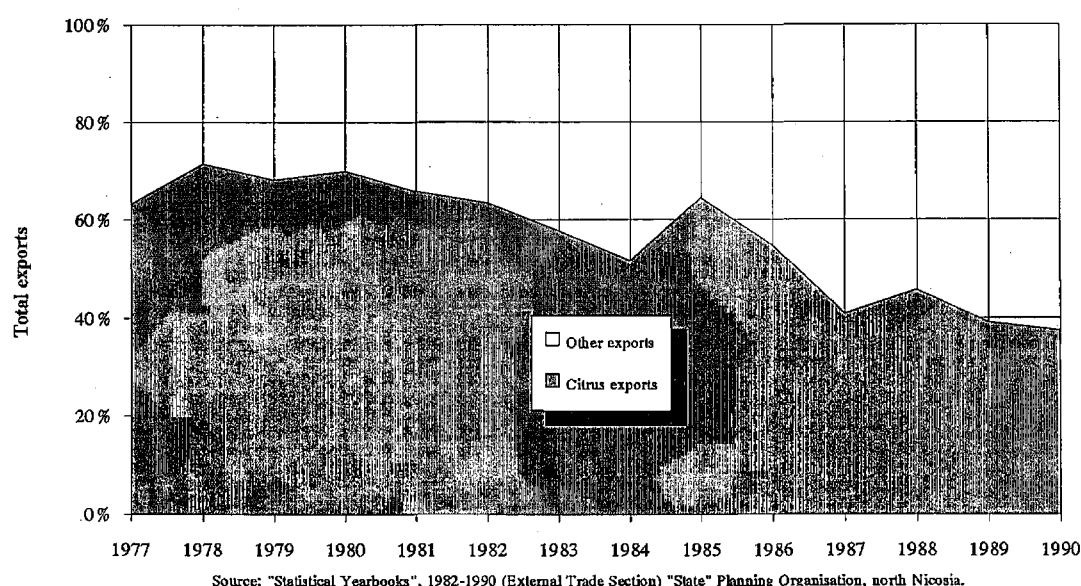
Figure 5.18 *Agricultural & public service employment as a % of total Turkish-Cypriot employment, 1977-1992.*



Because of previous long term investment levels in the region however, agriculture seemed to offer the fastest prospect of foreign exchange earnings, offering the Turkish-Cypriot administration the first real prospect of direct exports and some

independence from total Turkish financial control. Pursuing a policy of agriculture first, the region's key export sector rapidly recovered (see figure 5.19 below).

Figure 5.19 *Proportion of exports from northern Cyprus (by value) made up by fresh citrus products, 1977-1990.*



Other sectors of the economy were slower to follow, though this may have as much to do with wider constraints as it does with planning and economic policy. Tourism, whilst offering little employment and low utilisation of existing infrastructure, rapidly overshadows export agriculture in generating foreign exchange and income (in 1977 and '78 revenue from tourism amounted to 121% and 109% respectively⁷² of total exports from northern Cyprus - see Figure 4.2) which seems to make the delayed recognition of the sector (1986 - see previous chapter), the neglect and alternative use of tourist infrastructure, that much more mysterious⁷³.

⁷²Written correspondence with Under-Secretary Ahmet Zeki Bulunc, State Planning Organisation, Prime Ministry, Nicosia, 15/12/1993.

⁷³The First Five Year Development Plan (1978-1982 - "Turkish Federated State of Kibris" TFSK) states that "The economy of the TFSK is largely dependent on agriculture." It stated that in the 1975-77 period the agricultural sector was the sole primary sector activity, producing over a third of GDP and four fifths of exports, whilst the "tourism trade" contributed an average of 13.5% to GDP in

A leading sector, an export & the role of a Turkish-Cypriot "state".

When the *de facto* division of the island took place, what became the north was by far the most developed region agriculturally, due mostly to environmental factors and previous long-term investment in irrigation. Prior to Turkish intervention, agriculture was still the island's largest employer, the key export sector and the largest source of foreign exchange (see Figures 2.5, 2.9 & 2.16). Since 1974 this comparative advantage in the north has been further demonstrated by one of the few large scale economic, inter-communal co-operative ventures: the exchange of water from the north (arguably) for electricity from the south⁷⁴. Clearly significant assets existed for further development in northern Cyprus following the events of 1974, and agriculture looked as if it was the leading sector.

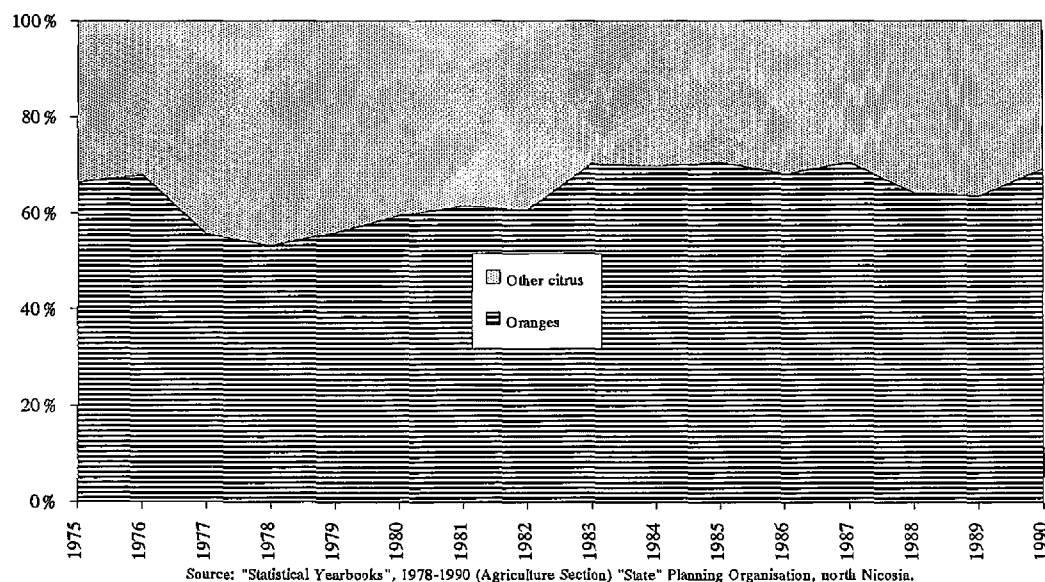
The first steps toward recovery were therefore taken in the agricultural sector, where factor requirements married more easily with the resources available to economic planners. Some of the people coming in from the south had some experience in agriculture, if not specifically in citrus farming though Turkish-Cypriots had generally been more urban than Greek-Cypriots⁷⁵. The first economic objective of the Turkish-Cypriot administration was to sponsor recovery in the citrus industry which, in the absence of a mineral industry, represented the region's visible exports almost entirely. Revitalised citrus production provided the immediate possibility of foreign exchange earnings.

1976 and '77. In the single paragraph devoted to the sector it summarises the problem of relatively high general tourist statistics: "The expected growth in capacity usage has not been realised owing to the fact that the majority of the tourists were visitors and were accommodated by their families."

⁷⁴ Solsten, E. 1993. *Cyprus: A country study*. Washington: Federal Research Division, Library of Congress (Area Handbook Series) p.153. Also *Cyprus Mail*, 15/9/1974: "the water supply to Nicosia from Morphou has been restored to normal, a UN spokesman said". By the 1980's, Christodoulou claims that the north consumed between 20% and 25% of electricity produced in the south, and for which no payment was made, Christodoulou 1992. *op. cit.*, p.113.

⁷⁵ Kitromilides, P.M. "From Coexistence to Confrontation: The Dynamics of Ethnic Conflict in Cyprus", p.61, in Attalides M.A. 1977. (ed.) *Cyprus Reviewed*. Nicosia: The Jus Cypri Association with the Co-ordinating C'tee of Scientific and Cultural Organisations.

Figure 5.20 *Orange production as a % of total citrus output in northern Cyprus, 1975-1990.*



During the transition to proto-statehood a new government department, the Turkish-Cypriot Department of Agriculture, provided services to protect agricultural investment in the northern region of Cyprus, to utilise some of that investment for foreign exchange purposes and to alleviate the monetary problems associated with continued linkage to the Cyprus Pound. A new public company, Cypruvex, moved in to directly manage citrus orchards. Between mid 1975 and 1976, vine producers from the Paphos and Limassol region were resettled in the island's main citrus growing area around Morphou. Despite the fact that by late 1974 the area was largely cleared of its original population, a new population was slow to be resettled, partly as a consequence of continued wrangling which prevented the remaining 40,000 Turkish-Cypriots from moving north until August 1975 ⁽⁷⁶⁾; prior to this there were largely no people to harvest or even irrigate and maintain the vast citrus groves around Morphou (Güzelyurt). Between October and December 1974, workers were imported on mass by the state (Turkey) from the Mersin area of Turkey (where there were also orchards). Because of the season, these workers were mainly employed as citrus pickers to salvage some foreign exchange earnings from

⁷⁶McDonald 1989. *op. cit.*, p.20.

the region, though maintenance and irrigation work was also required; the implication is however, that little of the latter was undertaken. Only by the late summer of 1975 did the re-settlement of Turkish-Cypriot farmers begin in earnest and as it did, so the Turkish workers were either settled elsewhere (in less desirable agricultural areas) or returned to Turkey. By 1976 the citrus sector was active again as the transfer of people was practically complete; however, skill shortages persisted.⁷⁷

The initial process of resettling the Turkish-Cypriot population in the north was geared around maintaining economic activity there⁷⁸. The mostly rural population was dispersed and settled to manage and exploit existing agricultural resources. Economic and social continuity was maintained by, as far as possible, keeping rural communities and urban communities together⁷⁹, the reverse of policy carried out in the south, where, either through necessity or policy, rural communities were split up and accommodated in peripheral urban refugee camps and subsequently refugee housing estates. In 1976 the Ministry of Resettlement was created which implemented a unilateral system of compensation for assets left behind in the south, to set against assets abandoned by Greek-Cypriots in the north. This system was devised to underline the permanence of the *de facto* division, removing individual claims to property in the south. Again, this was the reverse of policy carried out in the south where the division was seen as temporary and where emergency reconstruction legislation allowed property abandoned in the north to be used as collateral⁸⁰. Turkish-Cypriots from the south were then allocated points representing the estimated value of the properties they had left behind. These points could then

⁷⁷Interviews with Ozalp Sarica (the former Assistant Governor of the Republic's Central Bank, the former Director General of Evkaf and the "State" Planning Organisation, the founder and first Director General of Eti) 17, 21, 24/3/1995.

⁷⁸ Scott 1998. op. cit., p. 148.

⁷⁹ *ibid.*, p. 147.

⁸⁰"Mortgaging of Real Property (temporary provision) Act 1977". Γ ' Parliamentary Period - Session B' Minutes from Parliamentary Debates in the House of Representatives (in Greek) 3/11/1977.

be exchanged for new "TRNC" (or, as it was then, Turkish Federated State of Cyprus) title deeds on formerly Greek-Cypriot property in the north. Farmers from the south were transferred to farms in the north and their size, location and level of infrastructural development depended on how many points were awarded for the property left behind in the south, and how many points the property they could be allocated was thought to be worth. Not only are the deeds (or leases) so acquired subsequently tradable but points are also tradable and traded. If the required number of points for the property in the north are not allocated for the surrendered title deed, points can be purchased from someone else who had acquired a property without parting with all the points they had been allocated. Because the valuation of property in the north and south (which cannot be visited) is a bureaucratic and not a market exercise, the system of property allocation has been the source of much grievance⁸¹. Seemingly, whilst property values are perceived to have risen in the north, point allocations to title deeds pertaining to property in the south do not take into consideration post-1974 developments⁸² (where property prices have risen far more dramatically).

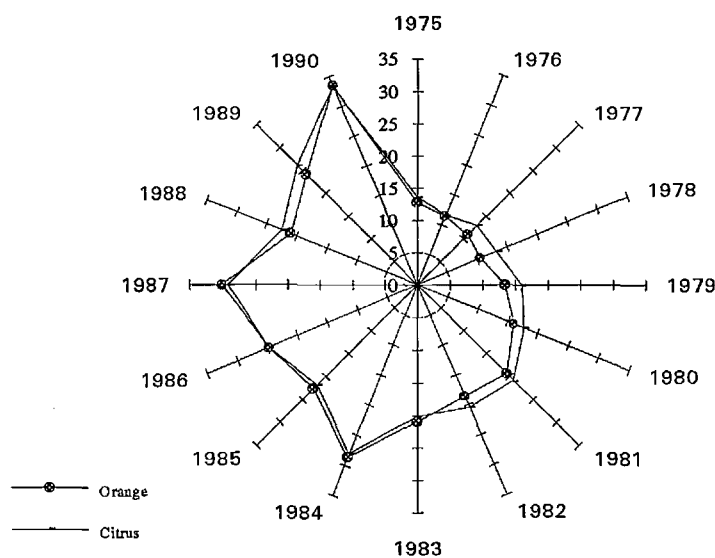
As has already been outlined, in the years leading up to *de facto* partition citrus products had been the single most important export item and most of them were grown in the north. Many newly relocated farmers had a new public company to deal with, Cypruvex, a company founded to facilitate the continued export of the regions most important crop. Cypruvex Ltd., was set up in 1974 to take over and exploit Greek assets in the citrus industry. Increasingly the company concentrated on the export and marketing of citrus products from northern Cyprus (rather than on production), but in the immediate aftermath of the "Peace Operation", its activities were more widespread. Cypruvex is a standard public company, the growers who used its services had no say in its policies. Some advocated that growers should be

⁸¹ Scott 1998. op. cit., pp.149-154.

⁸²*ibid.*, p.151.

made share holders in this the dominant citrus exporter⁸³, however, although at least one growers' association has been an active exporter from the northern Cypriot market (Guzelyurt Narenciyeciler Koop - which exported relatively significant quantities in the 91/92 and 92/93 season) this is not the dominant organisation at the marketing end of the citrus industry and was non-existent in the immediate aftermath of 1974. Some Turkish-Cypriot farmers were used to dealing with public sector organisations for marketing purposes (the Grain Commission), though most of the re-settled farmers in the citrus industry would have been part of an integrated co-operative marketing and production network. Producing oranges rather than grapes (a key Turkish-Cypriot economic activity before 1974), marketing through the public rather than the co-operative sector, made the transition less smooth than it first appeared⁸⁴.

Figure 5.21 *Output per Hectare in northern Cyprus of orange & total citrus production in metric tonnes, 1975-1990.*



Source: "Statistical Yearbooks", 1978-90 (Agriculture Section) "State" Planning Organisation, north Nicosia.

⁸³Interview with Ozalp Sarica, *op. cit.*

⁸⁴*ibid.*

Unlike the vineyards where most of the new farmers came from, working citrus orchards is more labour intensive. Vineyards have long dead periods, such as immediately after winter pruning; the vine's roots are deep, so many varieties cultivated in Cyprus did not need regular irrigation, if any. The two heavy work periods for the vineyard keeper are pruning and, above all, picking in August. Although some of the Turkish-Cypriot resettled labour came from the Paphos hill regions which traditionally grew table grapes, demanding a fuller working year, the citrus orchards needed to be constantly tended, particularly after a period of neglect (summer of 1974 until late 1975, early '76). So even when the Morphou area had been re-populated there was much re-skilling necessary both to bring yields and particularly quality back to pre 1974 levels. Throughout the entire period quality suffered tremendously until at least 1977, the proportion of the crop falling into industrial class was rising and out-weighting that proportion of the crop destined for export though, as quality remained a problem, new markets were found for industrial class oranges⁸⁵. Yields however did gradually improve (see Figure 5.21), though at the expense of the acreage under cultivation (see Figure 5.22).

In the early stages, citrus growers sold at fixed prices mostly to the public sector company Cypruvex though periodically private sector companies, such as Sunzest, marketed a proportion of the crop. Private sector contractors collected the crop and delivered it to the exporter (Cypruvex or Sunzest) who packed it, marketed it and organised insurance and transport of the produce to the market, usually an export market. Citrus growers did however need cash advances to pay for inputs which they purchased either from local co-operatives or private merchants. So, acting much like a co-operative or marketing board, Cypruvex provided its growers with part of the value of the current crop in advance, in which case the grower is contracted to sell a set quantity of a particular quality citrus product to Cypruvex.

⁸⁵*ibid.*

The CTCCB, through local credit societies, administered much of this short term financing, advances and payments in kind (agricultural inputs).

More recently the Turkish-Cypriot leadership tended to sponsor citrus production in other ways and for different reasons, through subsidy and the continued control of exporters. Tawney has said that "in a society of peasants [the central problem] is prices, credit and tenure."⁸⁶ These are the main concerns of northern Cypriot farmers, as of farmers elsewhere. The long term problem of tenure is perhaps beyond the scope of the Cypriot leadership, though in the short run it has tended to disrupt agriculture by only granting short term leases and shifting people around, sometimes for reasons of patronage and favour⁸⁷. In terms of prices and credit, the administration in the north intervenes by ultimately underwriting the availability of credit and by providing price support. A Turkish-Cypriot Grain Commission continued to operate, fixing prices and having monopoly buying power, as cereal crops could not be grown economically in the north⁸⁸. It acts as a public company and also operates a flour mill (originally Greek-Cypriot but later operated by Cyprus Turkish Industrial Enterprises Holding Co. Ltd., another state company, who passed it on to the Grain Commission to operate). Perhaps like other parts of Europe, northern Cypriot farmers are hooked on subsidies and, instead of developmental subsidies, the majority of this funding is in the form of price supports⁸⁹ for staple crop production, but where at the same time the state has been effectively the main supplier of credit and inputs and is the monopoly purchaser of most produce.

⁸⁶Tawney R.H. 1931. Land and Labour in China. London: Allen & Unwin, p. 54.

⁸⁷ Morvaridi 1993. *op. cit.*, pp. 233-234. Scott 1998. *op. cit.*, pp. 149, 153, 157.

⁸⁸Interview with Gulhan Alp, *op. cit.*

⁸⁹In 1994 the government paid citrus and cereal growers 100% above world market prices for their crop. Direct subsidies to agriculture in that year amounted to TL500 billion (1994 TL), around 3% of GDP. Interview with Ozalp Sarica, 17/3/95, 21/3/95, 24/3/95.

Although not important in the initial phase, other structural factors have predetermined agriculture's limited potential in the development of the region. Citrus production in Cyprus is wholly dependent on irrigation, so over planting was already a problem and perceived as such in the 1960s⁹⁰ when the government of the Republic imposed heavy restrictions on planting and pumping in coastal areas, particularly around Morphou and Famagusta. Since then subsequent water development projects in the Troodos region, may have reduced further the availability of water in the main citrus growing, Morphou area. After 1974 however, the seasonal flow of two rivers was diverted in an attempt to refill depleted aquifers, though this was not nearly enough to sustain the acreage under production. To little avail; the signs of water shortages and soil contamination from sea water intrusion are obvious to anyone who visits the area. Adverse price movements in the early 1990s made much citrus production marginal, heightening the perception of decay. However, price supports insulated farmers from realising more productive, profitable and water conserving possibilities.

The region's ecological interdependence with the south is possibly another exogenous factor limiting development. The coming to fruition of much investment in the south⁹¹, the retention and consumption of more run off there, particularly from Troodos (where most rain and snow falls), left the north with severe water shortages if existing production of export agriculture was to be maintained. Over-pumping of aquifers since *de facto* partition and a decade of low rainfall have made a bad situation worse. As a consequence the formerly lush citrus groves around

⁹⁰ UN. Programme of Technical Assistance, 1961. Cyprus - Suggestions for a Development Programme, (the 'Thorp Report'). Prepared by Willard L. Thorp. NY: UN, pp.32-33; Hald, M.W. 1968. A Study of the Cyprus Economy. Nicosia: Printing Office of the Republic of Cyprus, pp.59-60.

⁹¹The Southern Conveyor Project relays surface water from Troodos to Nicosia, some of which would have previously refilled ground water supplies in the north. In 1986, the pipes for the project alone accounted for 3 % of total imports, costing the equivalent of 1 % of GDP, Republic of Cyprus, 1992. Economic Report 1991. Nicosia: Ministry of Finance, Dept. of Statistics and Research, pp. 99, 263-264.

Morphou look dry and neglected⁹². Most of the water projects undertaken in the north (e.g. reforestation in the Kyrenia range - destroyed during Turkish military intervention and again in a large fire in 1995 - eight new dams including the one at Gecitkoy [Pangra] on the Western end of the Kyrenia range) depend on local rainfall. Recent low prices may have made further development less attractive, although the prospect of piped water from Turkey has for years been rumoured to be tantalisingly close.

Over-planting and over-pumping of ground water has already had disastrous environmental effects in Cyprus. One of the first areas of large scale citrus production was in the Varosha and Ayios Memnon areas in the south east. Between 1946 and 1960 the area planted with citrus groves increased by 70%⁽⁹³⁾. Over planting and subsequent over-pumping of ground water led to the seepage of sea water into ground water supplies, soil salinization and the total destruction of the orchards in the south east. Fortunately tourist development subsequently took the place of the agriculture economy which had been destroyed there (though most of this was lost to the area following the events of 1974, when it became a closed military zone). Arguably, farmers in the north west needed incentives to diversify, at least into less water intensive production, but a policy of price supports, and what were effectively water subsidies, was maintained, sending the wrong signals. There are similar subsidies to hoteliers and the criticism is that this form of subsidy is used for political rather than economic motives, perpetuating waste and inefficiency rather than stimulating growth and development⁹⁴.

⁹² UN Security Council, 21st August 1992. "Report of the Secretary General on his Mission of Good Offices in Cyprus", NY, p. 5, paragraph 25: "I noted that the economic significance of the Morphou area had diminished with the decline in value of citrus growing and ... pointed out that the water situation in general, and in the Morphou area in particular was reaching a critical point..."

⁹³ Republic of Cyprus. 1960. Census of Population and Agriculture. Nicosia: Ministry of Finance, Dept. of Statistics and Research, Vol. VI, P. 26.

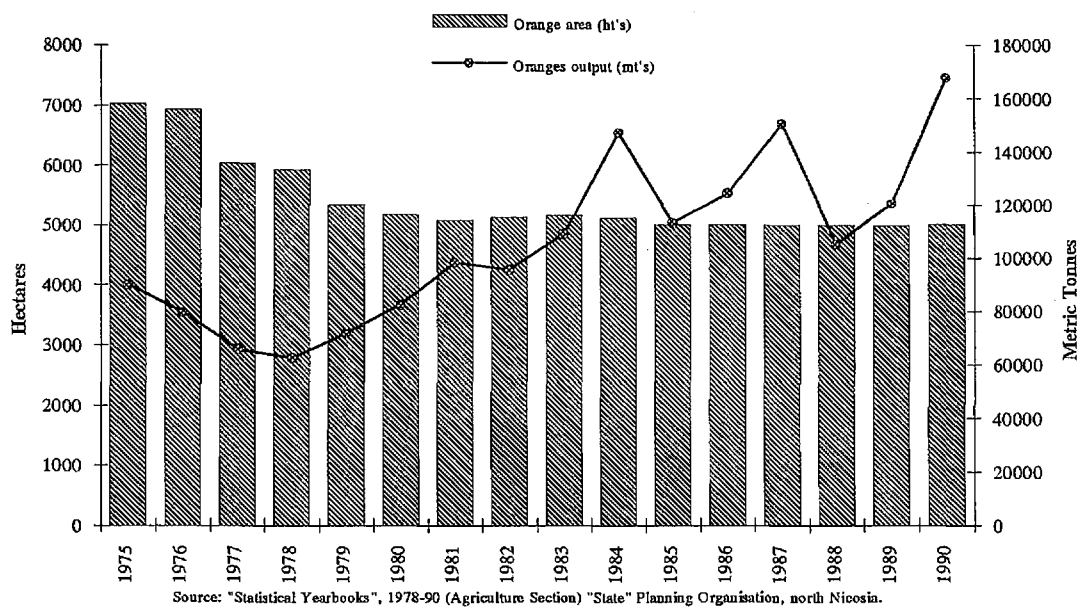
⁹⁴ Morvaridi 1993. *op. cit.*, pp. 235-251.

Having said this, constant improvements in the productivity of land do seem to have occurred within the all important export agriculture sub-sectors. Increases in output within the sub-sector of citrus production and within the most important sub-category of oranges were solely due to intensification and to a certain extent the concentration of production, rather than the extension of production (see Figure 5.21 and Figure 5.22). However, this may have consisted of more water intensive production methods⁹⁵. Intensification of existing production is the obverse of what followed in the south after 1974, where production was of necessity extended and diversified. This is true both at the level of the sub-sector and at a more general level.

What the improvements in export production in the north may have meant is still unclear. Because productivity increases were more in terms of land than labour, they could point to serious under-utilisation before the 1980's, alternatively they could suggest a period of rationalisation with the boom years of the 1960's seeing the extension of citrus production into increasingly marginal land. New factor endowments and costs (shortage of labour and different time horizons in terms of land fertility) made the cultivation of crops at the margin less cost effective. Price movements in the 1980s seemed to increase this tendency. Undoubtedly there was a period of institutional change, the redistribution of tenancies, which may have led to a change in the rationale of the utilisation of land resources. Clearly the increases in the productivity of land says something about technical and/or institutional changes within the sub-sector, following the war of 1974.

⁹⁵ *ibid.*, p.237.

Figure 5.22 *Orange output and area under orange cultivation in the northern Cyprus, 1975-90.*



Perhaps perversely, and because of the problem of water shortages, improvements in agricultural productivity could be seen in terms of a wasting asset. Undoubtedly, in geo-political terms, parts of the citrus growing area around Morphou have often been cited as part of a possible territorial adjustment⁹⁶, which is a disincentive to long term investment in the region. For both political and ecological reasons, a theory of exhaustible resources may be relevant for the intensification of citrus production if, like growing tobacco, this means current production levels could damage the future productivity of soil; if so, are we looking at different discount rates facing Greek-Cypriot and Turkish [Cypriot?] farmers? and/or different input cost structures over the use of water, soil resources and soil and chemical additives? Perhaps there were different time horizons in the post 1974 northern Cypriot economy? Was one community looking to maximise income in the short run whilst the other community has or had longer term horizons? Clearly, unilateral

⁹⁶*The Economist*, 28/3/98.

compensation arrangements in the north were geared to avoid such problems (the points system); whether they have worked however, and how effectively is another matter⁹⁷. Perhaps the economic data included here provides some answers.

It could be argued that the public sector response has always been politically motivated, though that implies as much the force of circumstances as it does the existence of foresight. Even so, the response in the citrus industry, at least in the first few years after *de facto* division, was highly pragmatic and short term whilst it offered many political complementarities: something for the refugees from the south, settler votes for dominant political forces and some foreign exchange independence from the Turkish treasury in Ankara. Re-settlement was never going to be easy and in many ways proved easier than expected, easier than in the south. *De facto* division seemed to create longer term problems of economic sustainability, both in terms of continued dependence on export agriculture as a leading sector and, more generally, the sustainability of an independent Turkish Cypriot economy, north of the UN Buffer Zone.

Recovery in a relocated economy & the continued dominance of public enterprise

Suddenly the enclaved had secured the long-term political objectives of their leadership, objectives which they had not dared believe would be fulfilled. Within a year of the "peace operation" the Turkish community had been re-settled in an almost completely ethnically homogenous region, by some estimates twenty times the size of the strategic collection of villages and fortified enclaves they had left⁹⁸.

⁹⁷ Scott 1998. *op. cit.*, pp 158-159.

⁹⁸President Makarios acknowledged, in an interview with a correspondent from Eleftheros Kosmos (Free World), that Turkish Cypriots controlled an area not exceeding 2% of the island. Front page report, *Cyprus Mail*, 20/8/69.

GNP had suddenly jumped by 62.2% in real terms as a result of windfall gains. Now Turkish-Cypriots had a real economy to manage, however, they still faced severe institutional and political constraints. Exogenous constraints derived from diplomatic isolation and endogenous constraints derived from ambiguous property rights, and strategic and political priorities which may still have clashed with rational economic objectives; for example, the need for a dispersed rural settlement policy. The Turkish-Cypriot community developed institutional innovations to compensate for the underdeveloped nature of the private sector. In the light of newly established external constraints in an expanded economy, Eti, Evkaf and the co-operative movement provided the essential mechanism for economic revival, in the absence of some of the basic pre-requisites of a market economy. To these, Turkish-Cypriots, following Turkish advice, added new institutions. *Ad hoc* state enterprises were set up to deal with the problems of utilising an expanded resource base, such as Cypruvex, and were designed to overcome endogenous and exogenous constraints affecting the marketing and distribution of citrus products.

The problem facing the regime in the late 1970's as it established itself north of the UN Buffer Zone, was the dislocation of transport, processing, packaging, marketing and distribution from production which had largely lost its human capital and the means of mobilising resources (with the continuing insecurity over property rights incentives have remained something of a taboo problem⁹⁹). Diplomatic isolation and persistent political insecurity meant that necessary new investment was difficult to attract from countries other than Turkey which had its own major economic problems. It was allegedly on this basis that an expatriate Turkish-Cypriot businessman, Asil Nadir, was approached and for this reason: to exploit and develop assets in northern Cyprus. Before 1980 the Nadir family had only a very minor stake in the economy of northern Cyprus, using home-based workers for

⁹⁹ Scott 1998. *op. cit.*, pp. 156-157, 159.

some of the labour intensive stages of a typical East End (of London) based, immigrant rag trade operation (Wearwell). Thus Asil Nadir, the Chairman of Wearwell, was encouraged by the Turkish-Cypriot leadership to purchase Polly Peck (an ailing East-End textile manufacturer) privately in 1980¹⁰⁰. Because of its public quotation on the London Stock Exchange, Polly Peck opened the door to major new investment possibilities for northern Cyprus. Polly Peck International (PPI) became the northern Cyprus' PFI (private finance initiative).

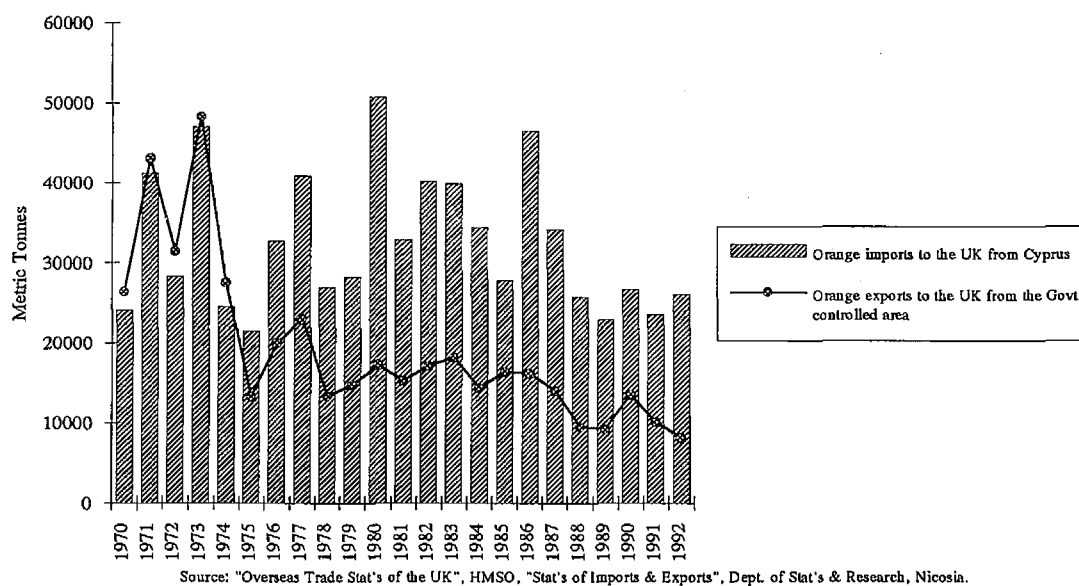
In the early stages of post '74 development, however, the region's key export was organised by the new "administration", using Cypruvex (see Figure 4.8). From the limited data available, in the first few years of a separate economic entity in northern Cyprus the "state" dominated export production, as it did (directly and indirectly) in most other areas of economic activity. Smaller, seemingly independent companies¹⁰¹ appear one year, generally exporting small quantities of citrus, and disappear entirely a few years later (see Table 4.9). The extent to which existing markets were maintained and production and distribution networks re-established, prior to the entry of Nadir, is surprising considering the rhetoric¹⁰². Despite apparent early dips in production, output, and particularly quality, export levels to the region's most important markets were quickly restored and maintained.

¹⁰⁰Hindle T. 1991. The Sultan of Berkeley Square: Asil Nadir and the Thatcher Years. London: Macmillan, p.11.

¹⁰¹ Morvaridi 1993. *op. cit.*, argued that until Sunzest was established in 1982, Cypruvex maintained 85% of citrus exports, p. 243.

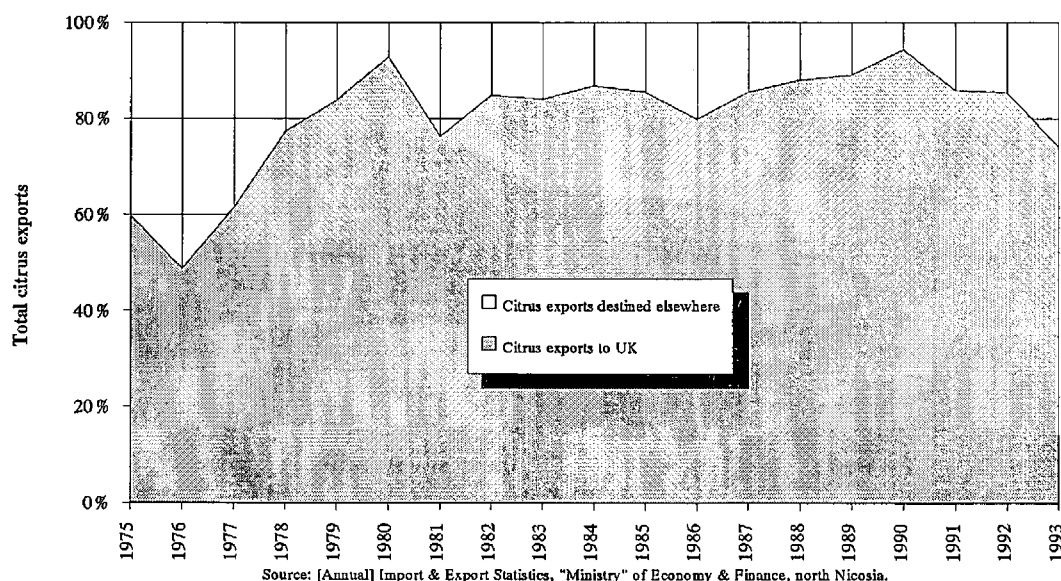
¹⁰²"It was to take three to four years before production got going again under new management, and usually with a different work-force. In the meantime the citrus groves and other productive assets were neglected, the fruit being left to rot on the ground." (Wilson R. 1992. Cyprus and the International Economy. Basingstoke: Macmillan, p.120.) And "towards the end of 1980 the government came under severe fire for its handling of the citrus fruit industry." Dodd 1993. *op. cit.*, p.118.

Figure 5.23 *Anglo-Cypriot trade in oranges, 1970-92.*



By 1980, the marketing of the north's key export, oranges, to the dominant market, the UK, had surpassed its pre-war peak of 1973 (Figure 5.24 above, for an explanation of the data behind the graph, see footnote 102), with an overwhelming majority of orange production deriving from the re-organised (but pre-Nadir) groves of northern Cyprus.

Figure 5.24 *Proportion of citrus exports from northern Cyprus destined for the UK (by value), 1975-1993 .*

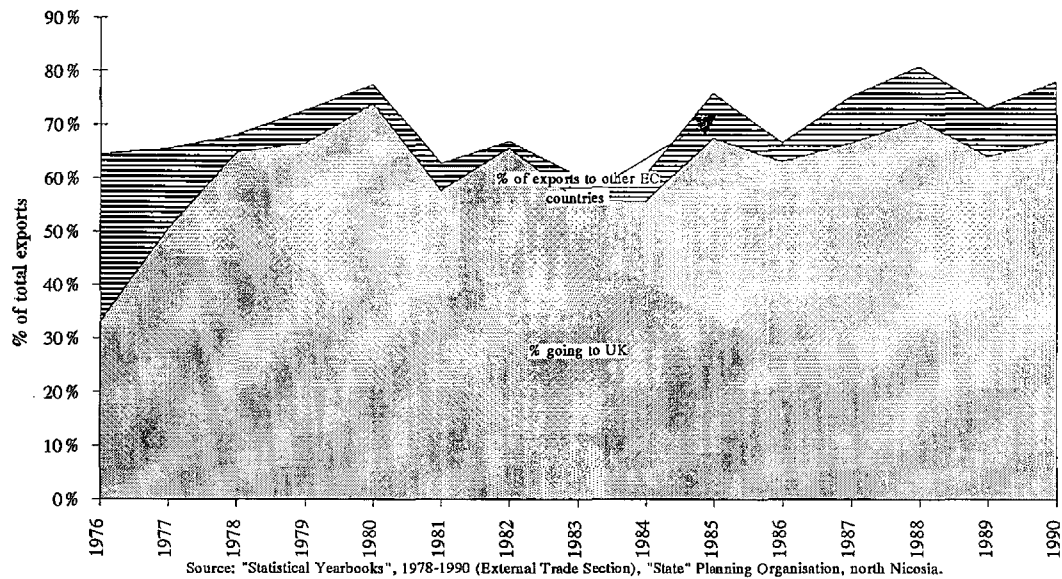


As before the region again exported most Cypriot oranges, the overwhelming majority of which still went to the UK. If anything, however, the role of the UK as the main market for the produce of northern Cyprus accelerated after the regions *de facto* change in administration.

It is however difficult to say just how dependent the region was on the UK market prior to 1974, not having been administered separately. With the preponderance of British tourists and the most popular destinations being in what is now the north, and with the north being the origin for most export agriculture, in which Britain was a key market, it would appear however, that Britain was the most important trading partner with the region prior to 1974. The subsequent role of Britain in maintaining a separate Turkish-Cypriot entity after 1974 seems significant, particularly after 1978. The early loss of the region's mining sector, transitional problems in the tobacco industry and the diminished role of both international tourism and manufacturing in the initial phase of development, thrust the region back to relying

on traditional products and traditional markets. Agricultural exports were dominated by orange production, though lemons, potatoes and hellim (halloumi) cheese were also important exports, again finding a ready market with the former colonial power. This is in stark contrast with developments in the Greek-Cypriot economy where, following the war, increasing export volumes found new markets (see Figure 2.12).

Figure 5.25 *Main destinations of exports from northern Cyprus by value, 1976-1990.*



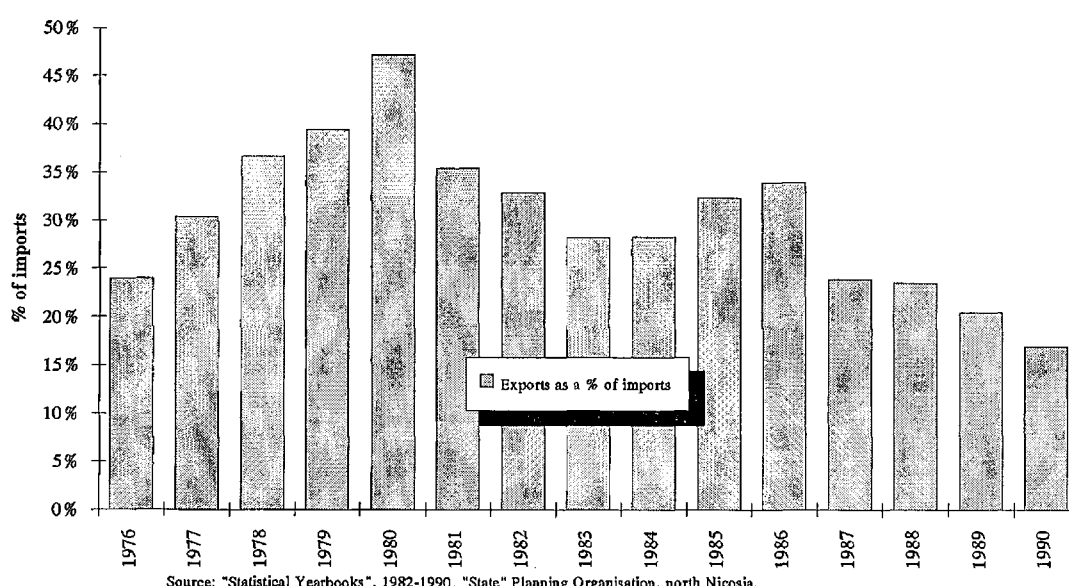
A major barrier to overseas trade was overcome in 1978 when the British upper chamber, the House of Lords, decided that British courts could not rule on the issue of trespass in Cyprus. The (then) "Turkish Federated State of Northern Cyprus" continued to be free to export produce from Greek-Cypriot owned orchards of Morphou to its biggest market (before and after)¹⁰³. Britain's decision to continue

¹⁰³ H.M. Customs and Excise did not differentiate between imports from the internationally recognised state and those deriving directly from north of the UN Buffer Zone. As a result, U.K. trade statistics did not provide information on the level of exports destined for the UK from northern Cyprus. Transparent trade statistics were not readily available inside northern Cyprus, though empirical work reveals that patient and persistent investigation can provide disaggregated trade statistics. (e.g. By subtracting Cypriot orange exports to Britain from British orange imports from Cyprus, the balance is assumed to come from northern Cyprus.) Knowledge of these quantities may have helped to prevent what the BBC's *Money Programme* called "the biggest corruption scandal in the history of British business" (24/11/93, "Unusual Transactions" *The Money Programme*, BBC,

to treat exports from the whole of Cyprus with preferential status, represented a significant trade concession by the north's main EU trading partner, but one that is not considered as significant by leading economists in the north¹⁰⁴.

The early relative successes in the export market were however achieved (and never surpassed) before the entry of Polly Peck. As seen below (Figure 5.26) 1980 is the point at which the trade balance commenced its almost relentless negative slide, after a period of improving trade balances.

Figure 5.26 *Looking for the hand of Polly Peck; exports from northern Cyprus as a % of imports, 1976-1990.*



Seemingly despite unfavourable comparisons with the south, the transition mechanism, the use of "state" and quasi "state" sector organisations to reinvigorate the economy, utilising export agriculture as the leading sector, proved successful.

Channel 2). Evidence seems to suggest that if Britain had determined a clear, consistent, unambiguous policy on Cyprus, or at least let its own economic interests prevail over foreign policy objectives, then British investors in Polly Peck would not have been so easily misled about output, profitability, and growth performance. Following a 1995 European Court Ruling, Customs and Excise have been forced to differentiate between exports from the two *de facto* regions.

¹⁰⁴Bicak argues that trade between north Cyprus and the EC has made a negligible contribution to the its economy. Bicak, H.A. (June) 1990. "The Impact of the EEC on the Economic Structure of the TRNC." Leicester University, Department of Economics, PhD thesis.

Nevertheless, many Turkish-Cypriots maintain that the "embargo" remained their main barrier to growth, adding additional costs to products originating in the region. The role of the "embargo", its pervasiveness, is however partly undermined by the rapid restoration and importance of foreign markets, particularly the United Kingdom.

Conclusion

Despite the obvious differences in the rate and scale of economic development north and south, there are some surprising similarities in certain elements of the recovery. For much of the time the private sector and the individual entrepreneur played a more important role in the Greek-Cypriot recovery, although similar key institutions (and in one case a key institution with a shared history) played an important role; in one case as a supplement to and in the other as a substitute for private entrepreneurialship. The converse relationship between the political situation and the economic one is a twist which makes the two political economies appear as mirror images, inversely related. The Turkish-Cypriot leadership actively campaigned in favour of the post-74 status quo, aiming to replace a *de facto* position with *de jure* partition. For them, economic policy was geared to consolidate the achievements of the Turkish Army. The Greek-Cypriots were anti the *status quo*, whilst economic policy and performance seemed to confer more of a sense of permanence to the division they rejected. Greek-Cypriots only reluctantly concentrated and rebuilt their economy south of the UN Buffer Zone. Ironically the political solution in the north is used to compensate for greater economic progress, the two being perceived in some senses, and in political circles, as mutually exclusive. In the south, economic progress tacitly compensates for failures on the political front. However, intervention by the state, north and south reveals some surprising similarities: both

seem more politically motivated and more politically successful than economically so, both attempted with considerable success to tap private sector resources, channelling investment in desired directions.

Time will tell how soon this analysis proves obsolete, when more data and comparative analysis of the economies of Cyprus is published. This chapter, like those that preceded it, asks more questions than it has been able to answer. Many of the questions seem to imply that since 1974 and even 1964 Cyprus has functioned below par. Ethnic conflict may have caused the island's economy to be below its production possibility frontier simply because resources could not be utilised in the most efficient way possible. Political divisions have prevented natural interdependencies, complementarities from taking place. In the context of the supposed economic benefits of economic co-operation north and south¹⁰⁵, and both communities' perceptions of the costs of division¹⁰⁶, the next chapter uses a dynamic model to attempt to benchmark the costs and consequences of ethnic division in Cyprus.

¹⁰⁵UN Security Council, 17 December 1993. (Unpublished) "Report of the team of experts on the economic benefits of the Varosha and Nicosia International Airport package".

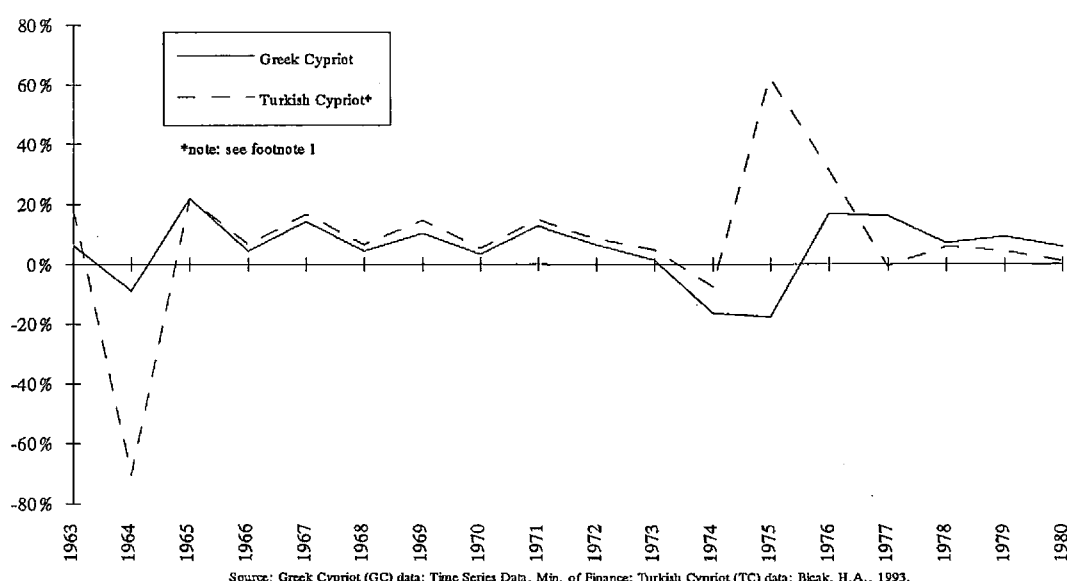
¹⁰⁶Bicak, H.A. 1993. "An Evaluation of the Turkish Cypriot Position. Debts of Greek Cypriot Community", paper submitted to the U.N. Representative in Cyprus; Republic of Cyprus 1975. "Economic Consequences of the Turkish Invasion and Future Prospects of the Cyprus Economy." Nicosia: The Planning Bureau.

CHAPTER 6. More than the sum of its parts? Estimating the long-run costs of division, 1963 and 1974.

Introduction

Having generally adopted a tone which, contrary to the literature, has perceived *de facto* division in Cyprus as a constructive consequence of political failings, consideration must be given to what the Cypriot economy could have looked like had it remained integrated and unitary. Although there have been estimates of the losses each community has suffered (referred to above), none has considered the problem using a long run dynamic framework. This chapter attempts to estimate national income in an idealised integrated Cypriot economy in 1990, and roughly predict relative communal shares of that income. To arrive at these yardsticks, a series of alternative growth trends to the ones actually experienced by the two disjuncted Cypriot economies will be used, and compared with the sum of the two economies outputs. The object is to discount for four unusual income movements (Figure 6.1 below), the political implications of which have dominated the literature, the static accumulative value of which has become a point of reference in cost analysis to date, and the economic consequences of which have been the subject of this thesis so far.

Figure 6.1 *Percentage change in GNP on previous year (in constant prices)¹.*



Here, the objective is to ascertain what income could have been expected to be by 1990 if civil war and effective inter-communal re-distribution had not occurred. The main problem to be addressed first will be to determine what is an appropriate alternative growth trend, and see how it compares with real income growth in the period. Put another way, how do the island's two economies appear to have performed against the best guess of what could have been expected of them before the *de facto* split? After different methods of estimation have been explored, the average performance of a group of similar economies will be used as a proxy for peaceful Cypriot economic performance. The combined performance of the two Cypriot economies will then be measured against these average trends, to see the extent to which Cyprus appears to have under performed following the upheavals of 1963 and 1974.

Although many possible outcomes could have occurred had extremists not seized the initiative in 1963 and 1974, the alternatives to be tested here will be optimistic ones of necessity, skewed to provide a unitary outcome: the continuance of a bi-

¹Turkish Cypriot income data for the '60s and early '70s does not exist, these figures are based on the only available estimates, which should be considered with caution. Source: Bick, H.A. 1993. "An Evaluation of the Turkish Cypriot Position. Debts of the Greek Cypriot Community". Report sent to the UN Secretary General's Special Representative for Cyprus, Joe Clark, 16 July 1993, p. 8.

communal state after 1963, and the recreation of one following inter communal talks in 1973². In a sense this is politically correct social science, as each historical juncture represents the political watershed in the rhetoric of both communities, 1963 for Turkish-Cypriots, 1974 for Greek-Cypriots, and the re-establishment of a unitary state is the declared objective of the UN Security Council (though most economists would probably also agree that the most efficient outcome would be achieved in a unitary Cyprus³). It is however also useful to begin from more than one historical juncture, not only to address the concerns of both communities but to allow the possibility of comparing results both with reality and alternative projections, offering some basic sensitivity analysis of the hypothesis raised by this debate: would a single, integrated, Cypriot economy have maximised income? At the same time however the present research follows the contours of political debate and historiography. As each community has some notion of the costs of division, attempts to demonstrate what could have reasonably been expected from a single and integrated island economy seem to be valid.

Estimates from initial yardsticks

First attempts to construct a model for pan-Cypriot development are based on simple extrapolations of existing trends; do they say something about where the economy appeared to be going before falling into the trough of civil war? Running a regression to extend an existing growth trend into the future after 1963 and 1974 may provide a guide, albeit a rough and ready one, as to what a unified Cypriot economy could have looked like. The main questions concerning the soundness of this heroic leap, assuming existing growth trends persist, will be side-stepped

²"The inter-communal talks which started in 1968, four years after the breakdown of the Zurich Constitution, had virtually arrived at full agreement by late 1973" Attalides, M.A. 1977. Cyprus Reviewed. Nicosia: Jus Cypri Ass., p.xi.

³Because it would minimise duplication (one public sector rather than two and one island-wide infrastructure) and maximise the possibility of the efficient and rational exploitation of resources (rather than recourse to second best, non-market and quasi-market alternatives justified by the political circumstances).

initially. The more immediate problem is the availability and applicability of data for the purpose of extrapolating a trend line. Data limitations (explained over the next few pages) mean that initial tests must be restricted to projections of pan-Cypriot income in 1980; there are insufficient recorded observations to allow projections beyond 1980 having much meaning.

An initial proximation of all island economic development is based on the only bi-communal macro-economic data that exists: 1950 to 1963 national income accounts. As the constitution broke down on 23 December 1963, data in that year is probably still representative enough of an integrated economy for it to be of use. The early independence years (after 1960) begin to set the tone for subsequent development. Unfortunately earlier data (before 1960) is imbued with the effects of exogenous shocks, encompassing the peaks of a military build up and the troughs of subsequent withdrawal. Between 1950-57 British military expenditure on the island increased by over 600%⁴, boosting demand for goods and services produced locally and creating a multiplier which rippled out through the domestic construction industry. This is the period of the construction of the large scale service personnel residences within bases around Dhekelia and Akrotiri, when the output of the domestic construction industry increased by 85%⁵. Once this activity was completed, British Military expenditure on the island declined. For this and other exogenous reasons⁶, overall Cypriot GNP fell by 10% between 1957 and 1960 whilst on a per capita basis the fall was even greater at 15%⁷. The 1950 to 1960 period also encapsulates the rise of communal tension (the EOKA period, 1955-59) which also saw the beginnings of organised violent ethnic tension and politically inspired population shifts; consequently the period 1950-63 cannot be viewed as the ideal model of a unitary Cypriot economy. However, between 1950 and 1955 and 1959 to 1963, for

⁴Hald, M.W. 1968. A Study of the Cyprus Economy. Nicosia: Printing Office of the Republic of Cyprus, footnote 50, p.34.

⁵Between 1950 and 1957 the output of the domestic construction industry increased by 84.6% in constant factor costs of 1950. UN. Programme of Technical Assistance, 1961, Cyprus, Suggestions for a Development Programme, (the Thorp Report). UN. New York. 1961. Table 1B, p.3.

⁶The decline in copper and citrus prices (major Cypriot exports at the time) and bad harvest.

⁷In constant factor prices of 1950. Republic of Cyprus Statistical Abstract 1961, Dept. of Statistics and Research, Ministry of Finance, Nicosia, p.180.

a majority of Cypriots the economy worked as it had for centuries, as one rather than in the interests of two competing nationalisms⁸.

The problem with choosing an earlier period when the island was at peace and the economy more integrated, is that the data does not exist. There were no national income accounts published before 1950. Another problem is the speed of development. Before 1950 and particularly before the Second World War⁹, the structure of the Cypriot economy was different. Modern property rights had only been created with the land reforms of 1939 and 1944¹⁰. What the 1950-63 data does have in its favour is that it is a fairly long and relatively unbroken time series, encompassing the economic activities of both communities (but alas also that of the colonial power's), the peaks and troughs of economic activity, some the result of endogenous phenomena, many exogenous (British military expenditure, the rise and then collapse of citrus and copper prices in the 1950's, the bad harvest in 1957). Paradoxically, this is probably as good a selection of random shocks as any, unique though the period was. A small economy is bound to be continuously affected by major exogenous shocks even if the main exercise here is to discount for the ones originating from ethno-national conflict. Essentially, with a disordinately distorted economy, cross-checking is necessary. The 1950-63 national income data provides a reference point for slightly more sophisticated yardstick projections attempted later. The object of these alternative yardsticks is to avoid dependence on data derived exclusively from Cyprus in this period which, because of the unusual nature of the

⁸Between 1955-59 there was a Greek boycott of British goods and a Turkish boycott of the dominant Greek Cypriot economy.

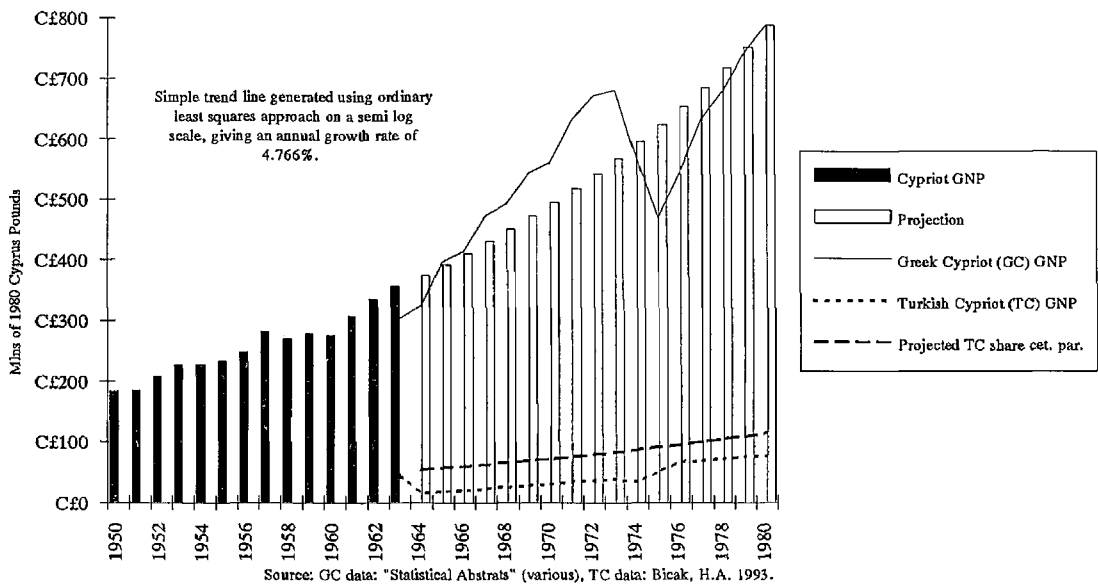
⁹The Second World War had been good for the Cypriot Economy. The first time it had looked like having any strategic significance to the British meant large scale investment in fixed capital formation, admittedly for military purposes but employing Cypriot labour and providing significant additional Cypriot income.

¹⁰The 1939 "Law to consolidate and amend the law relating to land tenure", simplified and modernised immovable property rights on the island. Govt. of Cyprus, 28 February 1939, The Cyprus Gazette, pp 149-194, legislation no. 161. Nicosia: Govt. Printing Office. In 1944 "A law to Provide the conversion of the categories of immovable Property hitherto known as Vakf Idjaretein and Arazi Mevkoufe Takhsisat into Mulk and Arazi Mirie respectively and for matters incidental thereto", transformed large areas of land formerly leased from Evkaf (a legacy of Ottoman rule) to freehold property in the name of the leaseholder, who became liable to a Land Registration Fee of 3% of the value of the property. Govt. of Cyprus, 6 April 1944, The Cyprus Gazette, pp 80-86, legislation no. 231. Nicosia: Govt. Printing Office.

historical phenomena (large externally financed military spending, civil unrest, de-colonisation), may distort subsequent trend projections.

The initial reference point assumes that Cypriot growth continues along the existing 1951-63 trajectory (blank columns in Figure 6.2 below)¹¹ and that both communities grew at an equal pace after 1963 from their existing share of national income¹². The trend implies that Greek-Cypriots have performed better than could have been expected, given the economy's previous rate of growth having matched the performance of the entire economy by 1980. Turkish-Cypriots, meanwhile, did not matched the performance based on this trend. Their share of Cypriot income declined from 14.5% in 1963 to 9% in 1980. Seemingly, even with the significant redistributive effects of the political upheavals of 1974 (see Figure 6.1) Turkish-Cypriots had not recovered from the breakdown of power sharing and economic integration in 1963.

Figure 6.2 *Projected Cypriot GNP compared with Greek & Turkish-Cypriot GNP after 1963*

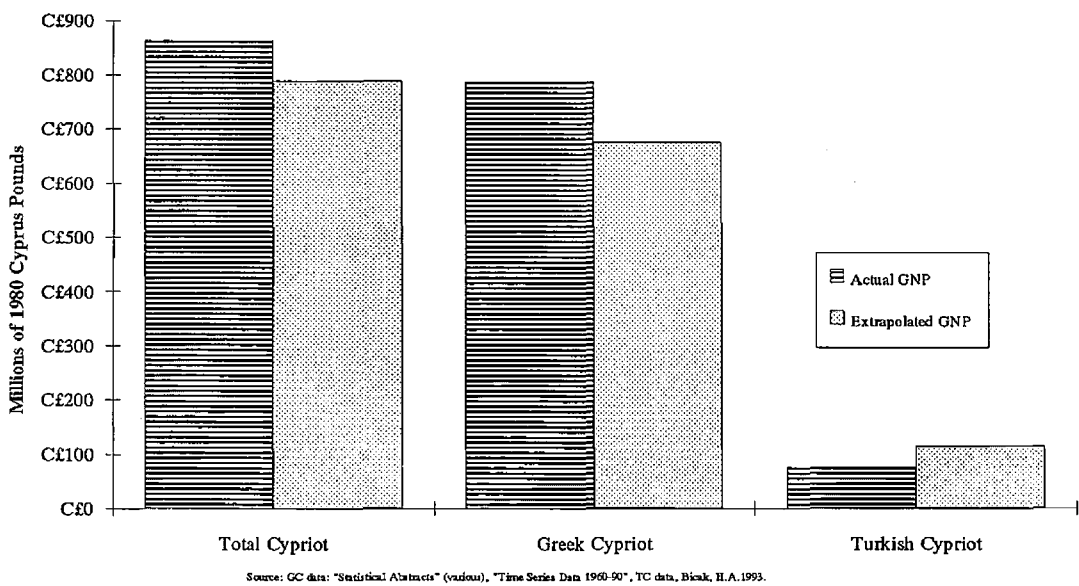


¹¹Semi-log value of growth in GNP over time from 1950-63 was 0.04766 with a standard error of 0.0029301.

¹²Bicak 1993. *op. cit.*, p. 4.

Put graphically the relative shares of GNP in 1980 in a hypothetical, integrated economy, compared with how they were with *de facto* division, look something like the following (Figure 6.3 below):

Figure 6.3 *Actual & projected income in 1980, assuming 1951-63 growth trends persist.*



The first column shows the combined income of the island as a whole in 1980 (C£863 million 1980 Cyprus Pounds) with the projected income of C£788 million adjacent to it. The third column shows Greek-Cypriot income in 1980 (C£787 million) adjacent to its projected share (C£674 million). The fifth column shows the actual income of the (then) "Turkish Federated State of Northern Cyprus" in 1980 (C£76 million) next to its projected share (C£114 million). The first point to note is that the actual combined income of the two *de facto* economies is greater than the projected income from the no war, no division assumption. However, in 1980 (when Turkish-Cypriot exports peaked as a proportion of imports) they appear to be 50% worse off than they would have been had growth trends persisted, whilst Greek-Cypriots appear to be 14% better off with *de facto* division.

It has been argued that if politics had not intervened, by 1966 Turkish-Cypriots would have received income proportionate to their population size¹³. Given similar natural reproduction rates prevailing between Greek and Turkish-Cypriots¹⁴, it then could be assumed that the Turkish-Cypriot share of Cypriot income would be around 18% (the Turkish-Cypriot share of the population at the time of the last all island census in 1960). Perhaps this argument implicitly follows the logic of classical growth theory and the logic of diminishing returns. Rather than retain some 14.5% of national income and experience growth at a similar rate as Greek-Cypriots, Turkish-Cypriots, starting from a lower base experience faster growth. If then by 1980 Turkish-Cypriot income was equal in share to its projected population, the model predicts that they were 87% worse off than they would have been in an integrated economy in 1980. Meanwhile, and on the same basis, Greek-Cypriots were 18% better off in the divided island in 1980. Either way the problem remains, would the growth rate of 4.8%, predicted by this rough projection, have been sustainable over the decade and a half from the end of December 1963 until 1980? The evidence from other similar economies (see below) suggests it would have been, though this will be discussed in detail below. First a similar estimate needs to be made from the 1974 watershed.

Estimates from the 1974 watershed

In some ways it is easier to set up a second extrapolation, to project all island Cypriot economic growth had the *de facto* north / south division of the island not taken place in 1974. The advantage here is that the local direct economic consequences of the British withdrawal from the Indian Sub-continent and partial withdrawal from Cyprus itself are largely excluded, whilst the shocks of 1963 and 1967 are partly accounted for, as are the consequences of some of the major global economic shocks that occurred in the early 1970's. Using the data from the latter period the modern structure of the economy is, to a greater extent, built in, making

¹³*ibid.*, p. 8.

¹⁴Cuco, A. (Spain, Socialist) 27 April 1992. " Report on the Demographic structure of the Cypriot Communities". Council of Europe, ADOC 6589 1043-23/4/92-4-E.

the problems of distortion a little less serious than projections based on earlier data. The projection is also statistically more secure, as it means extrapolating a mere seven years (rather than seventeen) from fourteen good (rather than thirteen slightly more disparate¹⁵) observations. The island was however already divided, not hermetically and not generally regionally, but fairly rigidly on ethnic grounds. On the basis of a less secure historical model (i.e. the economy was already largely divided ethnically), this second projection provides a more secure economic and statistical one.

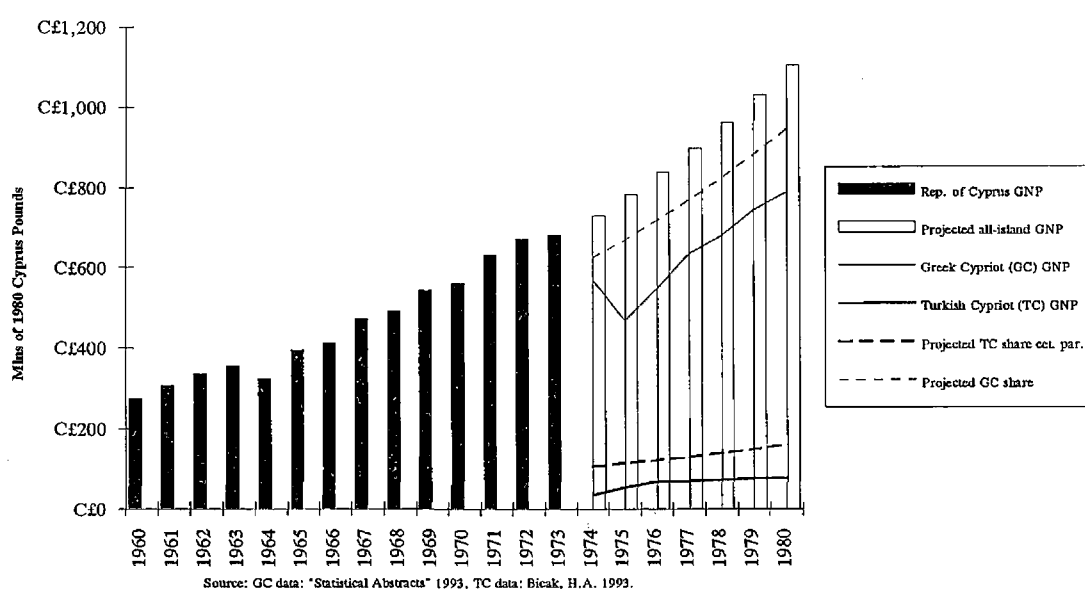
Thus Figure 6.4 (below) extrapolates a growth trend from 1973. The projection assumes a level of reintegration had occurred to the extent that Turkish-Cypriots had regained their 1963 share of National Income. This is a more reasonable assumption than it at first seems. Much of the Turkish-Cypriot loss of income in 1964 derived from a loss of earnings from government and public sector employment¹⁶. Reintegration assumes that there was agreement on the fundamental issues, a return to abandoned property and that the public sector again became bi-communal. The assumption is that the Turkish-Cypriot share of public sector employment again exceeds its proportionate share of the population, as it had in 1963. A return to public sector employment and abandoned property would bring the Turkish-Cypriot

¹⁵Pre 1960 data had to be extrapolated using earlier growth trends from incompatible National Income data. The first reliable National Income Accounts for Cyprus were published in 1951 and referred back to the year 1950 only. They were based on estimates calculated using the 1950 Census of Employment and Production (Statistical Abstract 1956, p.178). From then until 1956 estimates of Cypriot National Income were based on the 1950 Census of Employment and Production, Annual Censuses of Agriculture and subsequently the 1954 Census of Production. These estimates generated an aggregate income figure called "Net National Income", at current and constant factor costs. In the 1959 to 1962 Statistical Abstracts, GDP and GNP figures are given in current and constant factor prices back to 1950 for the first time. After 1963, the 1958 UN System of National Accounts (SNA) is used and recalculated back to 1958. These figures are quoted in constant and current market prices. After 1983, the new 1968 SNA system was used and all National Income Accounts are recalculated back to 1976 using this new system. However, basic data such as GDP, GNP etc. have been recompiled back to 1960. These different methods of calculation are not compatible. What has been done here is simply to use the most up to date estimates where possible. So the 1960-1963 figures in constant 1980 market prices are based on the 1968 SNA quoted in the 1993 Statistical Abstract, p.213 (published in 1995). Percentage growth rates for GNP at constant market prices, 1958-1960, and at constant factor prices, 1950-1957, have then been used to recompile GNP figures in 1980 market prices using the 1968 SNA figures as the basis from which the earlier fluctuating growth rate diminishes.

¹⁶A factor that contributed to the breakdown of the Constitution itself, as Greek Cypriots were not willing to honour, or at least not speedily enough, their Constitutional commitments to raise the ratio of Turkish Cypriot public sector employment to 30%.

share of National Income to something approaching the 1963 figure¹⁷. The further assumption is that income subsequently grows at an equal rate. The calculation using 1960-73 data and again determining a trend by using an ordinary least squares approach on a semi-log scale, gives the considerably higher annual growth rate of 7.15% (with a standard error of 0.0031).

Figure 6.4 *Projected all-Cypriot GNP compared with actual Greek and Turkish-Cypriot income after 1973.*



¹⁷By 1963, 33% of the highest grade Civil Servant, 27%, 26%, 23%, 18% and 27% of other grades were Turkish Cypriot (Attalides 1977. *op. cit.*, p. 82). Turkish Cypriot share of public sector employment still fell short of the Constitutional requirement of 30% at all levels (H.M.S.O. 1960. *The Cyprus Constitution*: Part VII, Chp. 1, Article 123). It is assumed here that much of their loss of income in 1964 reflects the loss of employment in the public sector and that had an agreement been reached in the inter-communal talks in late 1973 (Attalides 1977. *op. cit.*, p. xi.), income from public sector employment would have considerably boosted the Turkish Cypriot share of National Income, considering that they represented 18% of the population.

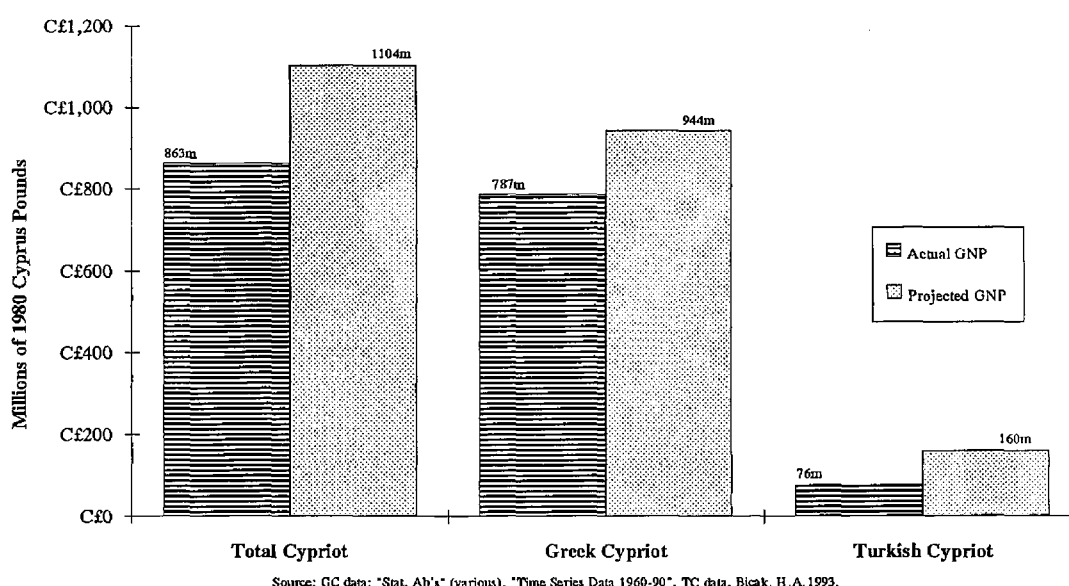
% change in employment by sector on previous year			
	1963	1964	1965
primary	1 %	-1 %	-1 %
secondary	4 %	-5 %	2 %
tertiary	1 %	-12 %	8 %

Source: Rep. of Cyp. 1993. "Labour Statistics 1991". Nicosia, p.31.

The table above shows the immediate consequences on employment of the breakdown of the constitution in 1963. It is generally acknowledged that most employment losses were Turkish Cypriot and, as is indicated above, 69% of those losses were in the tertiary sector. It was the public sector (government and the utilities) which provided the majority of Turkish Cypriot tertiary sector employment. And if income from employment, rather than numbers employed, were used as the criteria, evidence suggests that losses would have been even more heavily concentrated in the tertiary sector.

In this case the estimated all-island income in 1980 would be 28% higher than the combined income of the (Greek Cypriot) Republic of Cyprus and the (then) "Turkish Federated State of Cyprus" (Figure 6.4 and Figure 6.5 compared with Figures 6.2 and 6.3). If income had continued to grow along the 1960-73 trajectory, Greek-Cypriots would have been 20% better off whilst Turkish-Cypriots would have been 110% better off in a unified economy (Figure 6.5).

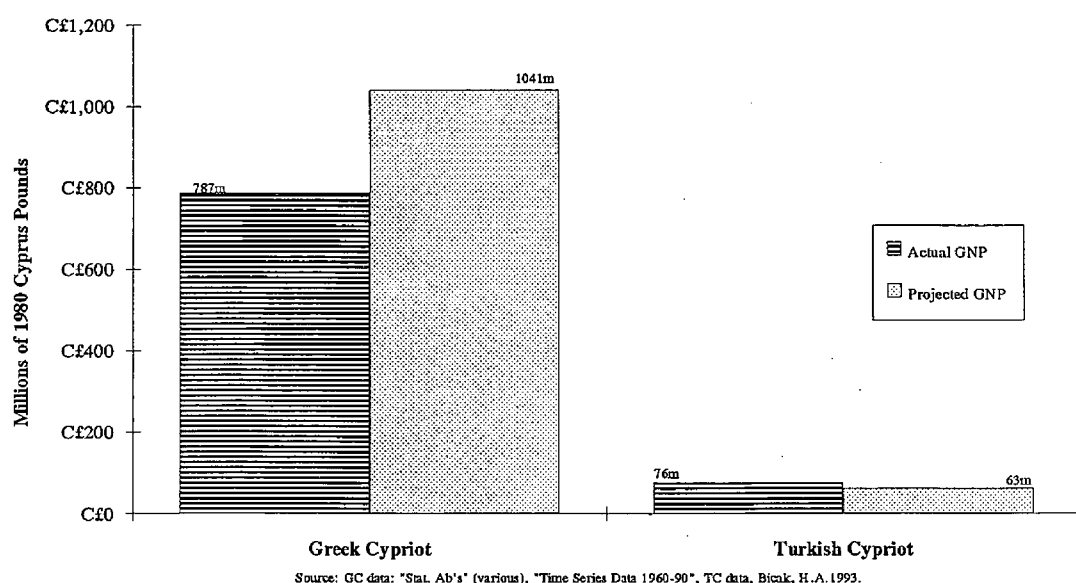
Figure 6.5 *Actual & projected income in 1980, assuming 1960-73 growth trends persist & Turkish-Cypriots regain 1963 income shares.*



The only available estimate of Turkish-Cypriot income in 1973, however, gives it as approximately 5.7% of Greek-Cypriot income (rather than the 14.5% of 1963). If significant reintegration had not taken place, but the island remained politically as it was in 1973 until 1980¹⁸ and the economy in the two communities grew at an equal rate, the projection of the distribution of Cypriot income after 1973 would see Turkish-Cypriots looking worse off and Greek-Cypriots even better off (see Figure 6.6 below) in this projection of the unified economy. Thus it would appear that, only if Turkish-Cypriots' income share had grown at a significantly faster rate than Greek-Cypriots' in the 1964-74 period, would Turkish-Cypriots have been better off in 1980 than they were.

¹⁸ Essentially assuming that the Greek sponsored coup against Makarios did not take place.

Figure 6.6 *Communal income in 1980, assuming growth continues along the 1960-73 trend & the communities retain their 1973 shares.*



Further distributional problems will be dealt with later, however, Table 6.1 (below) summarises the consequences of using either 1963 or 1973 ethnic income distribution estimates. The implication is that, if it is assumed that the 1963 income distribution was retained or re-established, then Turkish-Cypriots would be better off in a unitary economy in 1980 (using either the first projection from 1963 or the second projection from 1973). Conversely, if Turkish-Cypriot income grew at the same pace as Greek-Cypriot income, following the 1960-73 trend line after 1973, and income distribution remained roughly the same, then Turkish-Cypriots were better off on their own.

Table 6.1 *Actual & projected income distribution in 1980 using 1960-73 trend to extend growth from 1974 to 1980 (2nd projection).*

	Greek Cypriot	Turkish Cypriot	Aggregate income
Actual income	C£787	C£76	C£863
Projected income on the basis of 1963 share	C£944	C£160	C£1,104
Projected income on the basis of 1973 share	C£1,041	C£63	C£1,104
<i>First projection (1950-63 data to extend trend from 64-80)</i>	C£674	C£114	C£788

Source: GC data, Statistical Abstract (various), Time Series Data 1960-90; TC data, Bicak, H.A. 1993.

In terms of the Cypriot economy as a whole, the results of these basic speculative adventures are inconclusive. The second projection seems to demonstrate that the

income of the island as a whole, and the income of both communities could have been better (Figure 6.4 and Table 6.1) in all but one case (Turkish-Cypriot income in 1980, assuming 1973 income shares remain), had war and ethnic division not interrupted development. Results from the first projection, from the 1963 watershed, imply however that total output on the island is greater than it would have been (last row and column, Table 6.1). These preliminary contradictory conclusions lend some support to the political positions of both communities. If 1963 is seen as the important watershed in Cypriot history (the Turkish-Cypriot view), then the economic cost of the status quo in 1980 largely disappears (Figures 6.2 and 6.3). Measured from the watershed of 1974 (the one emphasised by Greek-Cypriots), the possible costs to the island as a whole and Greek-Cypriots in particular, are considerable (Figures 6.4, 6.5 and 6.6). Only when wholly pessimistic about the possible effects on bi-communal income distribution of the reintegration of the economy after 1973, does division look economically preferable to Turkish-Cypriots (Figures 6.6), a position not inconsistent with official Turkish-Cypriot attitudes.

At the level of the island as a whole, these divergent results hinge on projected growth rates. Is there any reason to suppose that the Cypriot economy would have continued to grow at an average rate of over 7% per annum throughout the 1970's, as predicted by the second projection, rather than at the slower rate of nearly 5%, predicted by the first projection? It is now worth cross-referencing these results with the record of similar economies, to compare their performance over the same period. This may discount for some of the global phenomena (the breakdown of Bretton Woods, increased global inflation and the sharp oil price rises) along with some of the more unique exogenous phenomena. It may also help to indicate a more consistent general conclusion before attention is again drawn back to the thorny issue of inter-communal economic performance records, relative to what might have been in a unified economy.

Selecting peers as proxies for pan-Cypriot economic growth

The work of development economists provides the methodology for an alternative, and arguably more useful benchmark for income in a unitary economy beyond the 1963 / 1974 watersheds. Chenery and Syrquin¹⁹ have argued that development follows patterns depending on structure and background. So a group of similar economies could provide a proxy for Cyprus if it performed close to the mean across a range of key indicators and if the divergence around the mean, for important characteristics, was not too great. After briefly discussing the process of selecting some peer economies, 3 groups have been proposed as sharing enough (though different) key attributes to be said to have had, at least at the mean, similar growth potential to Cyprus in 1960. These groups of economies are based on a regional group with similar per capita income (background) in 1960 (the World Bank's "More Developed Mediterranean" category - MDM)²⁰, a Regional Sub-Group²¹, and a group of "small primary oriented", Micro-Economies²², similarly sized and possessing a similar structure to Cyprus in 1960.

Before reaching this stage however, the initial problem was to locate economies with significant similarities with the Cypriot economy before it became economies plural. What would a Cypriot peer group be expected to look like? Seemingly a peer group would be a group of economies with similar opportunities for economic growth and development as Cyprus. These opportunities could be a similar resource base, a similar starting income and / or a similar structure. These factors are largely predetermined, but whether similar opportunities are exploited may depend partly on policy (the degree of openness to international trade) and partly on other

¹⁹Chenery, H. & Syrquin, M. 1975. Patterns of Development 1950-1970. Washington. OUP.

²⁰IBRD. 1982/3 World Debt Report. Washington D.C. World Bank Publications, included the category "More Developed Mediterranean": Cyprus, Greece, Israel, Malta, Portugal, Turkey and Yugoslavia.

²¹As above but excluding the two persistent outliers, Israel and Turkey.

²²Chenery & Syrquin (1975. *op. cit.*), use this category, here a much abbreviated group includes only the economies with populations below 1 million in 1960 and available data: Barbados, Fiji, Malta, Mauritius and Trinidad and Tobago.

background factors (the level of human capital development, the level of market development and, most basically the level and distribution of per capita income). Essentially there may be certain measurable criteria which make more explicit, characteristic links, implying similar economic potential.

Perhaps the most important measurable similarity between economies is per capita income. This is the criteria by which the World Bank ranks countries in its annual "World Development Report". If Cyprus²³ was included in the 1995 World Development Report's "World Development Indicators", it would have found itself above Puerto Rico, Argentina, Greece, South Korea and Portugal and below New Zealand, Ireland, Spain, Israel and Australia respectively²⁴. If the World Development Report had been published in 1960 and Cyprus had been included, it would have been above Spain, Lebanon, Greece, South Africa and Singapore and below Uruguay, Japan, Trinidad and Tobago, Argentina and Ireland respectively²⁵. As is clear from the diversity of these two groups of economies, per capita income is a crude indication of economic potential though it is clearly one way of isolating potential peers. Whilst resisting the more general equations used to create regression predictions²⁶, more variables need to be considered when selecting peers on the basis of potential development opportunities, rather than simply an economy's level of income divided by the population size.

Inspired by Chenery and Syrquin and more recently by Sachs and Warner²⁷, the key variables that have tended to be associated with growth are: investment rates, savings rates, human capital development, openness and government consumption rates; these have been used to help isolate other economies with more similar

²³ Republic of Cyprus only.

²⁴ IBRD, World Development Report 1995. New York: OUP. Countries ranked in ascending order by per capita income, p.162 & p.228 (no per capita income data given for Saudi Arabia).

²⁵ Ranking per capita income for all economies listed in the first "World Development Report", published in 1978, plus Cyprus, but excluding the centrally planned economies. Data for per capita income in 1960 derived from "World Tables 1971", table 4, IBRD.

²⁶ As reviewed by Levine, R. & Renelt, D. "A Sensitivity Analysis of Cross-Country Growth Regressions". *American Economic Review*, Sept. 1992, Vol. 82, No.4, pp.942-963.

²⁷ Sachs, J.D. & Warner, A. 1995. "Economic Reform and the Process of Global Integration." *Brookings Papers on Economic Activity*, 1. 1995.

growth potential to Cyprus in 1960, but are all these variables exogenous? Investment rates depend on economic opportunities which may in turn depend on access to resources. Echoing the themes of new growth theory, savings are related to income which, feeding into investment rates, may affect future economic growth. Also size may be an important factor, either increasing or limiting the possibilities of growth. Kuznets has acknowledged, in a negative way, the importance of smallness²⁸. Even then structure is still important but so too is location²⁹, particularly when dealing with small economies.

Within these different frameworks and constraints, three groups surfaced as possibly shedding some more light on future Cypriot economic potential, had political circumstances not intervened to divide the island, its people and its economy. The search for peers increasingly focused on the analysis of economies either similar in size and structure in 1960 or sharing a similar location, broadly sharing both a similar income and a similar economic structure in 1960. Within these criteria two particular alternatives presented themselves as the most tenable peer groups, a similarly structured group of very small micro economies and a medium income regional group sharing similar income profiles and growth rates. The latter group (or groups) derived from an existing World Bank category: "More Developed Mediterranean", which includes Cyprus. Without war and civil strife it seems even more likely that Cyprus would experience (as it did anyway) the tourist boom. Its location and its investment in human capital may have also led to the establishment

²⁸Justifying the lack of inclusion of small economies in his analysis of the components of economic growth, Kuznets states that "I omitted all countries with population of less than one million. This seemed warranted because of the erratic character of the production structure of the heavily dependent splinter countries." Kuznets S. 1971. Economic Growth of Nations. Cambridge: Harvard University Press. p.108.

²⁹Reiterating many of the points listed above Jeffrey Sachs has said (in the *Economist* 29/7/96) that "Studies of cross-country growth show that per capita growth is related to:

- ...the geographic and resource structure of the economy, with landlocked and resource-abundant economies tending to lag behind coastal and resource-scarce ones." as well as:
- "the initial income level of the country with poorer countries tending to grow faster than richer countries;
- the extent of overall market orientation, including openness to trade, domestic market liberalisation, private rather than state ownership, protection of private property rights, and low marginal tax rates;
- the national savings rate, which in turn is strongly affected by the government's own savings rate..."

of mercantile and commercial centres and to agriculture and manufactories tapping new and important regional markets. In terms of the former criteria (size and structure), though heavily influenced by Chenery and Syrquin³⁰, a small sub-group had to be created because most "small primarily oriented economies" highlighted by them³¹, were not nearly small enough to make direct comparisons with Cyprus meaningful (if size is taken to be another key factor affecting economic growth potential). Ultimately when considering a very small, open, island economy in a prime modern entrepot location, any potential peer group should reflect many of these regional and geo-political characteristics, most of which will not be captured by a more generalised regression procedure.

Comparing other Micro-Economies with Cyprus in 1960

In the 1950's and early 60's Cyprus was a "small primary oriented"³² economy. If data from a group of similarly sized and structured economies with similar background and conditioning factors could be found, their subsequent performance could give an indication of the likely direction of a no war, non-divided Cypriot economy. It was thought therefore that a "small primary oriented" economy must have a population of one million or less in 1960 to be similar to Cyprus and that it must be primarily non-industrial; in 1960 industry accounted for 23% of the workforce and 17% of Cypriot GDP. Potential peers should also be both investment and market oriented with average Gross Domestic Investment rates of at least 15% of GDP between 1951-60 and, particularly given that they are similarly sized economies, they should be similarly open to international trade with an average international trading rate of 30% and over of GDP³³. The involuntary final catch-all

³⁰Chenery & Syrquin 1975. *op. cit.*, note to table 2, p.15.

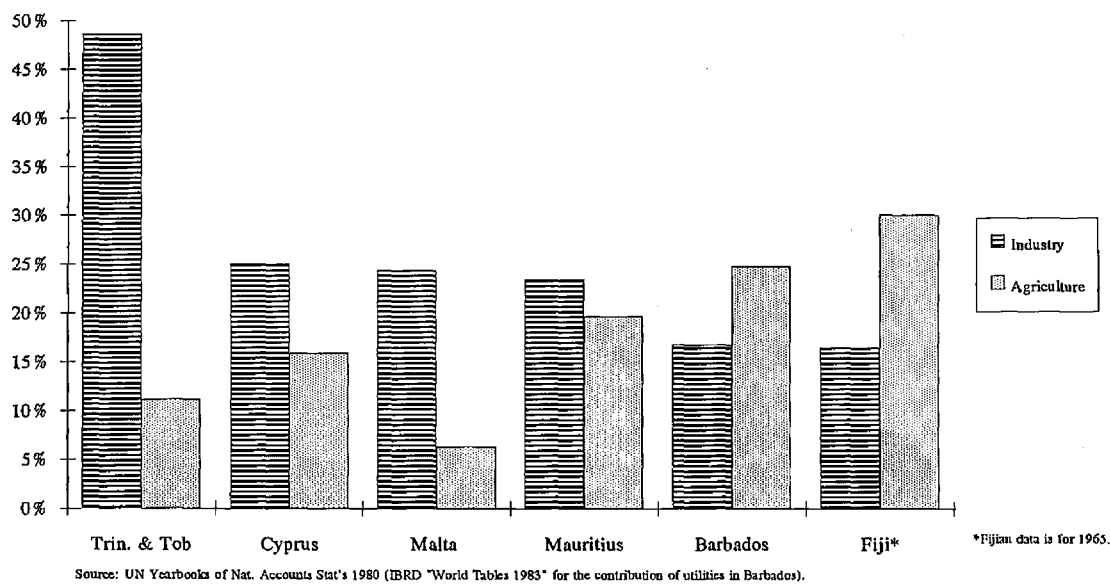
³¹ *ibid.*

³²Chenery & Syrquin 1975. *op. cit.*, Table 1, p.9.

³³ Imports as a % of GDP + exports as a % of GDP / 2.

was that compatible data should be available for a thirty year period extending from around 1950.

Figure 6.7 *Structure of production; % of GDP deriving from agriculture and industry in the Micro Economies in 1960.*



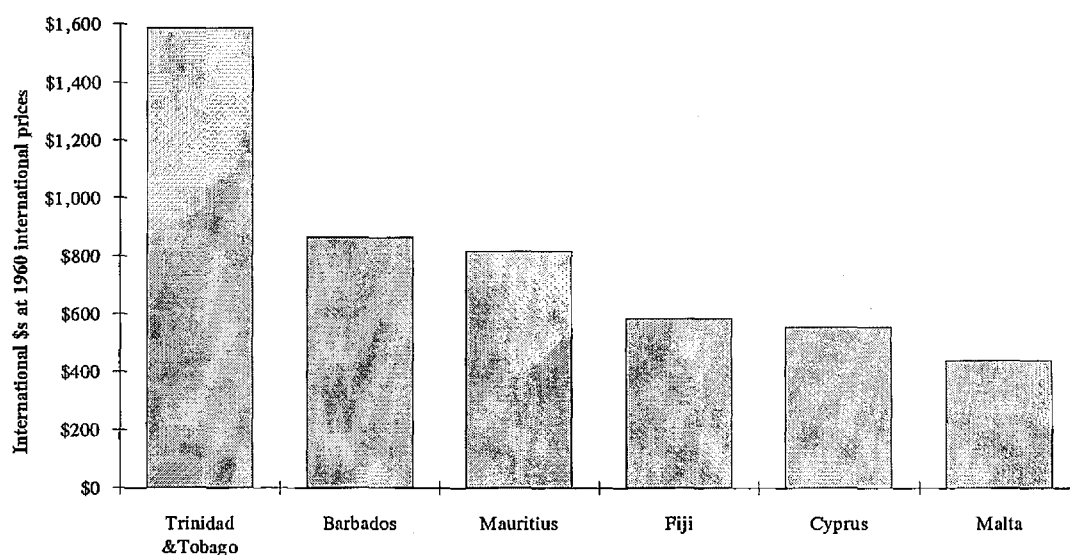
Due to both the historical fact that most small nations, now members of the UN, were not independent in 1960 and to a subsequent cost bias, early comparable data from small economies is rare. Of 32 "small [mostly] primary oriented" economies taken from Chenery and Syrquin³⁴ and highlighted as having populations of roughly one million or less in 1960, only eleven had anything like sufficient comparable data. Of these eleven, only five looked vaguely compatible with Cyprus (in terms of the above criteria): Barbados, Fiji, Malta, Mauritius and Trinidad and Tobago.

Table 6.2 Population in '000s in 1960.					
Trinidad & Tobago	Mauritius	Cyprus	Fiji	Malta	Barbados
776	660	573	394	329	231

Source: Penn-World Tables Version 5.6 (<http://nber.harvard.edu/pwt56.html>).

³⁴Chernery & Syrquin 1975. *op. cit.*

Figure 6.8 *Micro Economies per capita income in 1960*



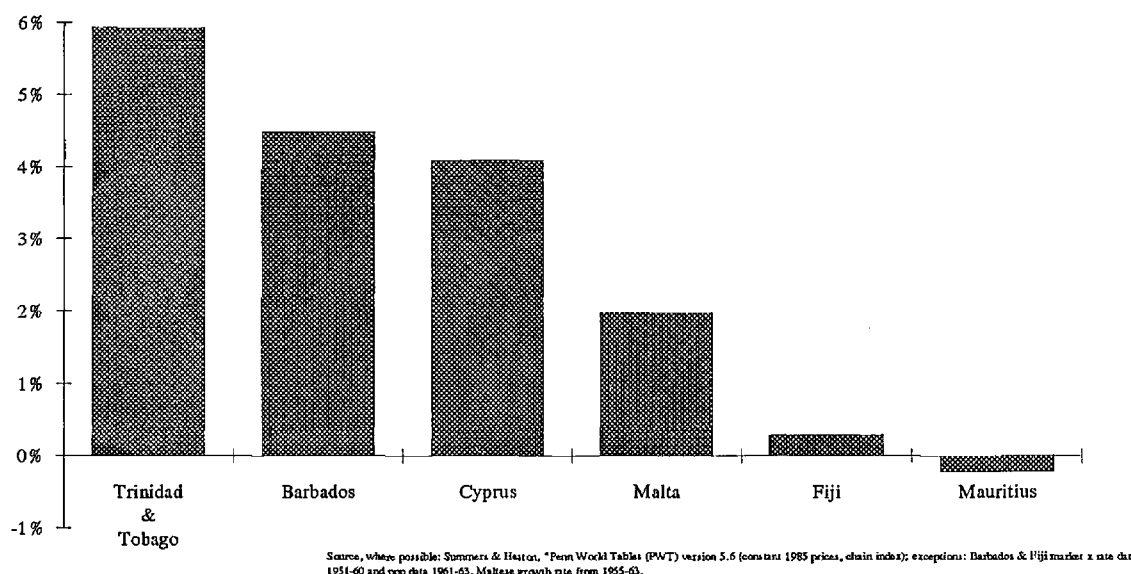
Source: Summers & Heston, Dec, 1994, Penn World Tables (PWT) version 5.6., <<http://hsn.harvard.edu/pwt/pwt56.html>>

Clearly these are again divergent economies with very different economic backgrounds (Figures 6.7 and 6.8). Many members of the group still had very high natural rates of population growth in the 1950's and 1960', with Fiji having a CBR³⁵ nearly 100% higher than Malta and 50% higher than Cyprus in 1968. This partly explains why per capita performances diverge so dramatically (Figure 6.9). Using market exchange rate data, average per capita income fell by nearly 20% between 1951 and 1965 in Fiji and Mauritius whilst it grew by almost 100% in Trinidad and Tobago in the same period³⁶. The fortunes of the former two and to a lesser extent that of Barbados, were then overwhelmingly tied to the fortunes of one primary product: sugar. And the more rapid growth associated with Trinidad and Tobago, another economy sharing a high CBR, was mostly because its fortunes were tied to the export of another primary product, oil.

³⁵Crude Birth Rate, (average annual no. of live births per thousand).

³⁶IBRD 1971. World Tables 1971. World Bank Publications, Baltimore: John Hopkins University.

Figure 6.9 Micro Economies; average annual percentage growth in real per capita GDP 1951-63.



Sachs and Warner have said "very few developing countries remained relatively open since World War II or since independence" and named only seven of which Barbados, Cyprus and Mauritius were three³⁷. (There was no mention of Fiji in their analysis, but of Malta they said there was insufficient data³⁸ and of Trinidad and Tobago, the fastest growing small economy in the period 1950 to 1965, they say it was "never open"³⁹, which may go some way to explain its subsequent performance). Generally, openness to international trade reveals the level of integration into the world economy, which says something about productivity, levels of market distortion, monetary conditions⁴⁰ and rent seeking (or the lack of it). Below, in Figure 6.10, Cyprus is seen as the least open of the Micro Economies, suggesting that all other things being equal, Cyprus was likely to grow more slowly than the other economies.

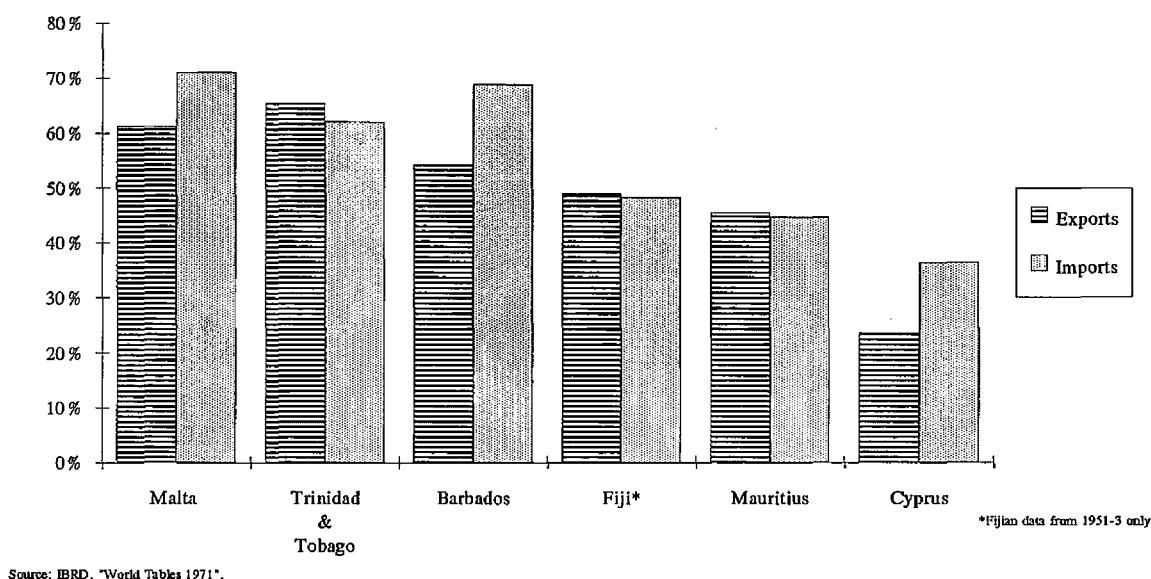
³⁷Sachs & Warner 1995. *op. cit.*, p.4.

³⁸*ibid.*, p.86.

³⁹Trinidad and Tobago fails to be classified as open by Sachs and Warner (1995. *op. cit.*) because of exchange controls which meant that an average black market exchange rate premium existed in the 1970s of 22% and in the 1980's of 45%. *op. cit.*, pp.23, 25 & 92. About another country that failed on similar grounds they wrote: "Botswana failed to qualify on the basis of its black market premium for the 1970's, but did qualify for the 1980's. It passed all other criteria. Overall, therefore, the policies have been relatively open..." *ibid.*, p.45.

⁴⁰Boltho, A. 1996. "The Assessment: International Competitiveness", *Oxford Review of Economic Policy*, Vol. 12, No. 3, (Autumn), pp. 1-16.

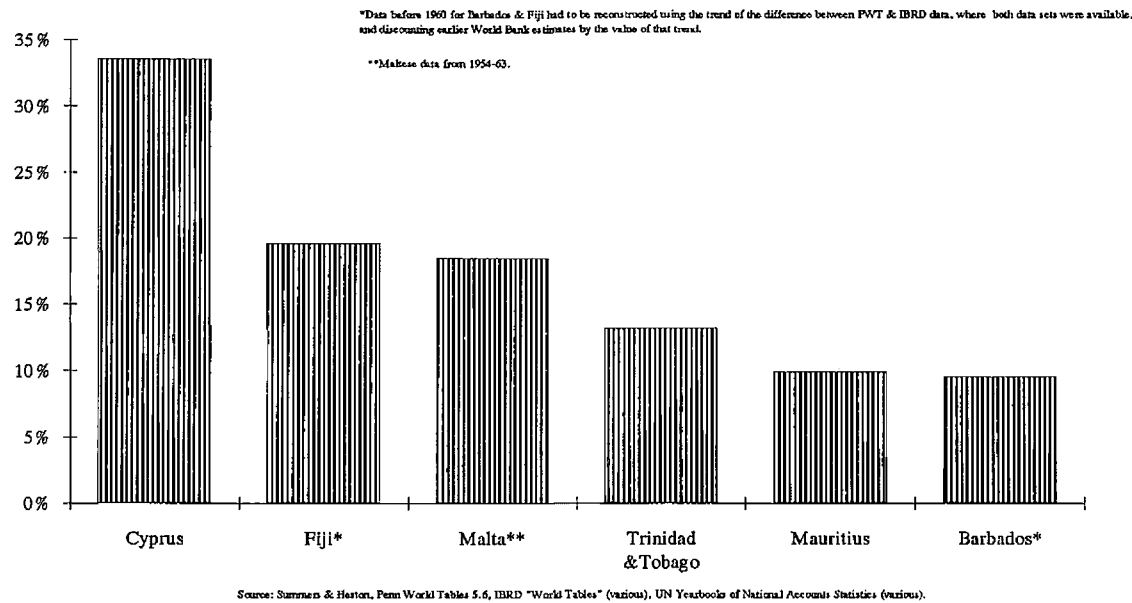
Figure 6.10 *Degree of openness in the Micro Economies; Imports & exports as a percentage of GDP, 1951-60.*



Of the policy indicators, investment rates have long been perceived in varying degrees to be strongly correlated with economic growth⁴¹. In Figure 6.11 below, which as far as possible uses Summers and Heston's "Penn World Tables", Cyprus is seen to have the highest investment levels of all the Micro Economies analysed here. Much of this investment may have had less direct economic potential than investment elsewhere, as this was the period when Britain built two large bases in Cyprus to conform with its policy reversal of a "base in Cyprus rather than Cyprus as a base". However all things being equal, the higher the level of investment, the higher future growth and, given the fact that some of the investment during the period contributed to Cypriot economic development, and that Cyprus had investment levels that compare favourably with this group of peers, future growth should be as fast as the group's mean growth rate.

⁴¹The World Bank's cross-economy regression results showed investment in physical capital to be the single strongest policy indicator effecting growth. For every 10% points of GDP of increased investment, the economy grew by 0.5%, compared with the second highest single factor, primary and secondary enrolment rates, where the increase was 0.3% on the same basis. ("Evidence from Cross-Economy Regressions of per capita income growth", IBRD. 1993. The East Asian Miracle: Economic Growth and Public Policy. NY: OUP. pp. 48-54).

Figure 6.11 *Micro Economies; average investment levels as a percentage of GDP, 1950-63.*

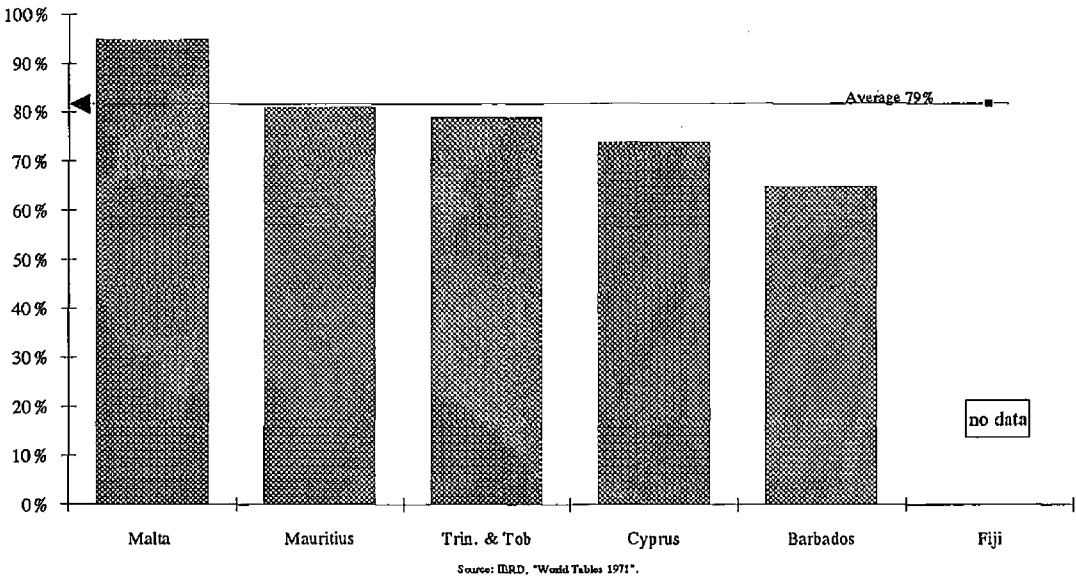


More recently, levels of human capital development have increasingly gained significance in studies of economic growth. It is widely acknowledged that human capital development is difficult to define, difficult to measure and even more difficult with which to make cross country comparison. Here (Figure 6.12) the World Bank's precedence is followed again⁴², with the total gross primary and secondary school enrolment ratio taken to indicate some roughly comparable inter-country levels of economically significant investment in people⁴³.

⁴²*ibid.*

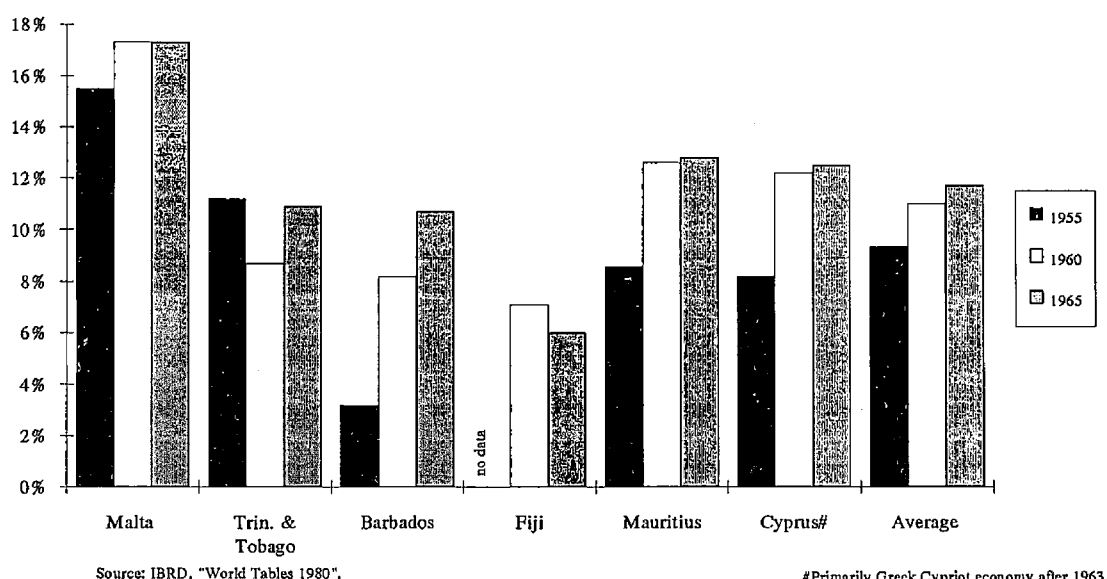
⁴³In "Evidence from Cross-Economy Regressions of per capita income growth", (*ibid.*, p. 48) the authors argue that: "Our measure of educational attainment are primary and secondary enrolment rates in 1960, the area of human capital accumulation in which the HPAE's (High-performing Asian economies) showed a substantial difference from other low- and middle-income economies."

Figure 6.12 *Human capital development in the Micro Economies; primary & secondary school enrolment in 1960.*



The direct role of government in the economy is partly reflected by government's share of national income, represented below (Figure 6.13) as government consumption as a percentage of GDP in 1955, 1960 and 1965. Along with the level of openness (Figure 6.10), the government's share of national income says something about macro economic stability. High levels of direct government involvement in the economy could reflect a lack of competitiveness, inefficient allocation of resources, high borrowing, monetary expansion, inflation, exchange rate instability, all of which feed into an economy's trade and ultimately growth performance. In statistics analysed below (Figure 6.13), Cyprus appears to have average government consumption levels relative to its income suggesting that, all things being equal, subsequent Cypriot economic performance should have been on a par with the Micro Economies' average performance.

Figure 6.13 *The level of government consumption in the Micro Economies as a % of GDP in 1955, '60 & '65.*



The appropriateness of the selection of a diverse group of small island economies (the Micro Economies Group) as peers is partly undermined by some members' continued dependence on a few volatile primary exports. This however is also one of the group's strengths, as Cyprus was then dependent on the export of a few primary products. This lack of diversity in export earnings for small open economies, is reflected in heterogeneous macro-economic growth rates, which have a particularly high coefficient of variation at 0.894 in the 1950-63 period (see Table 6.3), and continue to remain high at 0.572 between 1964-80 (see Table 6.4); this is compared with coefficients of variation 0.273 and 0.328 (Table 6.3 & 6.4) respectively for the "More Developed Mediterranean" group of economies or 0.292 and 0.226 (Table 6.3 & 6.4) respectively for the Regional Sub-Group (discussed below). The Kuznets logic, that countries with populations below a million be excluded from growth analysis because of their erratic production structure⁴⁴, comes back to haunt contemporary researchers because size seems to necessitate that performance in small primary oriented economies appears to shadow a combination of prices of a few key primary products and their relative stage in the demographic transition. Hence average growth rates in the Micro Economies may seem to offer a

⁴⁴Kuznets 1971. *op. cit.*, p.108.

less useful yardstick for accessing Cypriot performance, a yardstick nonetheless, as their inclusion in the analysis at least reduces the criticism of a bias of hindsight, seeing Cyprus as more like a "More Developed Mediterranean" economy than a small primary oriented one because that is what the Republic subsequently became. In 1960 and without the important artificial constraint or stimuli of war, Cyprus may have broadly followed the path indicated by the background, conditioning and performance indicators of the other Micro Economies, countries with which Cyprus actively and successively politically associated itself ⁴⁵. The present approach aims to avoid the problems associated with the effects of the terms of trade on a small economy by both concentrating on aggregate mean growth rates and by substantiating the argument with a range of proxy measures, some from other potential peer group economies.

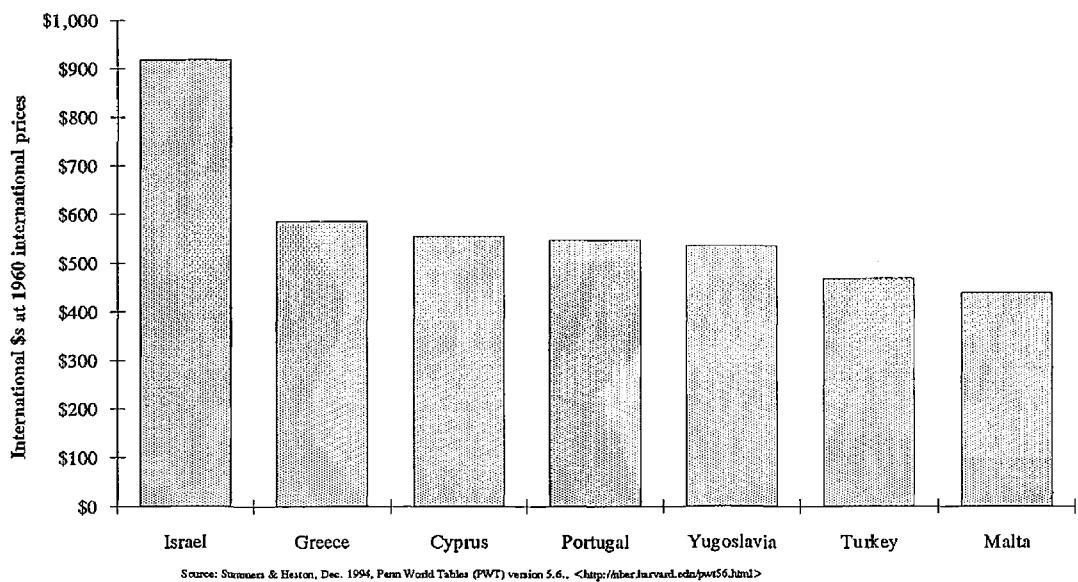
Comparing other similar regional economies with Cyprus in 1960

Primary producing economies with populations below 1 million in 1960, though more like Cyprus in theory, do not compare as well in terms of key background, conditioning and performance factors. This may be influenced as much by the availability of evidence, given the need for relatively long time series reflecting a wide range of economic and social indicators, as by more structural differences. Ultimately, in the case of Cyprus, a hand picked regional group with similar per capita incomes⁴⁶ (Figure 6.14) may prove to be more similar to the Cypriot economy and more likely to reflect an alternative performance than size and structure taken in abstract.

⁴⁵"It is well known that Cyprus since independence has been a consistent and active founding member of the Non-Aligned Movement (NAM). The first President of the Republic... was one of the originators of the Movement, who in parallel founded Cyprus' non-aligned foreign policy." The Almanac of Cyprus 1992, Nicosia. Press and Information Office (PIO), p.55.

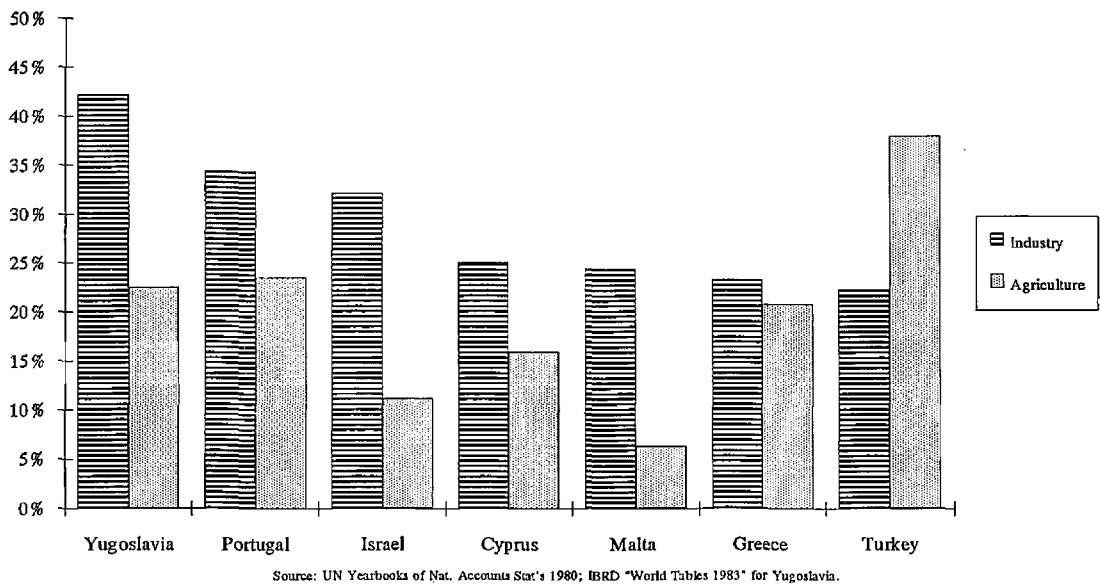
⁴⁶The World Bank, in "Evidence from Cross-Economy Regressions of per capita income growth" (IBRD. 1993. The East Asian Miracle...., *op. cit.*, pp. 48-54) reported that "Beyond accumulation of physical and human capital, initial income also has a significant relationship with per capita income growth. Economies that were relatively poor in 1960 grew significantly faster than relatively rich ones, controlling for levels of education and investment."

Figure 6.14 *"More Developed Mediterranean" per capita income in 1960*



The mostly larger economies included in the World Bank's "More Developed Mediterranean" (MDM) category had, ignoring Israel, similar per capita incomes in 1960 (see Figure 6.14).

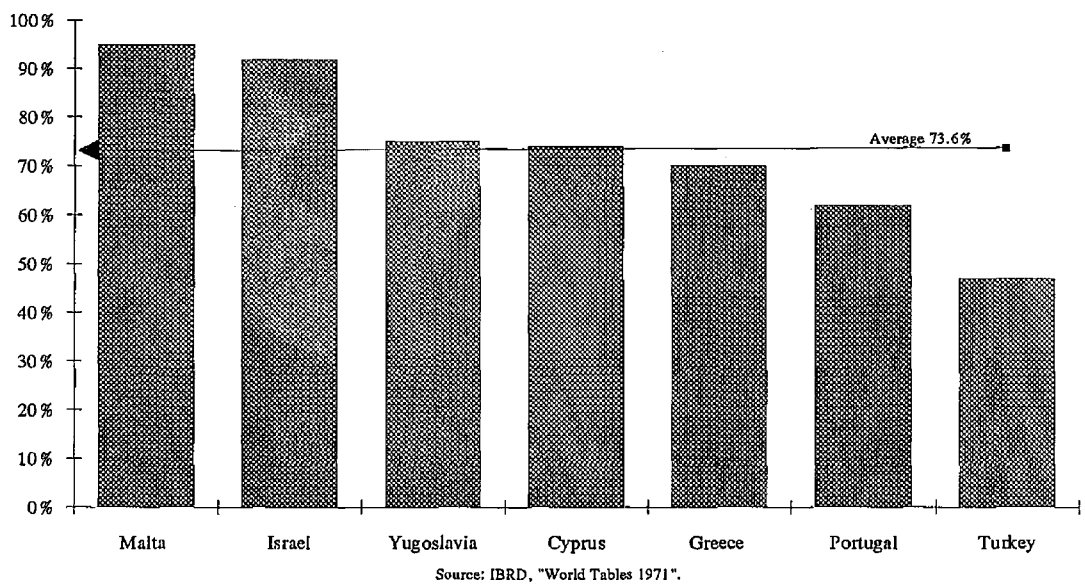
Figure 6.15 *Structure of production; % of GDP deriving from agriculture and industry in the "MDM" economies in 1960.*



They also did not have any more dissimilar economic structures than the Micro Economies (see Figures 6.7 and 6.15). In such ways these economies, sharing the same region, could have more in common with Cyprus in 1960 and be more likely to share a common growth path subsequently than did a very diverse group of very

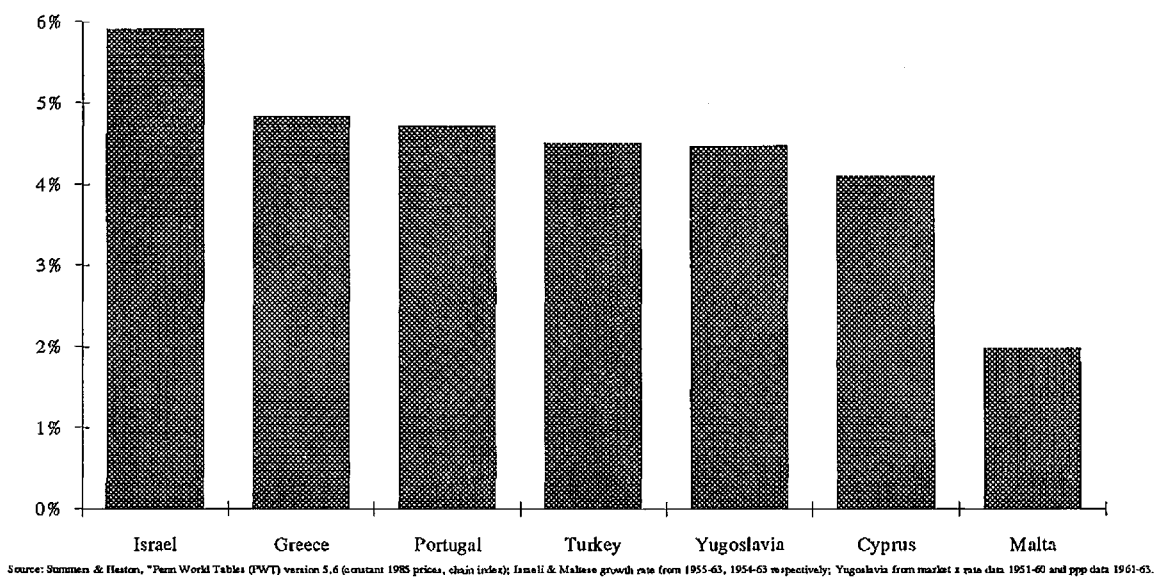
small economies that simply shared size, broad structure (non-industrial) and the availability of data.

Figure 6.16 *Human capital development in the "More Developed Mediterranean" economies; primary & secondary school enrolment in 1960.*



The "More Developed Mediterranean" category includes Malta, Portugal, Israel, Yugoslavia, Greece, Turkey and Cyprus. These are mostly mixed, medium income economies like Cyprus, on the periphery of Western Europe. Whilst some group members may diverge significantly in terms of their size and structure, this category seemed conveniently to capture some of the most significant elements of post 1963 regional economic growth: the role of mass tourism, an increasingly integrated European market, the decline of agriculture (in terms of employment and foreign exchange earnings) and the rise of services. Differences however existed in 1960, in the structure of the economies (Figures 6.15) and their recent economic performance (Figures 6.17), but not as great as the differences in the Micro Economies. To remove Cyprus from the group in 1964, and use the average performance of the remaining economies as the no war, growth proxy seemed to deserve further close analysis.

Figure 6.17 *"More Developed Mediterranean"; average annual percentage growth in real per capita GDP 1951-63.*



As Figures 6.14 to 6.20 demonstrate, Cypriot performance closely correlates with the regional "More Developed Mediterranean" mean in terms of background data: (per capita income in 1960, Figure 6.14), human capital development (school enrolment ratios, Figure 6.16); and conditioning factors: openness (Figure 6.19), government consumption as a proportion of national income (Figure 6.20), and even, though less closely, investment levels (Gross Domestic Investment Rates, Figure 6.18).

Figure 6.18 *"More Developed Mediterranean"; average investment levels as a percentage of GDP, 1950-63.*

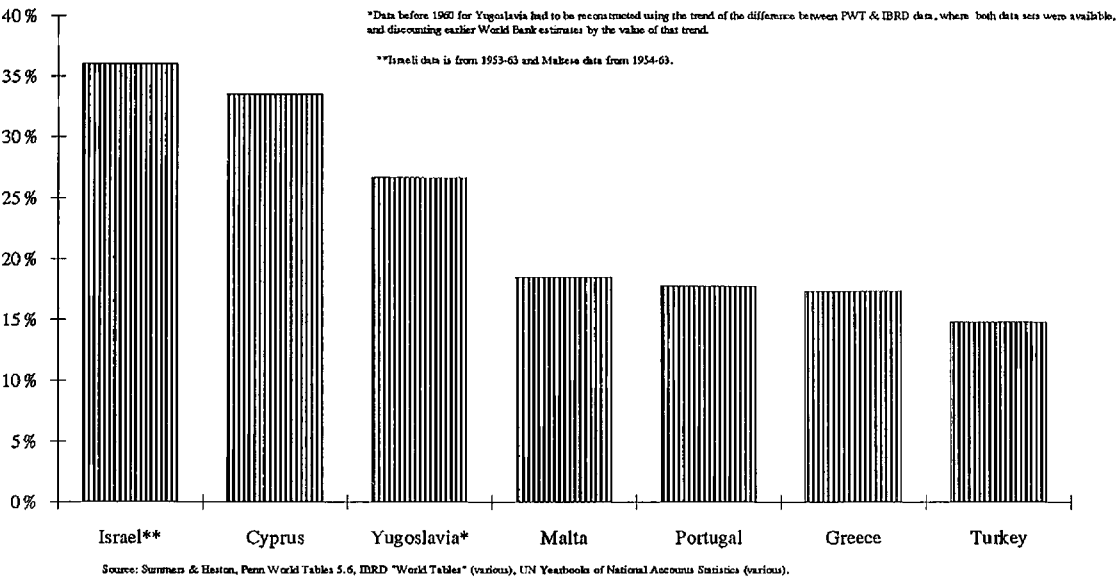
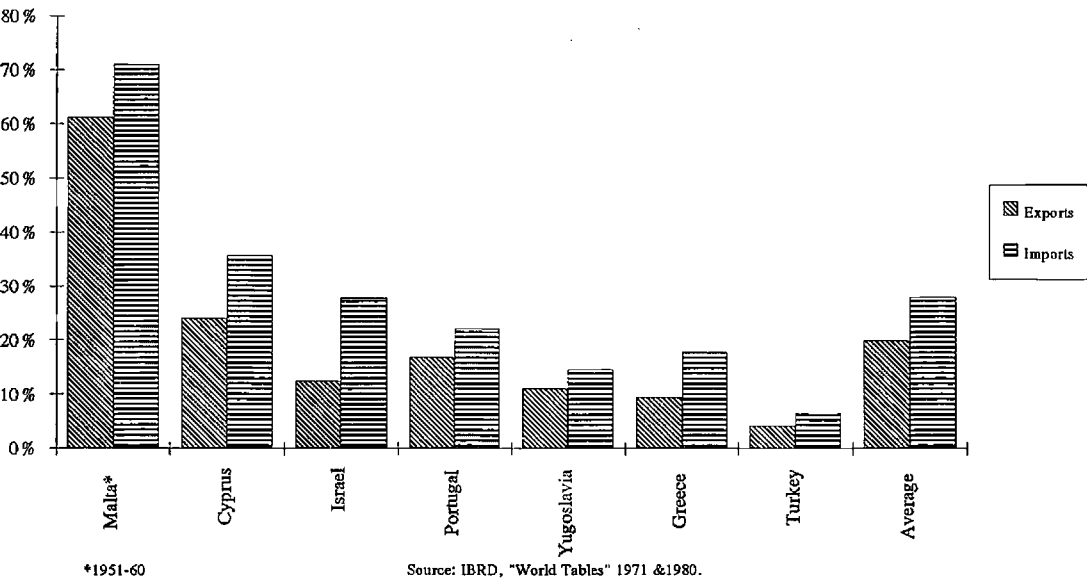


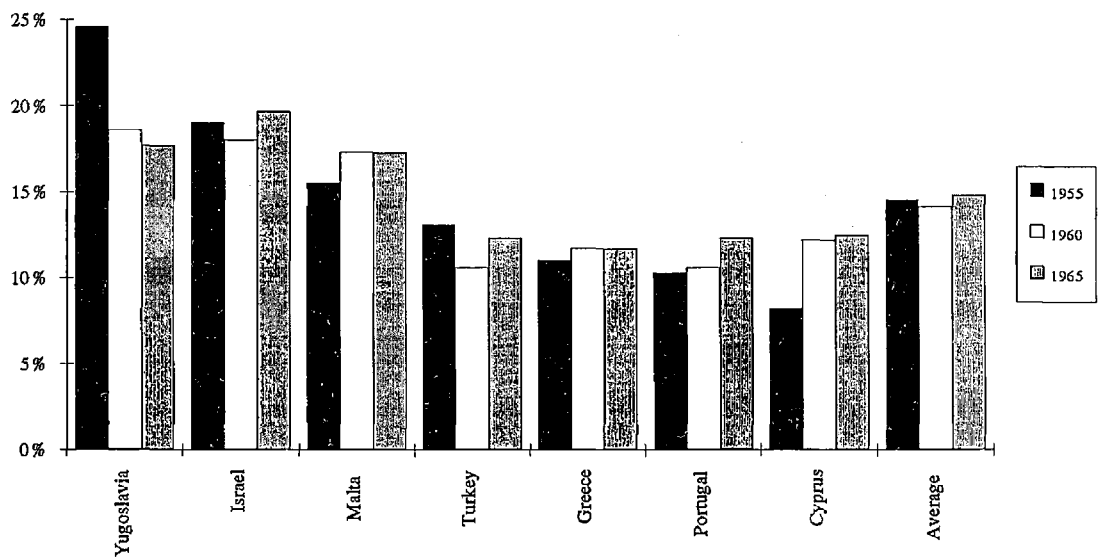
Figure 6.19 *Degree of openness in the "More Developed Mediterranean" economies; Imports & exports as a percentage of GDP, 1951-60.*



The higher than average investment levels (Figure 6.18) and level of openness to international trade (Figure 6.19) suggest higher than average growth, all other things being equal, as does the lower than average government consumption levels (Figure 6.20). Generally where Cyprus is not close to the mean it either performs at a level that indicates more rapid than average growth or its performance is close to the mode average. Any use of group mean growth rates as a proxy for a single

Cypriot growth rate, should not dismiss this World Bank selection of similar economies.

Figure 6.20 *The level of government consumption in the "More Developed Mediterranean" economies as a % of GDP in 1955, '60 & '65*



Given a similar performance in terms of background and conditioning factors in 1960, (or at least appropriate divergence from the mean, for example higher than average investment rates, Figure 6.18), it could be assumed that a unified Cypriot economy would (all other things being equal) continue to perform around the "More Developed Mediterranean" group of economies mean when it came to subsequent economic growth. However, whilst Cypriot background and conditioning factors conform quite closely to the average of "More Developed Mediterranean" economies, by simply removing the two outliers, Israel and Turkey⁴⁷, the fit may be even closer. The graphs below compare Cypriot performance with that of the "More Developed Mediterranean" economies other than Israel and Turkey, a group that will be referred to as the Regional Sub-Group.

⁴⁷ Israel being a belligerent, heavily externally financed, migrant economy and Turkey a much larger, more structurally diverse economy than other members of the group.

Comparing background, performance and conditioning factors in the Regional Sub-Group:

Figures 6.21 to 6.26 compare the same background, performance and conditioning factors as have been used in comparing the two groups of peer economies above. This time, these six key growth indicators compare Cyprus before 1964 with only four of the most similar regional economies. Again, Cyprus tends to perform at least as well as the mean average performance, suggesting that subsequent economic growth should be at least as good as the group’s average growth rate.

Figure 6.21 *Regional Sub-Group per capita income in 1960*

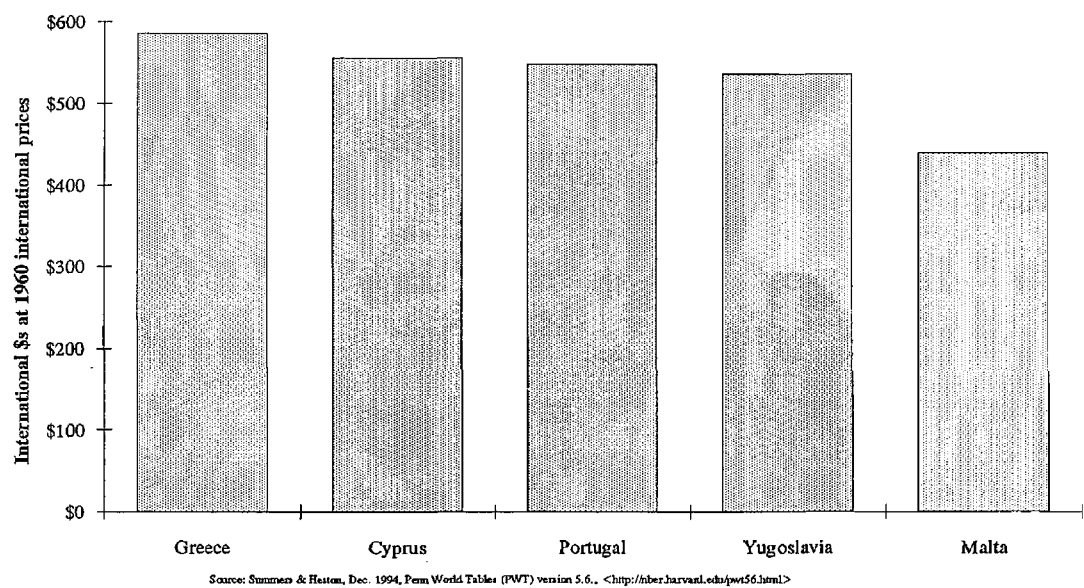


Figure 6.22 *Structure of production; % of GDP deriving from agriculture and industry in the Regional Sub-Group in 1960.*

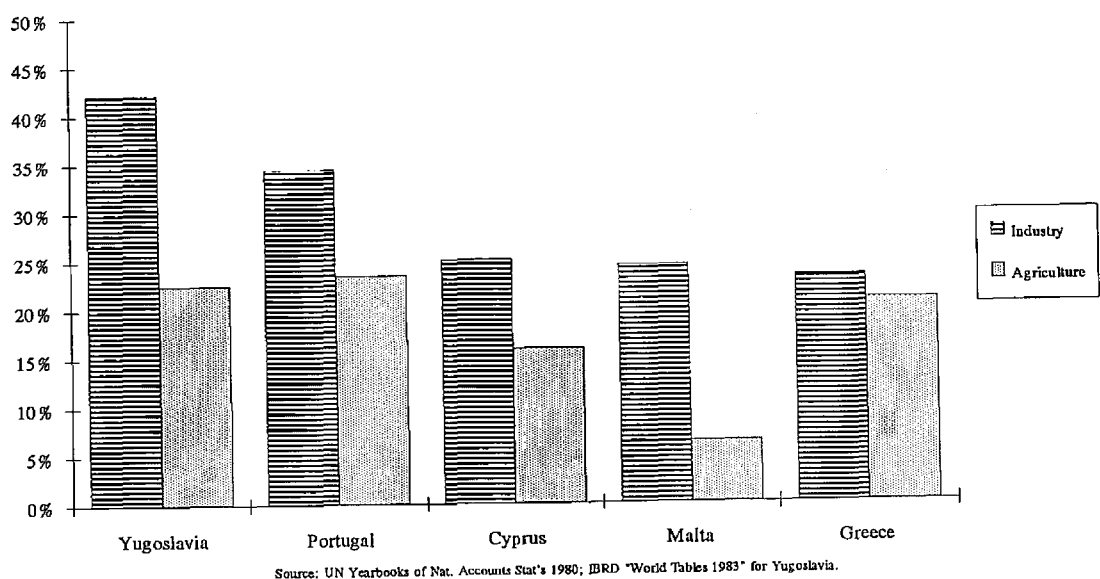


Figure 6.23 *Regional Sub-Group; average annual percentage growth in real per capita GDP 1951-63.*

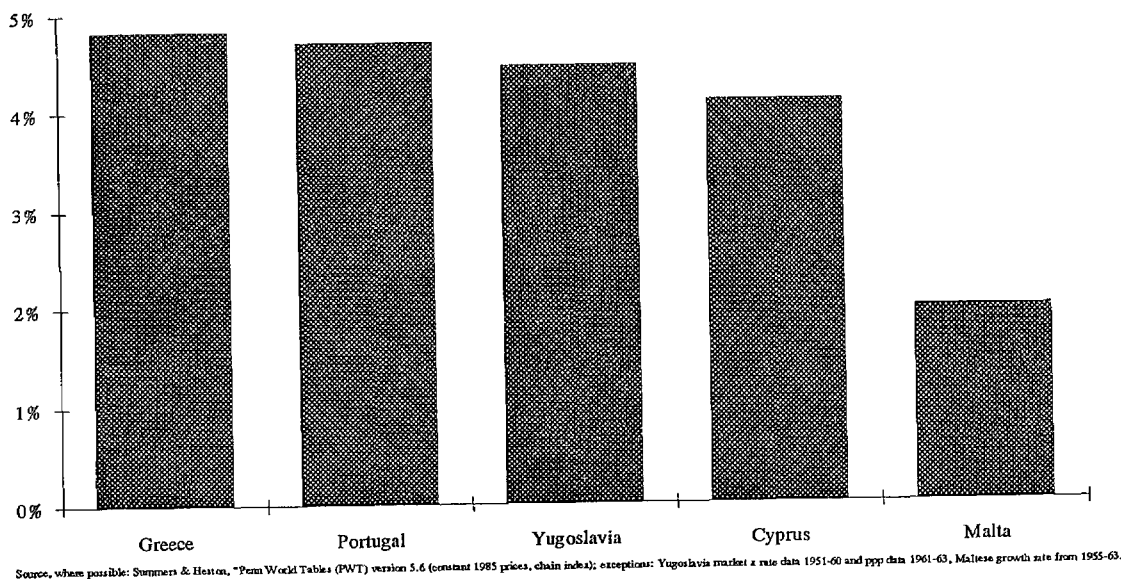


Figure 6.24 *Regional Sub-Group; average investment levels as a percentage of GDP, 1950-63.*

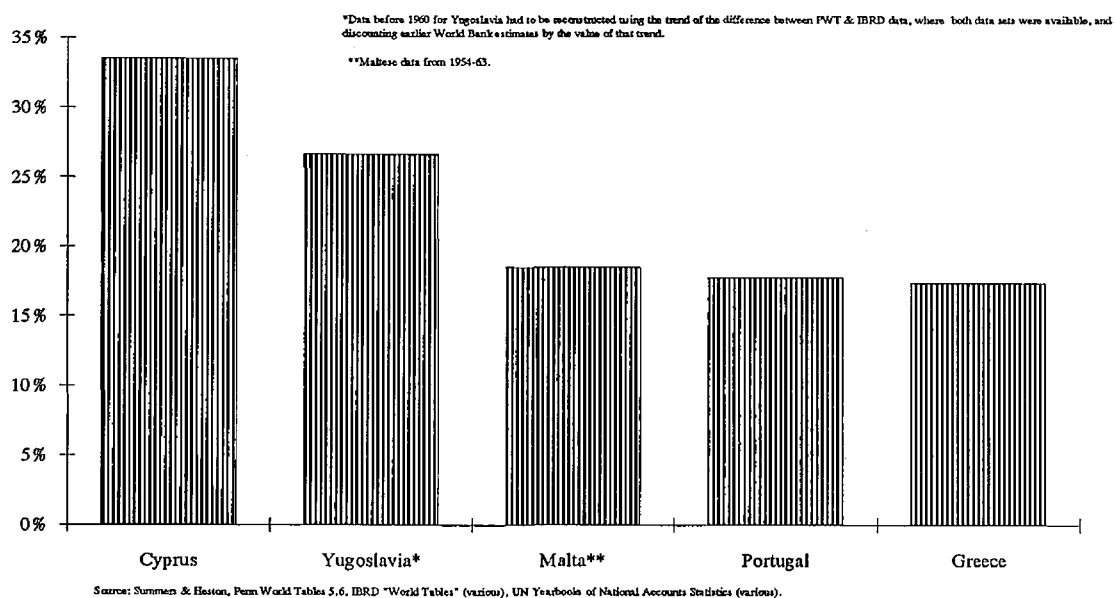


Figure 6.25 *Human capital development in the Regional Sub-Group; primary & secondary school enrolment in 1960.*

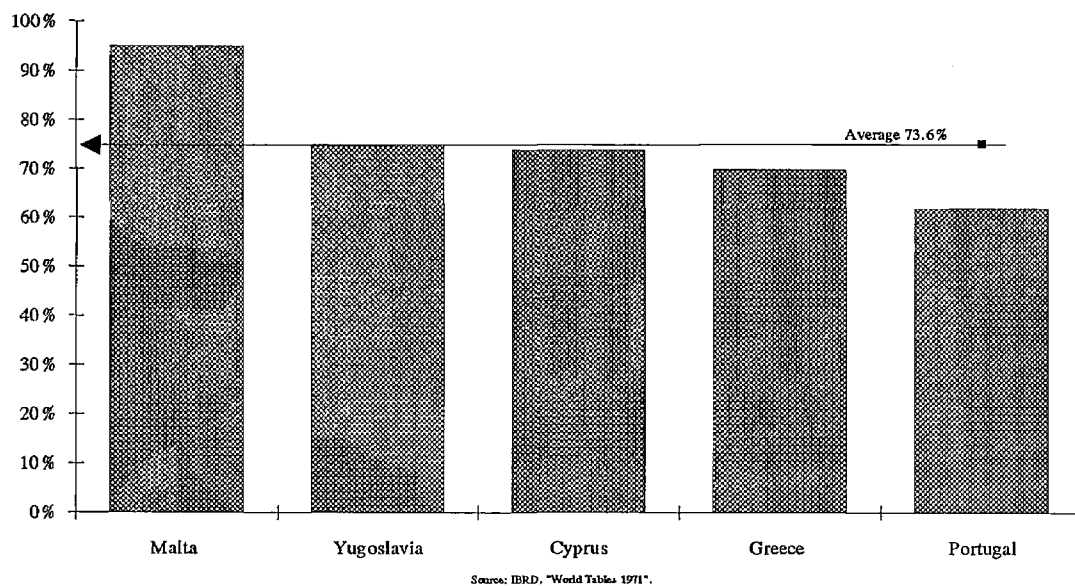


Figure 6.26 Degree of openness in the Regional Sub-Group; Imports & exports as a percentage of GDP, 1951-60.

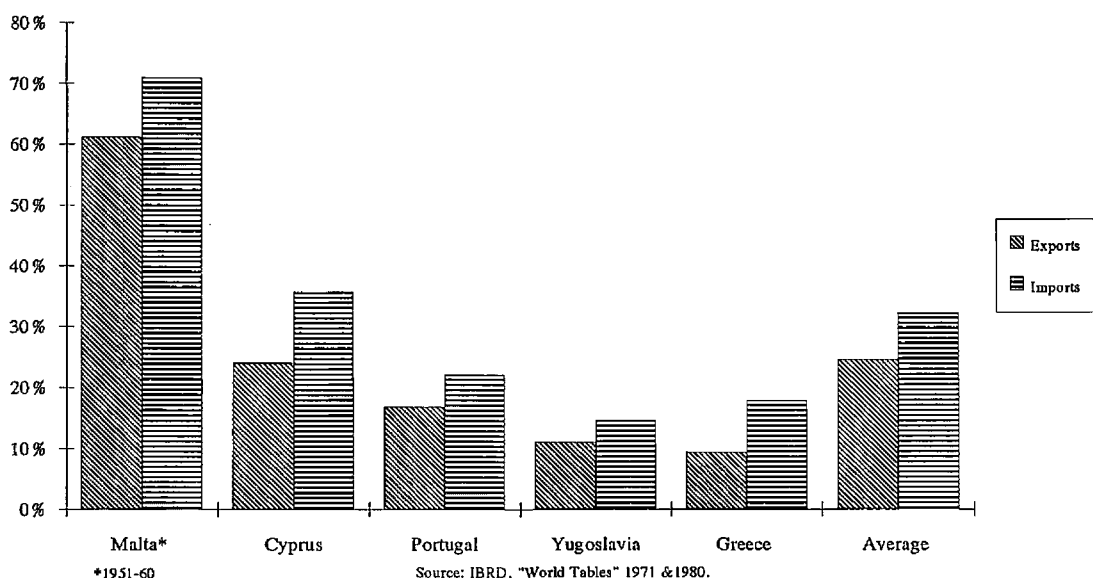
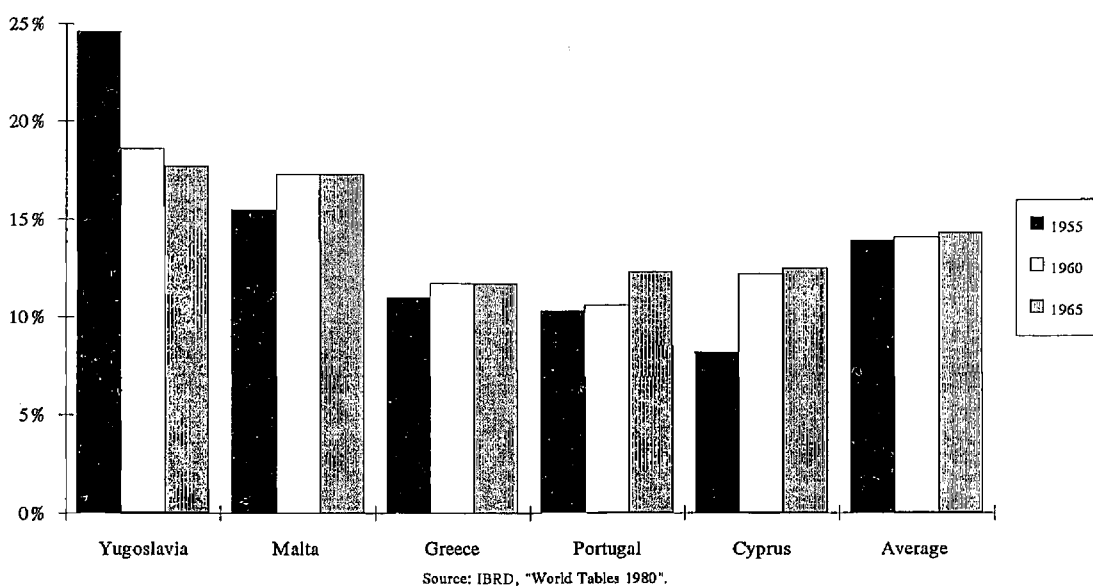


Figure 6.27 The level of government consumption in the Regional Sub-Group, as a % of GDP in 1955, '60 & '65



If the above economic indicators (Figures 6.21 to 6.26) are accepted as key growth criteria, Cyprus looks fairly typical in a group of fairly similar economies. Performance close to the mean of the Regional Sub-Group is particularly relevant if there are certain shared features which may not be captured by more general regression predictions, (such as predominantly demand led factors like the growth of mass tourism).

Statistical comparisons with the peer economies across a range of economic indicators.

Having seen Cyprus presented as something of an average performer across a range of key indicators in three different potential peer groups, it is useful to see how much variation there was around that average performance; so this section compares the coefficients of variation for the different peer groups across the range of economic indicators introduced earlier, before and after 1964. Before 1964 the groups include the unitary Cypriot economy (Table 6.3), after 1964 the group statistics exclude data from that increasingly divided economy (Tables 6.4 and 6.5). Table 6.3 underlines the eligibility tests of the groups' mean growth rates to act as a proxy for Cypriot growth after 1963. Tables 6.4 and 6.5 examine coefficients of variation after 1964 to test the robustness of the proposed alternative development paths: the peer groups' mean growth rates 1964-90 (which excludes Cypriot data). In the World Bank's recent analysis of development in 18 developing countries during the period⁴⁸, the 1960s and '70s were considered to be a period of "boom" for the developing world and the 1980's a period of "crisis and adjustment", so the analysis after 1964 was split again into pre and post 1980 sections. If a wide divergence in the performance of these economies occurs after 1964 across the range of key indicators, then the associated growth rate is less useful as a proxy for pan-Cypriot economic growth. However, if despite the removal of a near mean performer after 1964 and the turmoil of the 1980s, no pervasive divergence occurs, then the peer groups may offer a yardstick for how Cyprus could have done, had war and ethnic division not interrupted development.

In Table 6.3 the key background indicators presented earlier such as per capita income in 1960 (variable 1), the structure of production in the same year (variables 2-4) and the key performance indicator, namely growth in per capita income 1951-63 (variable 5), have been contrasted with some of the proxy measures of what the World Bank considers to be critical policy instruments associated with sustained

⁴⁸ Little, I.M.D., Cooper, R.N., Corden, W.M., Rajapatirana, S. 1993. Boom, Crisis, and Adjustment: the Macroeconomic Experiences of Developing Countries, Washington, OUP.

economic growth⁴⁹ (variables 6-9: investment rates, the level of human capital development, the openness of the economy and the government share of national income). In the next tables (6.4 and 6.5) the same variables are selected but background and structural data derive from 1980 and 1990, and growth experience from 1964-80 and 1981-90 respectively in the peer groups which then exclude the divided Cyprus.

Table 6.3 shows the coefficients of variation for the three proposed peer group economies (the Micro-Economies, the "More Developed Mediterranean" economies and the Regional Sub-Group), for the basic background, performance and policy indicators up to breakdown of the Cypriot constitution at the end of 1963.

Table 6.3 Group comparisons with a united Cyprus; coefficients of variation for selected indicators up to 1964.			
	Micro Economies	More Developed Mediterranean	Regional Sub-Group
1/. GDP per capita in 1960	0.513	0.273	0.104
2/. Agriculture as a % of GDP in 1960#	0.486	0.517	0.398
3/. Industry as a % of GDP in 1960#	0.456	0.254	0.274
4/. Services as a % of GDP in 1960#	0.168	0.240	0.260
5/. % growth in per capita GDP 1951-63*	0.894	0.273	0.292
6/. Average investment as a % of GDP 1950-63 **	0.516	0.363	0.313
7/. Total gross primary & secondary enrolment ratio in 1960.	0.139	0.273	0.162
8/. Openness; X & M as a % of GDP 51-60##	0.265	0.814	0.742
9/. Govt share of GDP (%) in 1960	0.531	0.378	0.371
Micro Economies: Cyprus, Barbados, Fiji, Malta, Mauritius, Trinidad & Tobago.			
More Developed Mediterranean: Cyprus, Greece, Israel, Malta, Portugal, Turkey, Yugoslavia.			
Regional Sub-Group: Cyprus, Greece, Malta, Portugal, Yugoslavia.			

Notes:

#Data for Fiji is for 1965, Value added from utilities in Barbados is included with transport and communications in 1960 (UN *Yearbooks of National Income Accounts*, various) so the proportion of GDP derived from the former in 1970 (first available disaggregated year - IBRD, *World Tables 1983*) has been subtracted from Transport and Communications in 1960, a relatively insignificant 1.8% of GDP and used as a rough estimate for the contribution of utilities to GDP in 1960.

*Israeli and Maltese average growth rate derived from 1954-63 and 1955-63 average respectively, and the Barbadian & Fijian figures from market exchange rate data 1950-60 & PPP data 1961-63.

**data before 1960 for Barbados, Fiji & Yugoslavia had to be reconstructed using the trend of the difference between PWT & IBRD data, where both data sets were available, and discounting earlier World Bank estimates by the value of that trend. Israeli data is from 1953-63 and Maltese data from 1954-63.

##Data for Fiji is from 1951-53, though 1963-67 (the next available data-set) is not very different.

Sources:

Variables 1,5,6 & 9, Summers & Heston, "Penn World Tables (PWT) version 5.6"; Variables 2-4, UN, *1980 Yearbook of National Income Accounts*, NY; Variables 7, 8, the value of utilities in Barbados (& other market x rate data), IBRD, *World Tables* (various).

The Micro Economies were expected to have the most similar production structures, and by some definitions they do (more on that later). In 1960 however, they have

⁴⁹ IBRD. 1991. *World Development Report 1991*. NY: OUP, pp. 1-164; IBRD. 1993. *The East Asian Miracle*; *op. cit.*, pp. 48-54.

only the closest correlating human capital development profiles, at least in terms of the important primary and secondary enrolment ratios (variable 7), and the most similarities in terms of their trade regime (variable 8), being the most open group of economies. Almost by definition the "More Developed Mediterranean" group of economies were more closely correlated than the Micro Economies in terms of their starting income, per capita income in 1960, a key background indicator. Once the two outliers Israel and Turkey are removed however, the correlation in starting income is even closer in the Regional Sub-Group. In terms of their 1951-63 growth record (variable 5), the Micro Economies diverge dramatically, as outlined earlier. With average investment rates, as a percentage of GDP (variable 6), the World Bank's regional grouping (MDM) had the closest correlating experiences between 1950-63. More countries have more similar, and similarly high, investment rates in the period encompassing Marshall Aid and US regional military assistance (Greece, Turkey, Israel, Portugal), colonial developmental and / or military expenditure by a departing colonial power (Israel, Malta, Cyprus). Either way the "More Developed Mediterranean" group of economies had average investment rates of 24% compared with the Micro Economies mean rate of 17% and the Cypriot average rate of 33% of GDP between 1951-60.

It is ironic that a group chosen partly on the basis of its supposed similarity in economic structure (Small and Primary Oriented), is so dissimilar in all but the contribution of services (possibly another function of smallness, particularly at the time). The structural differences appear to be greatest within the group when the contribution of agriculture in these "primary oriented economies" is considered. When it comes to the contribution of industry, the Micro Economies are the most divergent group (variable 3, Tables 6.3, 6.4 & 6.5). So what justification is there, other than their size, to treat these micro economies as a group? One justification is that much of their recorded structural differences are the consequences of recording and data compatibility problems which exaggerate real structural, and by

implication, developmental differences⁵⁰. Other justifications stem from the fact that in 1960 the Micro Economies were, like Cyprus, all very small, open, service oriented island economies, with similar levels of human capital development.

Table 6.4 Subsequent convergence or divergence within the groups (excluding Cyprus)? Coefficients of variation for selected indicators 1964-80.			
	Micro Economies	More Developed Mediterranean	Regional Sub-Group
1/. GDP per capita in 1980	0.584	0.308	0.124
2/. Agriculture as a % of GDP in 1980	0.796	0.645	0.502
3/. Industry as a % of GDP in 1980	0.559	0.227	0.176
4/. Services as a % of GDP in 1980	0.230	0.144	0.116
5/. % growth in per capita GDP 1964-80	0.572	0.328	0.226
6/. Average investment as a % of GDP 1964-80	0.411	0.136	0.131
7/. Total gross primary & secondary enrolment ratio in 1980.	0.103	0.131	0.072
8/. Openness; X & M as a % of GDP 64-80	0.254	0.770	0.761
9/. Govt share of GDP (%) in 1980	0.296	0.496	0.190
Micro Economies: Barbados, Fiji, Malta, Mauritius, Trinidad & Tobago.			
More Developed Mediterranean: Greece, Israel, Malta, Portugal, Turkey, Yugoslavia.			
Regional Sub-Group: Greece, Malta, Portugal, Yugoslavia.			
Sources: Variables 1,5,6,8 & 9, Summers & Heston, "Penn World Tables (PWT) version 5.6"; Variables 2-4, UN, <u>1992 Yearbook of National Income Accounts</u> , NY; Variable 7, UNESCO, <u>World Education Report</u> , 1991, 1993, 1995. Paris.			

The logical counterpoint to the relative dissimilarity of the economic structures of the Micro Economies is that, by this measure, the regional economies were remarkably similar in structure in all but the contribution of agriculture, or at least

⁵⁰In 1960 only 10% of Trinidad and Tobago's GDP derived from agriculture, whilst 40% derived from the primary sector. Depending on whether income generated from the extractive industry is allocated to industry of the primary sector, industry represents 50% of GDP in 1960 or 20% respectively. Unfortunately there are problems with grouping the extractive industry along with hunting, forestry and fishing in a "Primary Sector", problems which gather pace the further back a historical enquiry goes. This is why the World Bank has opted for the sectorial divisions: Agriculture, Industry and Services (Agriculture includes the UN categories: agriculture, hunting, forestry and fishing; Industry includes: mining, quarrying, manufacturing, electricity, gas, water and construction; Services include: whole and retail trade, restaurants and hotels, transport and communications, finance, insurance, real estate and business services, community, social and personal services, producers of government services and other - including statistical discrepancies). The World Bank, in its "World Development Reports", has attempted to avoid problems of interpretation by disaggregating manufacturing from industry, "because manufacturing is generally the most dynamic part of the industrial sector, its share of GDP is shown separately" IBRD. 1991. World Development Report 1991, p.209. Here, problems with data from Israel (manufacturing included mining and quarrying), Portugal (manufacturing included mining and quarrying) and Malta (mining and quarrying included in construction), mean that the same structural classifications have had to be used, though it is worth considering that estimates for coefficient of variation for the structure of production in the Micro Economies could be far closer if the extractive industry was included in a primary sector rather than being dumped in a more general "industry" category. When considering the primary sector in 1960 the Micro Economies look like they would be the closest correlating group if this strategy could be followed, and for the industrial sector they would be very close to the regionally related economies. Having said that, other than Trinidad and Tobago, and to a much lesser extent Malta, the above structural classifications do give a meaningful reflection of the structure and stage of development of most of the individual economies chosen here.

more similar than the group of economies initially picked on the basis of their structural similarity (see Tables 6.3, 6.4 and 6.5). Generally all of the peer economies had, like Cyprus, large but declining agricultural sectors in 1960, small but growing industrial sectors and large but still rapidly expanding service sectors.

The Micro-Economies are however, unsurprisingly, the most similarly open to international trade, measuring total imports and exports as a percentage of national income (variable 8). Simply because of their limited resource base, they would be expected to be very open to international trade as they are wholly dependent on trade for their survival. A low coefficient of variation for the eighth variable must therefore reflect structure, and in this case size rather than policy, a factor which also contributes to the even closer correlations in the contribution of the service sector, partly a function of size and perhaps increasingly location rather than simply policy or stage of development. Cyprus finds itself exactly in the middle of all eleven economies in terms of openness to international trade in the 1951-60 period. Essentially it is located at the bottom of the Micro Economies scale and at the top end of the MDM economies (see Figures 6.10 and 6.19).

The divergence in the government share of national income in 1960 (Table 6.3, variable 9) is greatest for the Micro Economies and lowest for the Regional Sub-group, though the difference between the latter and the World Bank's MDM is far from being statistically significant. A significant convergence in this indicator for the Micro Economies and the Regional Sub-Group (Table 6.4) would imply that both groups were likely to benefit or suffer from similar policy influences. The Regional Sub-Group converges from an average government share of GDP in 1960 of 19% to 16% in 1980. With the Micro Economies, however, convergence is in the other direction, more rather than less government with the average government share of GDP rising from 14% in 1960 to 16% in 1980. As expected, Israel and Turkey's divergence from the norm contributes to the divergence of the "More Developed Mediterranean" economies between 1960 and 1980 (Table 6.3 and 6.4). Again as expected, Israel's government share of GDP is at the far end of the

spectrum in 1980 at 38%. Perhaps less expected though, is that Turkey's government share of GDP is at the low end of the spectrum⁵¹.

Correlations with Cyprus in the key growth related background, policy and performance indicators up to the time of the breakdown of the Cypriot Constitution at the end of December 1963 (Table 6.3), implies similar growth potential that subsequent events may have undermined. Generally what happens between Table 6.3 and Table 6.4 (after 1964 and after removing Cypriot data from the comparison) is that divergence narrows considerably. This is particularly significant considering the very act of removing a close to mean performer around 1960 (Cyprus) from the 1964-80 statistics could generate the possibility of greater divergence in the later statistics. Overall the coefficients of variation declined in around 60% of cases in the 1964-80 period (Table 6.4), and in 92% of selected policy indicators (variables 6-9), revealing a statistically and economically significant level of convergence within the separate peer groups. This all broadly

⁵¹ Govt share of national income, here derived from Summers, R. and Heston, A. 1991. The Penn World Tables, version 5.6, the National Bureau of Economic Research, Cambridge MA <http://nber.harvard.edu/pwt56.html>) in constant international prices. These statistics do not seem to fully reflect, more, compatibly reflect, the economic role of government. Summers and Heston put the average Turkish Govt's share of GDP in the 1980's at 12% (this time in current prices) making Turkey the economy with the third lowest Govt share of GDP out of the 11 peer economies (the same ranking as at constant prices), and less than a single percentage point above the economy with the lowest Govt share. In 1980 Anne Krueger & Okan Aktan claim (1992. Swimming against the Tide: Turkish Trade Reform in the 1980's. San Francisco: ICS Press, p.57) that the deficits in the State Economic Enterprises (SEEs) alone would represent nearly 6% of GNP. In a World Bank publication (Onis, Z. & Riede, J. 1993. Economic Crisis and Long-Term Growth in Turkey. Washington: IBRD, Table 7.3, p.42.) the financial deficits of the SEEs in 1980 were equivalent to 95% of that year's PSBR and 137% in the following year (between 1980-87 SEE deficits averaged 80% of the annual PSBRs when, on average, the PSBR represented about 6% of GNP. Seemingly if SEE deficits alone represented almost all of Turkey's PSBR throughout much of the 1980's, whilst Turkey also, for much of the time, waged a war in the South East at an estimated to cost 20% of the state budget (Preliminary Draft Report of the Defence Committee of the Assembly of Western European Union - 40th session - on The Eastern Mediterranean. Paris, 19 May 1995, A/WEU/DEF (95) 2, p.11) the measures of Turkish Govt share of GDP appear to understate its economic role. In the IMF's International Financial Statistics (various) Turkey is also ranked very low in terms of Govt expenditure, expressed as a % of GDP (in current prices), this time second from bottom out of the 11, though registering an intuitively more realistic share of national expenditure, twice the Summers and Heston derived figure. It is, however, the ranking that is important here, because of what it says about the value of inter-country comparisons. The rankings, however, appear most contradictory: Summers and Heston's Govt with the lowest share of the eleven's respective GDPs, is the IMF's third highest, whilst Turkey is ranked with the governments with the lowest shares of GDP. Both data sets fail to offer a compatible inter-country quantitative comparison of the economic role of govt, more of a failing in the Summers and Heston data set because that is what they set out to do, diluting the power of this highly significant indicator of the economic vitality of a nation.

supports the idea of using average peer group growth rates as a bench-mark for a unitary Cypriot economy in 1980.

Between the initial period analysed in Table 6.3 and the following period (Table 6.4), the Micro Economies' experiences of convergence are located in the performance and policy indicators: economic growth between 1964-80 as compared to the 1950-63 period (variable 5), investment rates, school enrolment ratios, the level of openness to international trade and the government share of GDP (variables 6-9). The "More Developed Mediterranean" group of economies experience some structural convergence (industry and services, variables 3 and 4), convergence in investment rates and school enrolment (variables 6 and 7). The Regional Sub-Group converges even more closely on all the MDM counts, as well as in its growth performance and the government share of GDP. Initially put in as a sanity test, the data analysed in Table 6.4 shows that there is no great divergence in the groups' performance and policies following the removal of Cyprus. Seemingly the test works and a mean growth rate based on the performance of these, admittedly diverse, groups of economies seems to have meaning because, after establishing similarities with an unusual economy like Cyprus in 1960, growth related data does not subsequently diverge dramatically, rather the reverse, at least until 1980.

On the basis of past performance and in terms of background indicators (all other things being equal, the greatest indicator of subsequent performance⁵²), the Regional Sub-group is both the closest match to the Cypriot economy at the end of 1963 (see graphs in previous section), and has the closest inter-correlating experiences. In terms of the structure of the economy and the second highest single statistically located contributor to economic growth, primary and secondary school enrolment⁵³, the Micro Economies seem to offer the best guide to subsequent Cypriot performance. However, if the single greatest policy indicator affecting growth,

⁵²"Evidence from Cross-Economy Regressions of per capita income growth", (IBRD. 1993. The East Asian Miracle.... *op. cit.*, pp. 48-54).

⁵³*ibid.*

namely investment rates⁵⁴ (in physical capital) are considered paramount, then the best parallel performance must be offered by the World Bank's "More Developed Mediterranean" group of economies. A single Cypriot economy could have experienced an increasing economic role of government, like the average Micro Economy, in the 1964-80 period, or a shrinking role of government like the average Regional Sub-Group economy; either way, growth would be likely to have been affected. Given the fact that each possible peer group out performs the others in some correlating experiences with Cyprus until 1964 (Tables 6.3), or offers policy alternatives in the 1964-80 period, each peer group's mean economic performance offers a range of potential possibilities for a single Cypriot economy, a range of benchmarks for a unified, integrated Cypriot economy in 1980.

There are three reasons why the earlier bench-marking stopped in 1980. The first is that simply extrapolating from past performance does not allow a statistically and / or historically relevant result to be extended beyond a very few years. Another reason is because 1980 offers a useful cut-off point between recovery from the effects of war, *de facto* territorial shifts and separate economic development. 1980⁵⁵ appears to be the point at which both economies have recovered from their respective political traumas, so presumably any costs of division can be determined then. Another reason to end bench-marking in 1980, is because the proxy for all-island economic development being developed here, the performance of peer economies, appears to offer a less convincing benchmark at the mean after 1980. A significantly wider and widening divergence in economic performance occurs amongst the peers after 1980, in all three groups (variable 5, Table 6.5); this tallies with the performance of developing countries more generally⁵⁶. However, the proposition that without war Cyprus should have done no worse by 1990 than the lowest average peer group performance, remains temptingly available as a tool to determine something of the cost of division.

⁵⁴*ibid.*

⁵⁵In 1980 Turkish Cypriot exports peaked as a % of GDP, Source: "TRNC", "State" Planning Organisation. Unpublished National Accounts Statistics. (Under Secretary Ahmet Zeki Bulunc, 1993).

⁵⁶Little, Cooper, Corden, & Rajapatirana 1993. *op. cit.*

Table 6.5 Subsequent convergence or divergence within the groups (excluding Cyprus)? Coefficients of variation for selected indicators 1981-90.			
	Micro Economies	More Developed Mediterranean	Regional Sub-Group
1/. GDP per capita in 1989	0.241	0.299	0.133
2/. Agriculture as a % of GDP in 1990	0.889	0.670	0.552
3/. Industry as a % of GDP in 1990	0.456	0.147	0.182
4/. Services as a % of GDP in 1990	0.152	0.107	0.084
5/. % growth in per capita GDP 1981-90*	1.755	1.122	1.469
6/. Average investment as a % of GDP 1981-90*	0.388	0.167	0.181
7/. Total gross primary & secondary enrolment ratio in 1990.	0.071	0.074	0.067
8/. Openness; X & M as a % of GDP 1981-90*	0.287	0.583	0.613
9/. Govt share of GDP (%) in 1990**	0.249	0.345	0.192
Micro Economies: Barbados, Fiji, Malta, Mauritius, Trinidad & Tobago.			
More Developed Mediterranean: Greece, Israel, Malta, Portugal, Turkey, Yugoslavia.			
Regional Sub-Group: Greece, Malta, Portugal, Yugoslavia.			

Notes:

*1981-90 Maltese and Barbadian averages derived from 1981-89 and their 1990 Govt shares of GDP derive from 1989.

Sources:

Variables 1,5,6,8 & 9, Summers & Heston, "Penn World Tables (PWT) version 5.6"; Variables 2-4, UN, 1992 Yearbook of National Income Accounts, NY ; Variable 7, UNESCO, World Education Report, 1991, 1993, 1995. Paris.

Table 6.5 shows the relative economic position of the peer economies (again without the inclusion of Cypriot data) in the developmental indicators selected earlier. Between the periods of analysis used in Table 6.3 and 6.4 there was convergence across the spectrum of indicators, particularly the policy related indicators. Whilst most of the selected indicators continue their convergence in the 1981-90 period, the performance indicator diverges significantly from the 1964-80 data (Table 6.4) by an average of over 330% for the peer economies as a whole. In some ways this may be a necessary divergence, for per capita incomes have generally converged significantly: most dramatically from a coefficient of variation in 1980 of 0.584 in the Micro Economies, to 0.241 by 1989. Convergence is maintained moreover in nearly 70% of the policy related indicators after 1980. If "adjustment" to "crisis"⁵⁷ was occurring in some of these economies, then this was convergence in the right direction, with countries attempting more market friendly, long-term growth oriented policies. So whilst the main tool for bench-marking a single Cypriot economy's performance into the 1990s is likely to contain a greater spread of possibilities for economies with similar backgrounds and policy

⁵⁷*ibid.*

instruments, the justification for using such a proxy is even greater, because of the general convergence in per capita incomes by 1990.

Given that Cyprus appeared to be an average performer across most of the key indicators in all three groups up to 1960, and that no pervasive divergence occurred after 1964 across this range of growth related variables, despite the removal of Cyprus as a near mean performer after 1964 and the economic turmoil of the 1980s, then the peer groups offer a yardstick for how Cyprus could have done had war and ethnic division not interrupted development. Performing somewhere in the middle before the constitution broke down, Cyprus should have done at least as well as the worst average group performance after 1963; anything significantly less should be seen as the economic cost to Cyprus of the "Cyprus problem".

Some preliminary benchmarks

Having chosen three peer groups for the Cypriot economy, there are now three proxy measures, a range of possible growth rates to compare with the extrapolations attempted earlier. With a little less uncertainty, and no longer being dependent on too few observations, a benchmark for all island integrated Cypriot growth can be taken to 1990 and compared with the combined real income of both the *de facto* Cypriot economies, to see whether the island as a whole and the income of each respective community meets with expectations thus formed. This work will however be split into two parts, the first attempting to hazard another estimate of the cost of division by 1980. This section will compare Cypriot economic growth with peer group averages to 1980, when most of the divergence could be assumed to be the immediate consequences and costs of war and division. The second part will extend the exercise to 1990, comparing Cypriot growth in the 1980's, when two separate *de facto* economies and economic policies could be seen to have emerged.

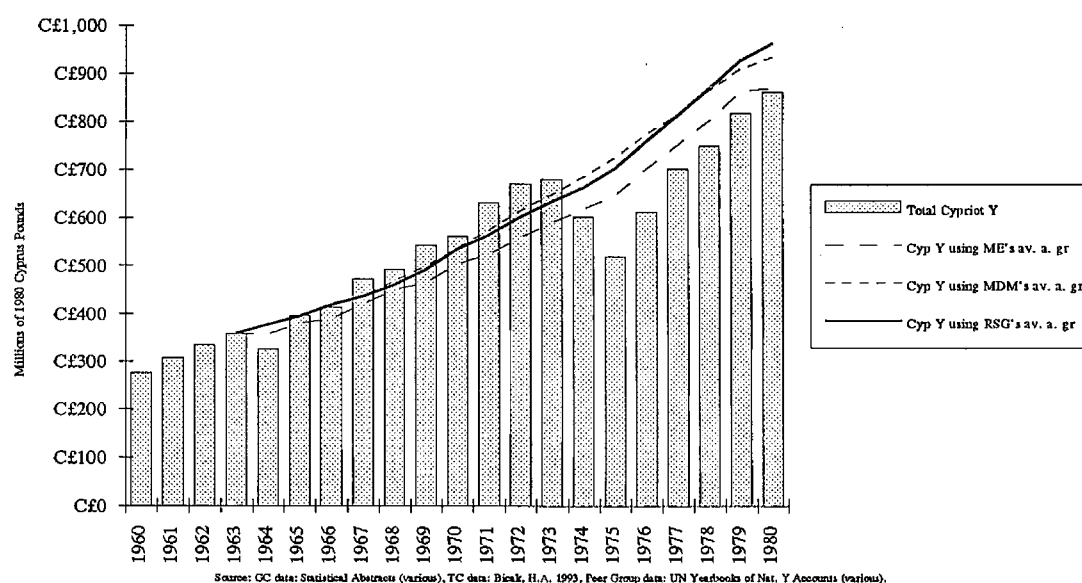
It could be expected that countries with lower per capita income in 1960 (the background variable), higher investment and school enrolment rates, a higher degree of openness and less government consumption (the conditioning variables), would grow faster than Cyprus subsequently and vice versa. If Cyprus however seems to perform close to the mean in these key indicators, in 1960, the worst that should be expected of Cypriot performance, had war not interrupted development, was that its performance would be not much worse than the annual average of the group. So the Micro Economies, the "More Developed Mediterranean" group, and the Regional Sub-Group's mean offers a continuum, a range of possibilities for what should have been expected of the Cypriot economy after 1963 (see Table 6.6).

Table 6.6 Average annual growth of GDP.		
	1964-80	1981-90
Micro Economies	5.2%	2.0%
More Developed Mediterranean	5.8%	2.9%
Regional Sub-group	6.0%	2.2%

Source: UN Yearbooks of National Accounts Statistics, (various).

The average annual growth rates, given in aggregate above (Table 6.6), have been used to extend an idealised unitary Cypriot economy to 1980 and then to 1990 from the watershed of 1963. If the combined Turkish and Greek-Cypriot income is less than that projected using the shortest of these yardsticks, Cyprus could be said to have under-performed as a consequence of war and *de facto* partition. Both MDM and its Sub-group have a similar average annual growth rate of 5.8% and 6.0% respectively between 1964-80, whilst the average growth rate for the Micro Economies is somewhat slower at 5.2%. The peer group average annual rates of growth have been projected onto Cypriot income after 1963, (Figure 6.28 below). The slower average growth rate of the Micro Economies gives a GNP estimate which matches very closely the actual aggregate income generated in Cyprus in 1980. Compared with the other peer groups' annual average growth rates however, Cyprus does appear to have under-performed by 1980.

Figure 6.28 *Average annual growth in aggregate (Greek & Turkish) Cypriot GNP.*



On the basis of background, conditioning and performance indicators, the Regional Sub-group (RSG) is the best parallel for a no war Cypriot growth rate (see earlier sections), but as it is perhaps unrepresentatively small, both the slower growth rate of the "More Developed Mediterranean" (MDM) and the Micro Economies (ME) are projected on Cypriot income after 1963. Consequently, the tables below summarise a range of possible answers as to whether Cyprus as a whole, and the individual communities in particular, had gained or lost by 1980, from the disruption and division of the economy in 1963 and 1974.

Table 6.7 *All island, Greek & Turkish-Cypriot GNP in 1980 (in mlns of 1980 CYP's) assuming the constitution did not breakdown at the end of December 1963.*

Source: Greek Cyp. data: Stat. Abstracts, Turkish Cyp. data: Bicak, H.A. 1993, Peer Group data: UN Yearbooks of Nat. Y Accounts.

	A	B	C
	All Cypriot GNP	Greek Cyp. GNP	Turkish Cyp. GNP
Actual GNP in 1980	C£863	C£787	C£76
Benchmark using Micro Economies ⁵⁸ average growth rate	C£869	C£743	C£126
Benchmark using the average MDM ⁵⁹ growth rate	C£934	C£799	C£135
Benchmark using Regional Sub-group's average growth rate	C£962	C£823	C£140

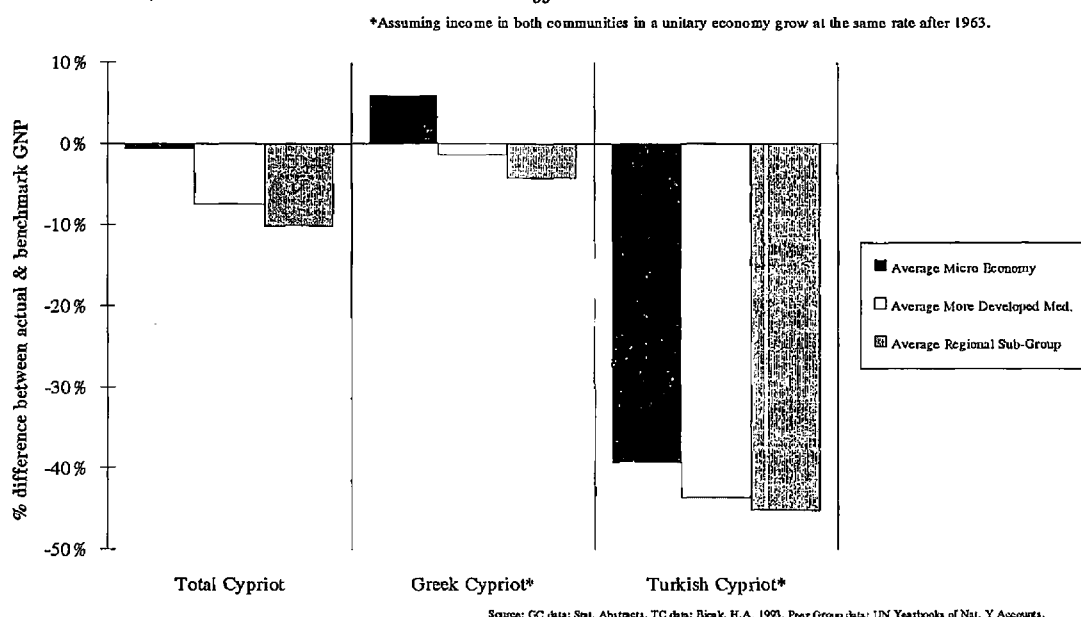
* on the basis that income in both communities grows at a similar rate after 1963

As there is no obvious way of determining conclusively the performance of the Cypriot economy as an integrated whole after 1963, the three above attempts (Figure 6.28 and Table 6.7) have the saving grace of at least not being contradictory. These projections from the 1963 watershed all point in the same direction, the implications being that if the Constitution had not broken down and the island had not been divided ethnically and subsequently regionally, north and south, the average annual growth rate should have been over 5%, giving an all island GNP of between CYP870-960 (in millions of 1980 Cypriot pounds -CYP). The first three columns of Figure 6.29 below, show that total income in Cyprus did not match these peer group averages.

⁵⁸Despite the fact that there was enough data to compare each economy with Cyprus in and around 1960, there was still a problem getting hold of real GNP data for some of these countries in the early period. Out of 85 possible observations there are only 72, so this growth rate should be considered with particular scepticism. All missing observations occur before 1969.

⁵⁹More Developed Mediterranean.

Figure 6.29 *How Cyprus fared in 1980 compared with how the economy could have done; how much better or worse off was it?*



Greek-Cypriots come out of the exercise (Figure 6.29) only marginally better off in this idealised projection, if not considerably worse off. On balance, they appear to have performed about equal to expectations. What is more dramatic in Figure 6.29, is the extent to which Turkish-Cypriots seem to have under-performed, compared with what could have been expected in 1963. Turkish-Cypriots were far worse off in 1980, seemingly as a consequence of earlier divisions and irrespective of subsequent Turkish military attempts to correct the balance. The economy as a whole, on the other hand, could have done better had it not been divided ethnically. Less expectedly, the Cypriot economy would seem to have been only marginally better off had it remained unified and integrated, following the growth trajectory of its peers (1st 3 columns, Figure 6.29). The island economy in 1980 suffered as a consequence of civil war and *de-facto* division. The implicit professional consensus⁶⁰ that a single economy in Cyprus could have done better than two separate non-communicating ones does not seem to be misplaced. Although losses from years of ethnic hostility and conflict, from foreign martial intervention and *de facto* division do not appear to have dramatically affected economic growth on the island by 1980, the question remains, how has longer term growth been affected by *de facto* division?

⁶⁰UN Security Council, 17 December 1993. (Unpublished) "Report of the team of experts on the economic benefits of the Varosha and Nicosia International Airport package".

Benchmarks of a unitary Cypriot economy in 1990

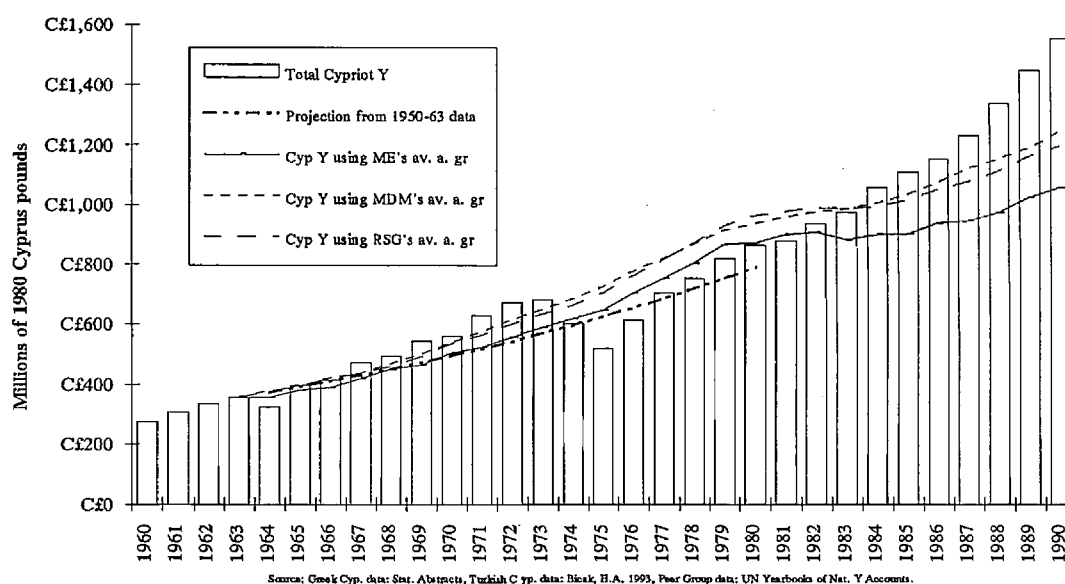
Given continued general convergence amongst the peers in most key indicators and given that these simple yardsticks have all pointed in roughly the same direction, it is worth extending the model to 1990. The average economic growth rates for all three selected peer groups for the periods 1964 to 1980 is fairly similar, ranging from around 5% to around 6%. After 1980 average growth rates drop considerably to between 2-3% in the period 1981 to 1990, seemingly a development echoed elsewhere⁶¹, and presumably one that Cyprus may have been likely to follow if political circumstances had not intervened. With the divergence however in the growth performance of the economies in the three suggested peer groups, caution should be applied to any meaning ascribed to projections so derived.

Whilst Cyprus' performance may well have been widely at variance with the group averages, she should have equalled that of the slowest growing economies with similar characteristics at the beginning of the period looking. Divergence from the mean in the 1980's is generally so great as to offer a less distinct line in the sand than projections up to 1980, though as a basis for minimum expectations, the statistics provide a guide to questions concerning the long-term costs of political upheaval on the island. Estimates to 1980 seemed to conclude that the short-term result of the political upheavals were negative but not significantly so. Do the longer-term projections point in the same direction?

Figure 6.30 (below) plots the average annual growth rates of the three peer group economies over aggregate Cypriot income (total Cypriot income, that is Greek and Turkish-Cypriot income combined), and which have been used to extend an idealised unitary Cypriot economy to 1990, from the watershed of 1963. Also plotted, is the earlier extrapolation that extended a benchmark for pan-Cypriot from 1963 to 1980.

⁶¹ Little, Cooper, Corden, & Rajapatirana 1993. *op. cit.*

Figure 6.30 *Total Cypriot income 1964-90 compared with growth projections using peer group annual averages.*



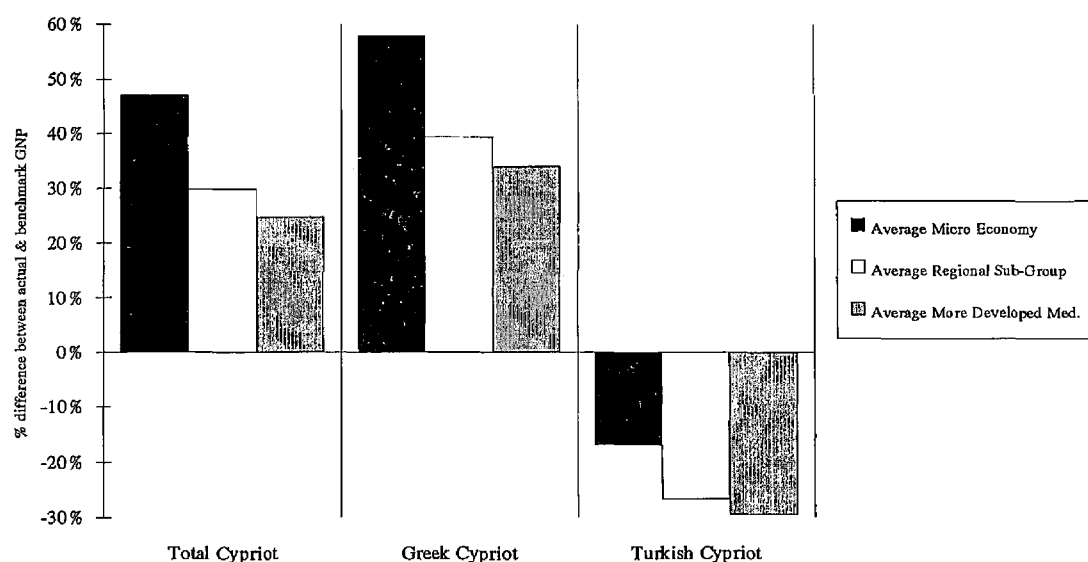
The consequences of the political upheavals in 1963 and 1974 are again clearly visible. These are the points at which the Cypriot economy significantly under-performs *vis-à-vis* the peer economies' mean growth rate. After the smaller overall shock of 1963, the Cypriot economy recovered and accelerated considerably faster on average than its peers, catching-up and over-taking expectations by 1967. The overall recovery from 1974 is far slower as it affected more of the island and the majority community adversely. Not until well into the 1980s, when all the peer group mean average growth rates slow significantly, does it meet and then rapidly exceed expectations formed by using peer group averages.

Table 6.8 below shows total Cypriot aggregate income along with Greek and Turkish-Cypriot GNP in 1990. These figures are compared with the three benchmark estimates of Cypriot income in an idealised unitary economy, assuming ethnic conflict and war had not interrupted development. Below the row labelled "Actual GNPs in 1990", in columns B and C, communal income distributions are hazarded, assuming income in both communities grew at the same rate in a unitary economy.

Table 6.8 Greek & Turkish-Cypriot GNP in 1990 (in mlns of 1980 CYP's) estimated using average peer group growth rates 1964-90.			
Source: Greek Cyp. data: Stat. Abstracts, Turkish Cyp. data: Bicak, H.A. 1993, Peer Group data: UN Yearbooks of Nat. Y Accounts.			
	A	B	C
	All Cypriot GNP	Greek Cyp. GNP	Turkish Cyp. GNP
Actual GNP in 1990	C£1,554	C£1,427	C£127
Benchmark using Micro Economics average growth rate	C£1,057	C£903	C£153
Benchmark using the average MDM growth rate	C£1,246	C£1,066	C£181
Benchmark using Regional Sub-group's average growth rate	C£1,197	C£1,023	C£174
* on the basis that income in both communities grows at a similar rate after 1963			

Assuming that Cypriot performance should have been close to the mean of a group of economies with similar background, performance and policy instruments, the first three columns of Figure 6.31 (below) and column A of Table 6.8 reveal that the island as a whole seems to have suffered little over the longer-term period, 1964-90. Under the control of two mutually antagonistic economic managements the island economy as a whole seems to have exceeded expectation. However, as columns B & C in Table 6.9 reveal, most of the benefits of that performance seem to have accrued to the Greek-Cypriot economy. Even by 1990 when the weight of the costs of 1963 should have been counteracted by the relative benefits of 1974, the Turkish-Cypriot economy seems to have significantly under-performed.

Figure 6.31 How Cyprus fared in 1990; how much better or worse off was it?



The benchmarks of all-island economic development in 1980 (Figures 6.2, 6.4 and

0.28) may reveal something of the economic effects of the political cleavages. By 1990 (Figure 6.30) more of the effects of different policy and/or different economic opportunities or constraints faced by two distinct economies, should be observed. Seemingly, by 1990 much of any difference in economic performance is the result of the emergence of two separate economic regimes, rather than the cost of war. However, what difference did it make to the economic performance of the island? On the basis of their combined growth performance relative to that of their peers, the all-island economy seems to have fared well vis-à-vis the average peer group performance (see Figure 6.30 and the first 3 columns of Figure 6.31). Interestingly, the two Cypriot economies' individual growth performances do not diverge dramatically in the 1980's, they also compare well with the individual growth performances of all the peer economies in this volatile period (Table 6.9).

Table 6.9 (below) shows a breakdown of real growth rates north, south and all-island growth rates in 1981-90, compared with the individual peer group members' performances. It reveals that Turkish and Greek-Cypriot economic growth was highly respectable by international standards. It also reveals that in the 1980's the divided Cypriot economies combined performance bucks the trend of its peers, as do their performances individually, growth being faster than both that of the aggregate mean and that of almost all the individual peers. Not only does this raise questions about why such impressive growth rates should have followed the shocks of the recent past but it raises the issue of sustainability and international competitiveness. Did the Turkish-Cypriot economy benefit from division by being absorbed into the wider Turkish economy, as the growth rates below (Table 6.9) suggest? This begs the question whether Turkish-Cypriot growth would have been faster had they remained part of the Republic of Cyprus (Table 6.9). Would the Republic of Cyprus have experienced such rapid economic growth had not been for its recent economic and political background? Clearly *de facto* division for the Greek-Cypriot (Republic of Cyprus) did not mean assuming Greek growth rates (Table 6.9).

Table 6.9 Average real growth in GNP in 1981-90 (on previous year).	
Republic of Cyprus	6.2%
Aggregate Cypriot	6.1%
Mauritius	5.8%
"TRNC"	5.3%
Turkey	5.2%
Malta	3.7%
Israel	3.4%
Portugal	2.6%
Fiji	2.2%
Greece	1.4%
Barbados	0.9%
Yugoslavia*	0.9%
Trinidad & Tobago	-2.6%

*Note: Yugoslavian growth rates are for 1981 to 1989.

Source: UN Yearbooks of Nat. Income Acc's Stat's., (Cyp. data : Statistical Abstracts, Rep. of Cyp., Stat. Yearbooks, SPO, "TRNC").

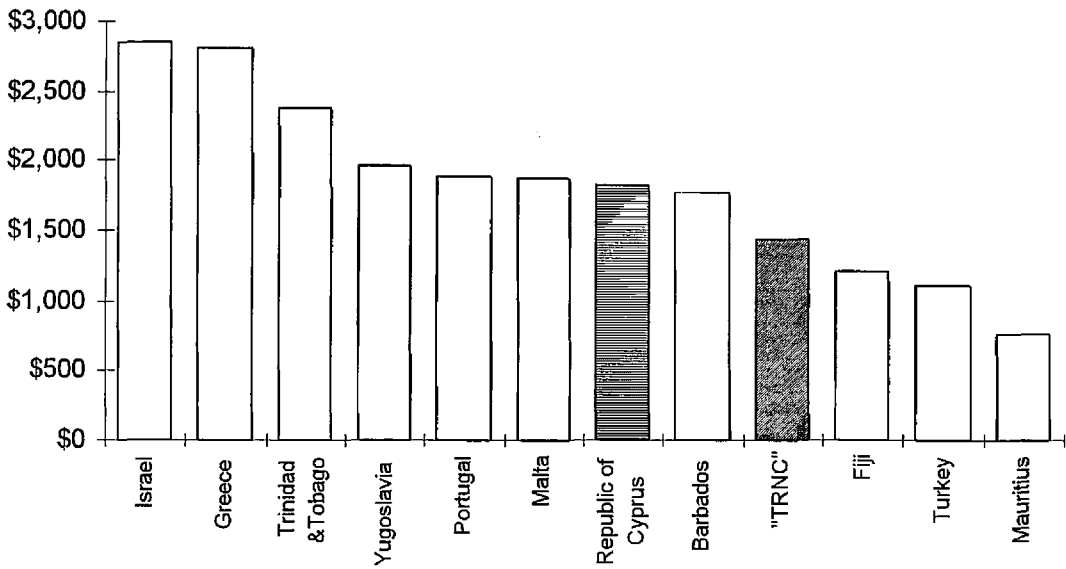
After the abrupt upheavals of 1974 the population of the now (largely Greek Cypriot) Republic of Cyprus had 22% of US per capita income in 1975, whilst the Turkish-Cypriot economy had an estimated 14%. At the same time the Micro Economies⁶² had the highest mean average per capita income relative to the US at almost 35% whilst the Regional Sub-Group, still well above both Cypriot communities' per capita performance, had the lowest at nearly 30%. By 1990 the peer group average per capita incomes relative to the US had converged at 35%. Turkish-Cypriot per capita income rose slightly from 14% of US per capita income in 1975 to 16% in 1990. The Greek-Cypriot economy appeared to move farthest, fastest, beginning in 1975 with 22% of US per capita income, rising to over 45% of US per capita income in 1990. Starting from a lower base and having almost a 1% slower average growth rate than the Greek-Cypriot economy throughout the 1980s, the Turkish-Cypriot economy continued to diverge from the economic developments in the south.

So in comparing a divided Cyprus again with its peers on a per capita basis, impressive Turkish-Cypriot economic growth performance has not kept pace with

⁶² Peer groups after 1964 do not include Cypriot data.

developments elsewhere. The relative stagnation of Turkish-Cypriot per capita incomes, relative to the US, appears in stark contrast both with its own growth rates and with developments south of the UN Buffer Zone. Average growth rates in Gross National Product (GNP) may conceal much of the economic reality that they attempt to illuminate. Whilst aggregate growth rates in national product may appear similar in the island's two *de facto* economies, per capita incomes diverge dramatically (Figures 6.32 & 6.33). However, whilst talk of a lower base is particularly significant, given the two communities recent political history, per capita incomes were not vastly different once *de facto* geographic separation had taken place and been adjusted for (Figure 6.32).

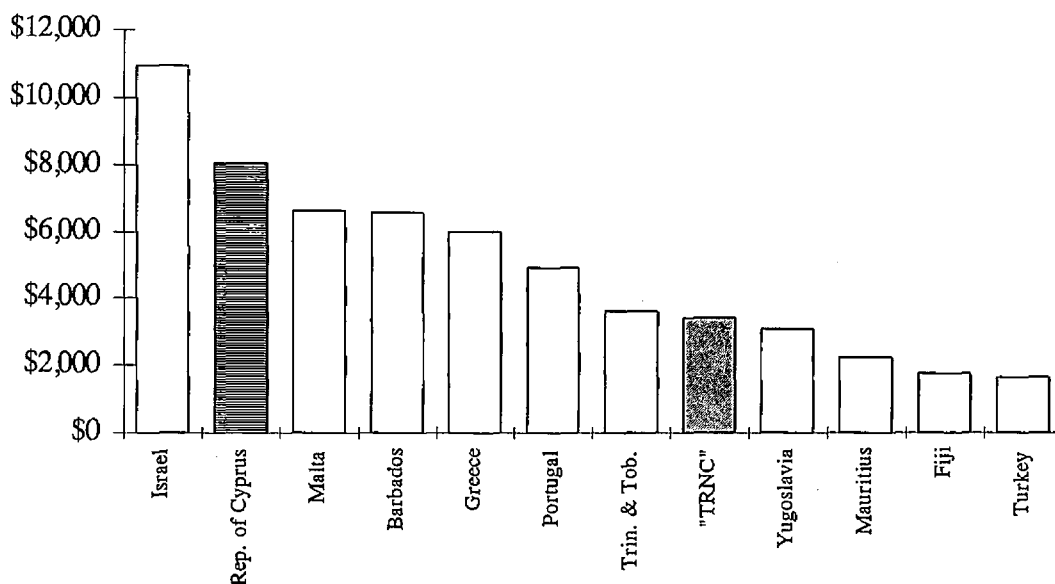
Figure 6.32 *Per capita GNP in 1977 (in 1977 US \$'s).*



Source: IBRD, World Development Report 1979, : "State" Planning Organisation, "TRNC".

Between 1977 and 1990 the ranking, on a per capita income basis⁶³, changed in a positive direction for both communities. Turkish-Cypriot per capita income moved up one, from ninth in 1977 to eighth amongst the peers in 1990. The Republic of Cyprus, meanwhile shifted from 7th amongst its peers in 1977, to 2nd place by 1990 (Figure 6.33).

⁶³Using market exchange rate data so that the "TRNC" can be included.



Source: IBRD, World Development Report 1992, "State" Planning Organisation, "TRNC".

Using the Summers and Heston data set⁶⁴, adjusted for purchasing power parity at the time of independence back in 1960, the Republic of Cyprus had 61% of Israeli per capita income. By 1977 the Republic of Cyprus' had dropped back to 60% of Israel's. In 1989⁶⁵ the Republic of Cyprus had 83% of Israeli per capita. Although it was not until 1982 that the truncated Republic of Cyprus regained and surpassed its 1973 relative share of Israeli per capita income, with a per capita income equivalent to 68% of Israel's.

Conclusion

In some ways the overall picture of the Cypriot economy in 1980 is what would be expected; Cyprus could have been more than the sum of its parts through the more rational application of the factors of production, the lack of duplication, the gains from trade and the avoidance of a costly civil war. However, using the benchmarks derived from peer group averages and the more accurately located base year (for a

⁶⁴R GDP per capita (Current International Prices) for 1960, 1977 and 1989 (the last year with available data for all eleven countries), Summers & Heston 1991. *op. cit.*

⁶⁵The last year with compatible purchasing power parity data for Israel, *ibid.*

unified economy) of 1963, Cyprus is not that much better off. The peer group derived benchmarks for 1980 (Figure 6.28 & Table 6.7) give 1% to 10% more income to an idealised economy that experienced no civil war and was able to resolve its political differences before the military intervention of two NATO powers.

By 1990 the aggregate performance of the Cypriot economies outperform expectations based on peer group averages by a considerable margin. The aggregate Cypriot economy also outperformed all the peer economies individually throughout the 1980s. Similarly, the individual performances of both Cypriot economies stand up well to international comparisons in the 1980s. However, whilst rapid economic growth may have benefited the Greek-Cypriot economy by feeding directly into improvements in per capita income, in relative and absolute terms increases in Turkish-Cypriot overall income did not contribute to the same kind of per capita income improvements. Relative to the US, Turkish-Cypriot per capita income stagnated, and relative to the (Greek Cypriot) Republic of Cyprus, Turkish-Cypriot per capita income diverged significantly.

Clearly the effects of civil war and inter-communal re-distribution in Cyprus were not evenly spread, despite the fact that benefits in terms of growth in per capita GNP flowed in both directions at the different historical junctures, 1963 and 1974. One community (by their own ready admission, the political losers) seemed to benefit, or at least not lose out economically. Particularly by 1990, the Greek-Cypriots seemed to have been able to buck the regional and structural growth trend, having done considerably better than could have been expected in a unified economy. Given their background, conditioning factors and performance indicators, Greek-Cypriots seem to have been able to perform, on average, at least as well as could have been expected, even by 1980, had they not lost an officially estimated 70% of “productive potential” in 1974⁶⁶. The other community (in terms of *de facto*

⁶⁶Republic of Cyprus. 1995. Statistical Abstract 1993. Dept. of Statistics and Research, Min. of Finance, p.5.

territorial adjustments, regional security and, in the context of the Cyprus dispute, the political winners) lost out economically, significantly and consistently. Disparities in the conditioning factors north and south seem to offer a partial explanation for the relatively poor per capita performance of the Turkish-Cypriot economy. However, the main reasons seem to be its *de facto* absorption into the Turkish economy; adopting Turkish currency, monetary policy, therefore inflation rates, high inward migration from Turkey and consequently, slow growth in per capita income. Seemingly, more research is needed to apply some meat to these bare bone conclusions.

As a policy tool in line with international attempts to find a unitary solution to the Cyprus dispute, these results make less than reassuring reading. Whilst they imply that Turkish-Cypriots could have gained from making more concessions to achieve a unitary outcome (had such attempts been met by reciprocal sincerity), ironically⁶⁷ this prospect could be undermined by being unlikely to provide Greek-Cypriots with much, if any, economic benefit. The rough projections above however, neither confirm nor deny conclusively that a single island economy would perform better than the combined performance of two non-communicating ones. Long run economic growth in Cyprus as a whole, did not appear to have been adversely affected by significant and lasting political upheavals, perhaps even the reverse. So economic reintegration may not have been as large an economic benefit as politically inspired, multi-lateral agency reports have implied⁶⁸.

⁶⁷It is ironic because Greek Cypriot rhetoric tends to call for the re-unification of the island while Turkish Cypriot tends to support division.

⁶⁸UN Security Council, 17 December 1993. *op. cit.*

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CHAPTER 7. Conclusion

Comparative performance and sustainability

This thesis has attempted to describe and analyse some of the economic consequences of ethno-national conflict in Cyprus. Conflict in Cyprus has been hugely costly in human, social and cultural¹ terms. The dominant assumption is that ethno-national conflict has also been costly in economic terms. War arbitrarily divided an already small economy: destroying, damaging and dislocating resources, and at least in the short term, deterring and discouraging visitors and investors. Political realities have since frozen that division and left both communities on a permanent war footing. Here, it has been argued that in terms of economic growth, the costs of ethno-national conflict and *de facto* division in Cyprus have been far from considerable. On the contrary, economic growth in Cyprus appears to have been more rapid than could have been expected at the dawn of independence in 1960, if conflict had been restricted and resolved within the political process.

The main objective of this work has been a comparative analysis of the different and separate economic developments of the island's two communities, in the context of their recovery from ethnic conflict and large-scale regional displacement. The established logic again assumes that the Greek-Cypriot economy excelled whilst the

¹ With the continued separation of the island's two communities, much of the background to a distinct Cypriot culture fades and both communities' languages and customs are diluted by that of their respective "mainland's".

Turkish-Cypriot economy stagnated. This research reveals that both communities experienced significant economic growth. It also reveals that economic growth has diverged significantly at different historical junctures, and that much of the post-74 war growth has been tinged with problems, or potential problems, on both sides of the UN Buffer Zone. Through the use of evolved and improvised institutions in the face of possible market failure, both communities transcended their troubles.

Comparisons with proposed peer economies reveal that in the 1980's, the divided Cypriot economies' combined performance bucks the trend, as do their performances individually, growing faster than almost any other economy in that difficult decade for developing economies (see Table 6.9). The logical conclusion of this argument is that the Republic of Cyprus would not have experienced such rapid economic growth if it had not been for its recent economic and political background. The same is true of the Turkish-Cypriot community, with the only proviso that the base year be shifted from 1960 to 1964, after which much of the community were effectively refugees. The sustainability of both of their impressive growth rates, following recovery from the shock of war, deserves further research.

Here it has been suggested that sustainability is a problem in the south because some of the positive developments (such as the diversification of the Greek-Cypriot economy, following export led growth in manufacturing) were short lived. Other seemingly necessary developments, which also shared the 1974 watershed, were increased borrowing and a rising total tax burden. Because this trend continued into the 1990s, remaining high relative to its peers, rising debt and a rising tax burden are a cause for concern and could damage future growth prospects, particularly if the island's main industry and foreign exchange earner, tourism, were to falter for a season or two.

The Turkish-Cypriot economy seems to have benefited from *de facto* division by reaping the 'wind-fall gains' of abandoned property and by being subsequently and

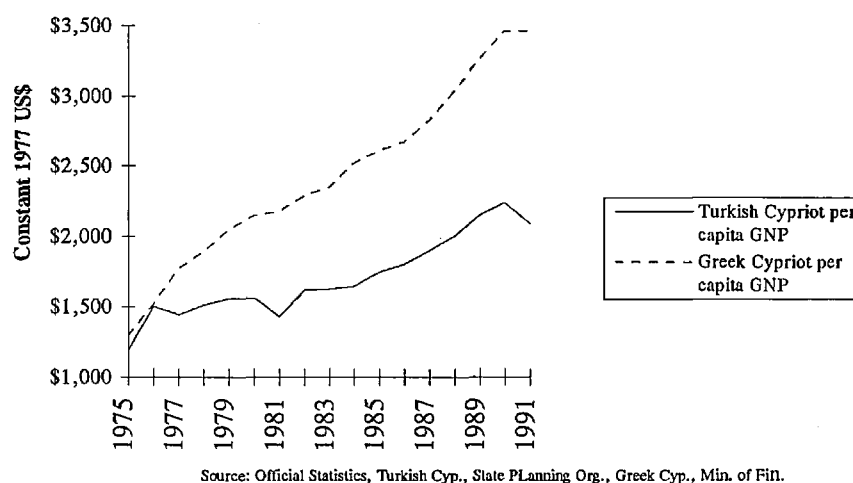
progressively absorbed into the wider Turkish economy. Whether either provide much of a springboard for sustainable economic development in the north, is something that has been questioned above. If sustainability simply means that current growth trends persist into the future, there is no reason to doubt that the Turkish-Cypriot economy will continue to perform much as it has done. The size of the northern Cypriot economy and its very close relationship with Turkey (close to the extent that throughout the 1980s economic growth was almost identical, see Figure 6.9), means that regardless of policy and micro- economic performance on the island, economic growth rates are dependent on decisions in Turkey. If however sustainability means the economic security of an independent Turkish-Cypriot economy, then it has yet to be achieved. Back in the 1960's, the *Cyprus Mail* quoted the Turkish-Cypriot newspaper *Bozkurt* as saying the Turkish-Cypriot "administration" had no say in controlling exports, imports, monetary policy and issues, customs, prices and incomes, so could not claim state status and would not have such status unless it had control of these². In most of these areas, very little changed following *de facto* division. All significant economic policy decisions affecting the Turkish-Cypriot economy are outside Turkish-Cypriot control.

In the preceding pages, a comparative analysis of economic development in Cyprus has been constructed by comparing both the recent performance of the two *de facto* island economies with each other, and with various similar economies, across a range of key growth indicators. On the basis of those indicators, some unusual features of the Cypriot economies have come to light, which may raise questions about future sustainability. These may raise further questions as to how internationally competitive two competing and mutually hostile economies, on one small island, are likely to be. One unusual feature which came to light in comparative context, has already been mentioned: the rise in the Republic's level of international borrowing.

² The *Cyprus Mail*, 5/11/1969.

So it is worth looking again at the key background indicator, per capita income (Figure 7.1). Initially in the north there appears to be a certain amount of catching-up, almost certainly the consequence of the windfall gains discussed above, and also the consequence of growth from a very low base (also discussed above). When these phenomena were exhausted, Turkish-Cypriot per capita income fell absolutely, and subsequently its gradual rise is a fall relative to Greek-Cypriot per capita income, south of the UN Buffer Zone.

Figure 7.1 *Per capita income in Cyprus 1975-1990, north & south of the UN Buffer Zone.*



The discrepancy in the level and growth of per capita income is both obvious to visitors who cross the Buffer Zone and presented in the propaganda north and south, as a further justification of their respective political positions. Some Turkish-Cypriots argue that it is the fact that most of the fighting occurred in the north³, the Greek sponsored embargo⁴ and the south's monopoly of international recognition⁵ that is responsible for much of the discrepancy in growth rates after 1976. Many Greek-Cypriots attribute the difference to cultural factors⁶. From the data presented above

³ Interview with Rauf Denktash, carried out in his office, 28/7/95.

⁴ Olgun, M.E. "Economic Overview", in Dodd C.H. 1993. (ed.) *The Political, Social and Economic Development of Northern Cyprus*. Huntingdon: Eothen Press, p. 288.

⁵ *ibid.*, p.283.

⁶ Scott, (J. 1995. *Identity, Visibility and legitimacy in Turkish Cypriot Tourism Development*, University of Kent at Canterbury, Dept. of Social Anthropology, PhD Thesis, submitted March 1993,

(Figure 5.25), Greek-Cypriots are right in considering the effects of their economic sanctions as having been fairly limited⁷. Perhaps embargo and culture have made a contribution to a divergent growth performance; more important and more obvious however are some of the standard measurable determinants of economic growth. The preceding chapters have presented some of this divergence in terms of different institutional development; the adaptation to different exogenous constraints. Using a similar analysis to the one that determined the proxy growth rates (detailed in Chapter 6), the graphs below (Figures 7.2 to 7.12) underline that point but also illuminate more controllable reasons for economic differences north and south. Essentially, these are the consequence of policy, politics and the different institutional responses to *de facto* division, north and south of the UN Buffer Zone.

One of the main background factors, per capita income, appears to be fairly similar in the early stages of regionally distinct economic development (Figure 7.1). From the evidence available a key conditioning factor, human capital development, looks fairly similar too, north and south, in terms of school registration and higher education ratios⁸. All other things being equal, economic growth in the Greek and Turkish-Cypriot economies should therefore have been similar. Three other key indicators

p.97), quotes the head of the Cyprus Tourism Organisation, A. Andronicou as saying: "The Greek Cypriot culture may... be described as competitive and individualistic... The Turkish Cypriot culture differs in not attaching such great importance to achievement and wealth, and the Turkish community was therefore relatively less well represented in the business and economic life of the island."

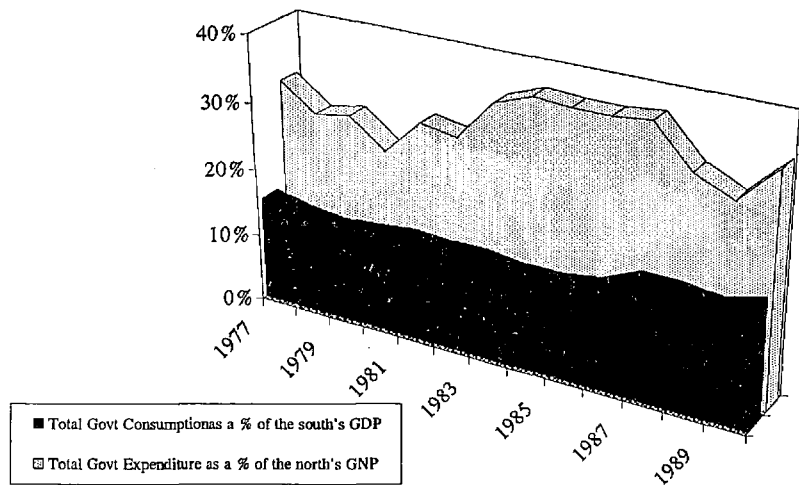
⁷ Christodoulou, D. 1992. *Inside The Cyprus Miracle*, Minnesota: University Of Minnesota, Modern Greek Studies Yearbook Supplement, Vol. 2, p. xlv.

⁸In 1960 Turkish Cypriots made up a higher proportion of the total University Graduated population (19.5) than their share of the population warranted (18.3). Kitromilides P.M. "From Coexistence to Confrontation: The Dynamics of Ethnic Conflict in Cyprus", in Attalides M.A. 1977. (ed.) *Cyprus Reviewed*. Nicosia: The Jus Cypri Association with the Co-ordinating C'tee of Scientific and Cultural Organisations, p.61. With five Universities in the north and only one in the south, the impression is that Turkish Cypriots have managed to retain a similar higher education ratio as Greek Cypriots, despite the relatively high proportion of the latter engaged in tertiary education abroad (nearly 40% more than received it locally in 1993). Comparable data is very limited but as a rough guide an internal Civil Service study reported that in 1988, 10.5% of working women in the "TRNC" had graduated from some form of tertiary education, ("Some Indicators of the Female Population of the TRNC", Unpublished 1988 Study by the State Planning Authority - in Turkish). Conversely in 1987 12% of Greek Cypriot females over the age of 20 had graduated from some form of tertiary education, Republic of Cyprus, 1995. *Statistical Abstract 1993*. Nicosia: Ministry of Finance, Dept. of Statistics and Research, p.84, (based on a sample survey).

stand out however, revealing enough significant differences between the two Cypriot economies to offer some explanation for their different performances. These indicators: the government share of economic activity, the average level of domestic investment and the level of openness to international trade, also offer something of a guide to subsequent performance, and therefore the sustainability of growth trends achieved so far. These bald statistics should be read in the context of the preceding pages (Chapters 1-5) which serve as a supporting, historically informed narrative to the conclusions derived here.

The graphs below (Figures 7.2 to 7.4, 7.7 to 7.12) illustrate that, particularly in the north, some of the key measurable factors affecting growth seem to be widely at variance with developments elsewhere (clearly not helped by some of the exogenous factors outlined above, such as the lack of international recognition). The most obvious difference, north and south, is the economic role of government as detailed in Chapter 4. Figure 7.2, below, offers a rough statistical illustration of the narrative history provided here.

Figure 7.2 *The economic role of government in Cyprus, north & south, as a % of national income 1977-1990.*



Source: "Economic Reports", Nicosia ; Cetin Ugural, 1993. " An Analysis of Inflation & the Financial Structure of the TRNC." Lefkosa, p.87.

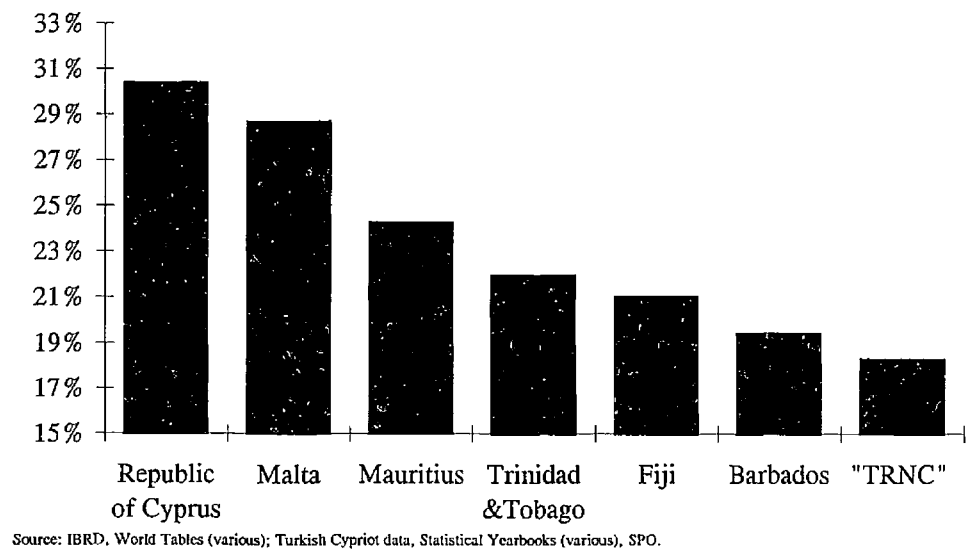
Despite the fact that, due to data limitations, the statistics are not wholly compatible, it does provide a guide to the differences in the economic role of government, north and

south. Data in the above graph also does not include the contribution made by the co-operative movement, the Church, Evkaf, and state sector companies. As argued in the preceding pages, the contribution of quasi-state sector institutions is almost certainly considerable. Bearing in mind the contributions of these other public and quasi-public sector institutions (detailed in Chapters 2, 4 and 5), this offers a partial explanation as to why the *de facto* Greek-Cypriot economy in the south performed better than the *de facto* Turkish-Cypriot economy in the north. The conclusion implied by Figure 7.2 (above) is that 'big government' may have led to a general under-utilisation of resources. In the absence of an alternative, the public and quasi-public sector stepped in to run abandoned resources in the north; this short term recovery mechanism persisted into the long term. Combine big government with insecurity over property rights and private, long term investment suffers, and resources may remain under-utilised.

In the World Bank's cross-economy regression results, investment rates were the strongest single policy indicator correlating with economic growth⁹. How did the two Cypriot economies compare in terms of investment rates during the 1980s, both with each other and with the small open island economies and the "More Developed Mediterranean" economies discussed in Chapter 6. Figure 7.3 makes those comparisons, between the Republic of Cyprus, the "TRNC" and the Micro Economies. The Republic of Cyprus finds itself at the positive end of the spectrum, whilst the "TRNC" is at the other end.

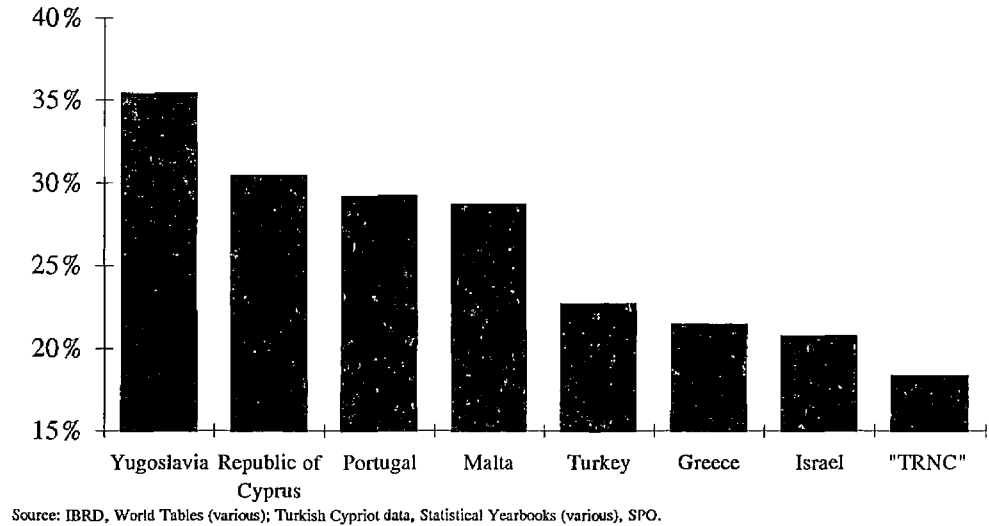
⁹ IBRD. 1993. The East Asian Miracle: Economic Growth and Public Policy. NY: OUP. pp. 48-54.

Figure 7.3 *Gross domestic investment in the Micro Economies, as a % of GDP, 1980-90.*



A similar story is true when the Cypriot economies are compared with the “More Developed Mediterranean” economies (Figure 7.4 below).

Figure 7.4 *Gross domestic investment in the More Developed Mediterranean, as a % of GDP, 1980-90.*



As stated in the introduction to this thesis, due to the unique problems facing the Turkish-Cypriot community, they have found access to international funds difficult to

secure whilst the Greek-Cypriot economy has had relatively easy access to all forms of international finance. As a consequence, between the 1960's and the late 1980's, the Republic of Cyprus moved from being one of the lowest debtor countries, amongst all 11 peers (in Figures 7.3 and 7.4 above), to being one of the highest, and the growth in the total tax burden has reflected this (see Chapter 2). However, borrowing has clearly boosted investment rates which have contributed to the rebuilding and restructuring of the economy as it concentrated itself in the south. Investment levels appear to have led to significant economic expansion. Investment rates in the north have been considerably lower, partly because of the lack of international recognition but also because of the way the economy has been organised (see Chapter 4), the economic role of government, along with the degree of openness to international trade and competitiveness, problems over property rights and levels of transparency¹⁰.

On the surface however, the degree of openness of the two Cypriot economies appears to be the most similar of the key indicators highlighted here. Figures 7.5 and 7.6 compare net foreign trade (imports plus exports divided by two, divided by the respective regions GNP) in the two economies of Cyprus. Both economies look similarly open to international trade, a positive signal in the search for sustainability¹¹. It is also something to be expected of two micro economies with levels of development resulting in their resource bases being neither wide, nor deep enough to fulfil complex consumption patterns.

¹⁰ See Scott J. "Property Values; Ownership, Legitimacy and Land Markets in Northern Cyprus", in Hann C.M. 1998. Property Relations; Renewing the Anthropological Tradition. Cambridge: Cambridge University Press. pp 142-159.

¹¹ Boltho, A. 1996. "The Assessment: International Competitiveness", Oxford Review of Economic Policy, Vol. 12, No. 3, (Autumn), pp. 1-16.

Figure 7.5 “TRNC”, net foreign trade as a % of GNP.

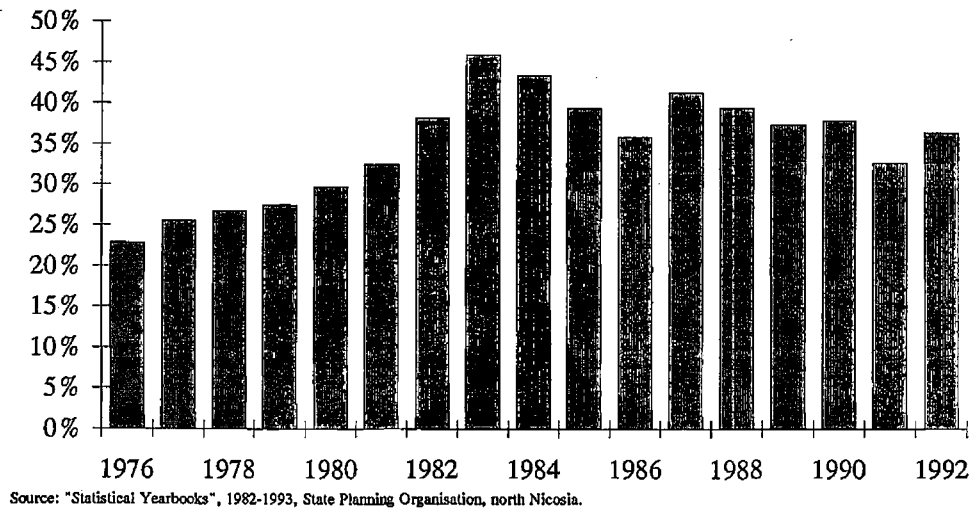
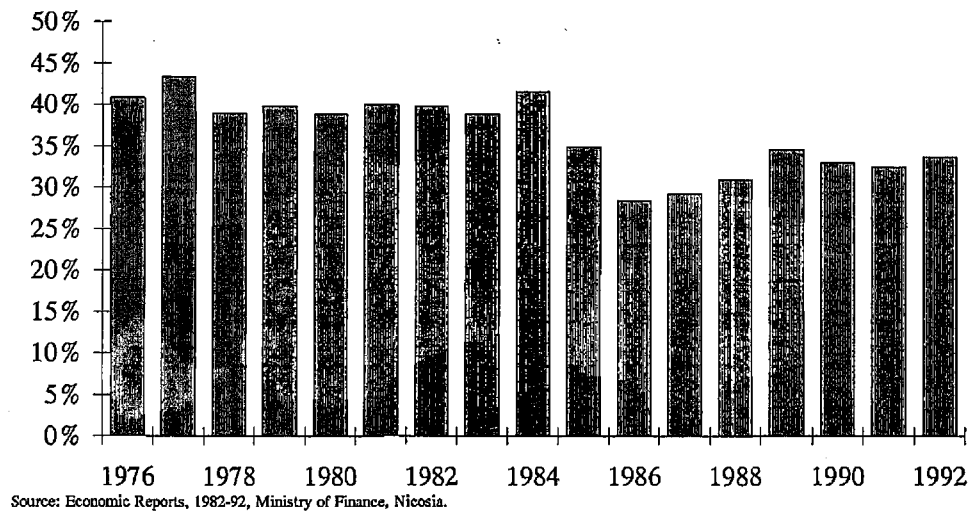


Figure 7.6 Republic of Cyprus, net foreign trade as a % of GNP.



While Figures 7.5 & 7.6 compare Cypriot openness to trade over time, Figures 7.7 and 7.8 compares the two Cypriot economies level of openness with the average Micro Economies and the “More Developed Mediterranean” economies, between 1983-90. This is after the north had experienced some consistent convergence over the late 1970s and early 80s. Between 1983 and 1992 the Republic of Cyprus was, on average, closer to the more open end of both the Micro and Regional groups spectrum than the

Turkish-Cypriot economy, though not by much. The only inkling of strangeness (other than the composition of trade) is that, for its size (having between a quarter and a third of the Republic's population), the "TRNC" does look a little less open than it should if it were a self-sustaining (non oil exporting - such as Trinidad and Tobago) micro economy. Generally, the smaller the economy the more open it is to international trade, as roughly supported by the data in Figure 7.7 and 7.8. On average, international trade, exports plus imports represented 80% of the GDP in the "TRNC" between 1983 and 1992, and 114% of the Republic's. All other things being equal, those percentages should at least be reversed if comparisons were between two independent, micro-economies.

Figure 7.7 *The degree of openness in the Micro Economies; exports & imports as a % of GDP, 1983-92.*

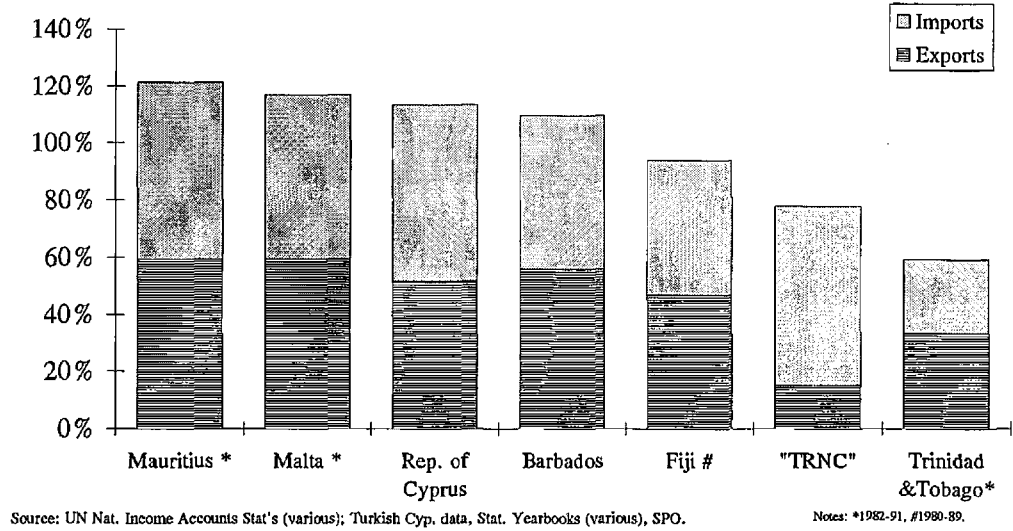
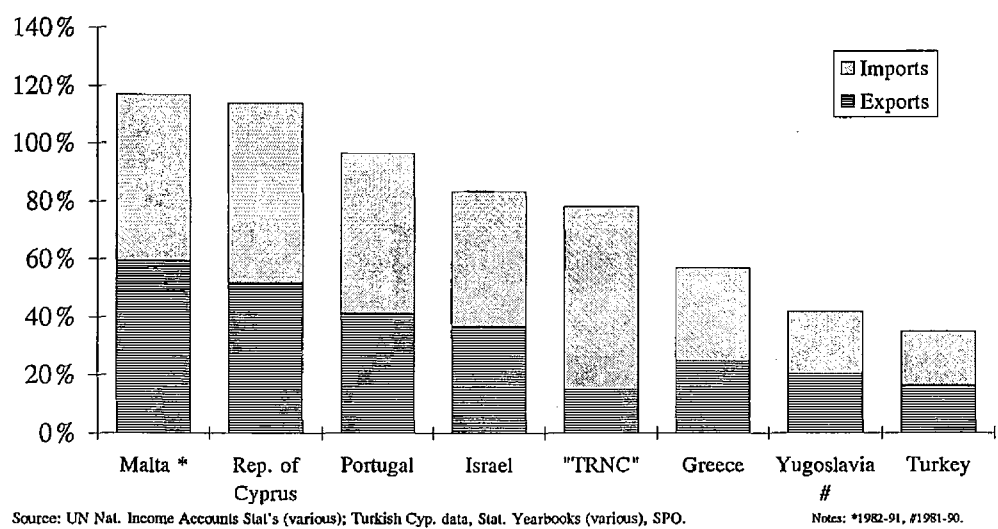


Figure 7.8 *The degree of openness in the More Developed Mediterranean; exports & imports as a % of GDP, 1983-92.*



When the composition of trade is dissected, the "TRNC" does appear to be a rather less typical economy: with imports accounting for an average of 80% of its international trade between 1983-92 and exports accounting for the remainder. Depending on definitions, official statistics may conceal an even more curious reality behind these international trade statistics. Figures 7.5 and 7.6 above reveal a fairly similar level of openness north and south; however, when trade with the respective "motherlands" (Figures 7.9 and 7.10) is deducted, the story looks very different (Figures 7.11 and 7.12).

Figure 7.9 *"TRNC" trade with Turkey; percentage share of total, 1976-92.*

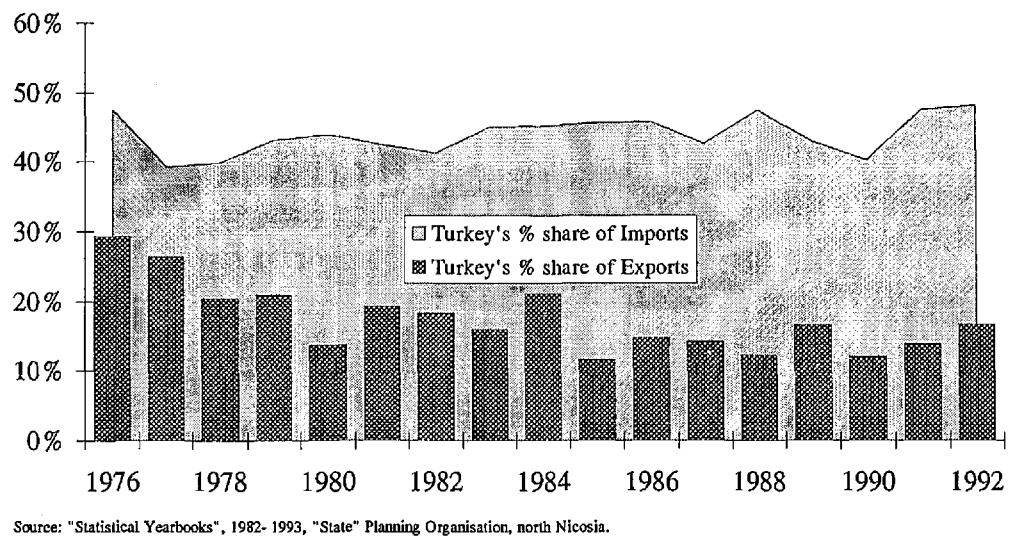


Figure 7.10 *The Republic of Cyprus’ trade with Greece; percentage share of total, 1976-92.*

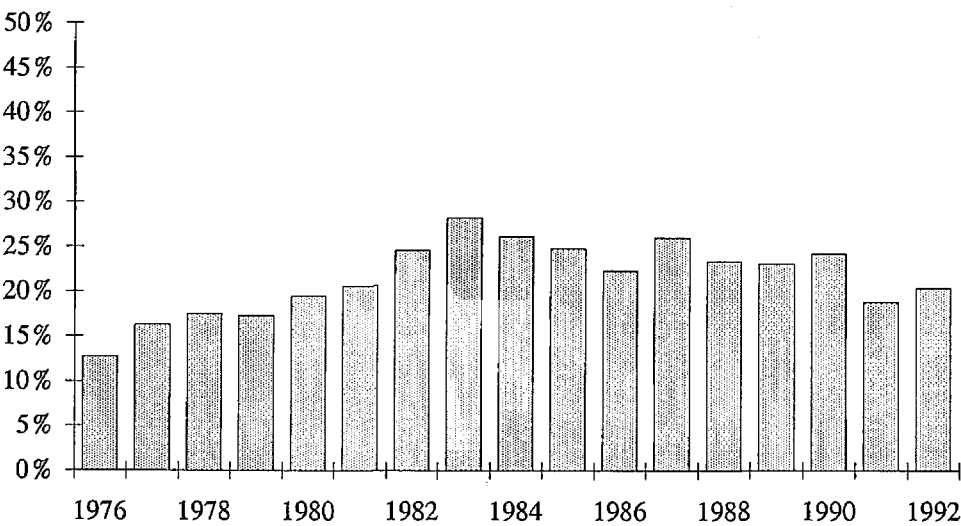


Greece is relatively insignificant, in international trade terms, with the south (Figure 7.10) whereas trade with Turkey is a crucial part of the north's total international trade (Figure 7.9). Granted they are differently sized economies and the "sanctions" may have made a contribution to the trade profile, though the "sanctions" do not seem to have affected trade with the north's largest single export market, the UK (see Figure 5.25). Either way this politically rather than market driven trade may be another feature in the search for an explanation for divergent economic performance in Cyprus, after the emergence of two distinct, non-communicating economies. It may also say something about sustainability, the south being more closely linked to the dynamic forces of international trade while the north has been linked to less dynamic regional forces. Figures 7.11 and 7.12 (below) reveal the same information as Figures 7.5 and 7.6, after trade with respective “motherlands” has been deducted. The degree of openness to international trade in the two *de facto* economies between 1976-92, no longer looks similar, even when its composition is ignored.

Ultimately, more state sector involvement in the economy, less investment and less openness to international trade, may offer an explanation as to why the economy under Turkish-Cypriot control performed worse than the economy under Greek-Cypriot

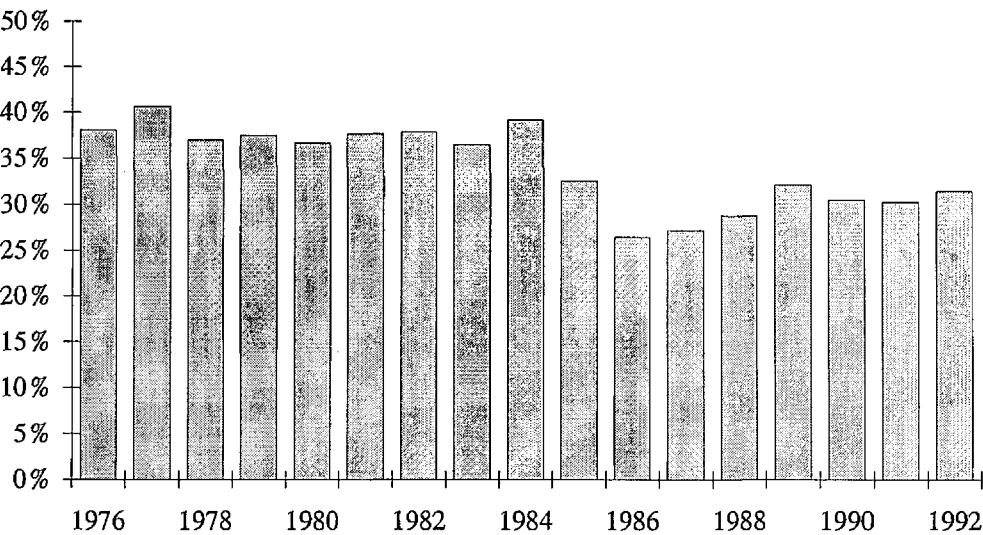
control. There seems to be ample explanation for the divergence in economic growth rates highlighted in Figure 7.1 before having to consider separately the unique political problems facing the Turkish-Cypriot economy, although they must be acknowledged as contributing factors.

Figure 7.11 “TRNC”, net foreign trade as a % of GNP, excluding trade with Turkey, 1976-92.



Source: "Statistical Yearbooks", 1982-1993, "State" Planning Organisation, north Nicosia.

Figure 7.12 Republic of Cyprus, net foreign trade as a % of GNP, excluding trade with Greece, 1976-92.



Source: Economic Reports, 1982-92, Ministry of Finance, Nicosia.

This thesis has, however, argued against the dominant impression of a stagnant Turkish-Cypriot economy¹². Further arguing against the mainstream,¹³ this thesis offers some economic justification for division on ethnic grounds, both from a Greek-Cypriot perspective (the surprising, given their rhetoric, but clear economic beneficiaries of division) but also from a Turkish-Cypriot perspective (see pp. 302-303). However, this thesis has also consistently argued that from the *de facto* division in December 1963, the Turkish-Cypriot economy has been run with priorities other than economic growth. For understandable and urgent reasons, security interests prevailed in the 1960s. The suggestion here, based both on the qualitative and quantitative evidence presented above, is that security continued to dominate decision making, even after it had been guaranteed by Nato's second largest military force. As detailed in Chapter 3, 4 & 5, economic growth, productivity gains and the general efficient exploitation of resources, have not played as large a part in the Turkish-Cypriot leadership's decisions as they have in the Greek-Cypriot community, partly because the Greek Cypriot's economy has been more market driven and more open, and therefore has attracted and retained more investment (which has helped it achieve a higher rate of growth and therefore attracted further investment). The Turkish-Cypriot economy did not join this virtuous circle. Security and political interests remained a primary concern amongst the managers of the Turkish-Cypriot economy, almost as they had in the 1960's. The difference for the Turkish-Cypriot community is that economic considerations now play a secondary role in decision making to someone else's security interests. Northern Cyprus has become a strategic buffer, protecting Turkey's under belly from real or perceived threats from Greece and / or Syria. So security concerns still dominate, affecting transparency and incentives to the extent that little entrepreneurial endeavour flourishes for long, unless there are good political connections; what Julie Scott referred to as "*torpil*"¹⁴.

¹² Wilson R. 1992. *Cyprus and the International Economy*. Basingstoke: Macmillan, p.132-4.

¹³ *ibid.*, p. 134; UN Security Council, 17 December 1993. (Unpublished) "Report of the team of experts on the economic benefits of the Varosha and Nicosia International Airport package".

¹⁴ Scott 1998. *op. cit.*, p.151.

The role of tourism in the economic development of Cyprus can not be ignored. Tourism interconnects with many of the themes developed in earlier chapters. The role of the state in the south, in the immediate post-war period, was crucial, effective in terms of incentives though impotent in terms of regulation. Has tourism been the "golden egg" that the World Bank¹⁵ believed it to have been in the south? It has been argued here that other sectors of the economy were more important in establishing the recovery there. In the north, the state's involvement in the economy was far more pervasive, though it has not encouraged the same level of utilisation within an extensive pre-existing tourist infrastructure. At first, resources under Turkish-Cypriot control were concentrated in other areas of the economy. Instead of attempting to fill and expand capacity, the leadership in the north re-allocated under-utilised tourist facilities to other service sector industries such as higher education and the security forces. Despite which, tourism in the north rapidly eclipsed other sources of foreign exchange. The state finally channelled more resources into tourism in 1986, recognising the actual and potential contribution of the sector. It is hoped that the relative significance of tourism (and other export sectors) has been put into some historical context here. In examining the effects of successful mass tourism in the south, some of the constraints on its development in the north have been spelled out, although much work is still necessary. In the context of over-development and over-dependence on mass tourism in the south, it is worth speculating whether the north has, perhaps unconsciously, exploited its constraints and succeeded through a strategy of niche marketing, high margins and sustainable development. Like the refugee problem in the south, to roughly paraphrase Roger Zetter¹⁶, constraints on tourism in the north may have been exploited as development opportunities.

¹⁵I.B.R.D. 1987. "Cyprus: A Long Term Development Perspective", A World Bank Country Study, Washington DC: World Bank Publications.

¹⁶Zetter R. 1992 "Refugees and Forced Migration as Development Resources", Cyprus Review, Vol.4, No.1, pp.7-39.

This thesis has been broadly sympathetic to Roger Zetter's view that 1974 provided a developmental spur to the Cypriot economy¹⁷. Whilst the mechanics which led Zetter to that conclusion have been challenged here (Chapter 5), the general tenor of the argument is both bold and constructive; 1974 seems to have created the conditions for significant and class leading economic growth, both in the Turkish and Greek-Cypriot communities (see Chapter 6). The reasons for renewed and relatively sustained economic growth (Table 6.9) over the medium term, when other developing economies struggled, are both different and complex, having as much to do with local, regional and international politics, as the choice of economic policies. However, significant differences in economic policies existed north and south and offer some explanation for the divergent growth rates. Zetter has proved an inspiration here, even if he restricted his analysis to the Greek-Cypriot community and concentrated (it is contested here) on a less dynamic sector during their recovery from the effects of ethno-national conflict in 1974.

Recovery is one thing, long term sustainability is another. The sustainability of long term economic growth levels in the south does look slightly problematic because debt and taxation levels have risen dramatically (see Chapter 2). Economic growth in the 1990s has slowed significantly, in real terms¹⁸. The Greek-Cypriot economy is also no less vulnerable to external shocks in one highly sensitive industry, which has increasingly dominated its economy. Despite the efforts and statements of successive planners, the Greek-Cypriot economy became more, not less, dependent on one industry and one essential product, mass tourism. Whilst its long term economic growth levels may be vulnerable, the Republic's position as an independent, autonomous economy is not economically challenged. In the north, ironically, sustainability is not a problem because its independence, as an autonomous economy is challenged by the data and some of the evidence presented here. The economy would

¹⁷*ibid.*

¹⁸ <http://www.pio.gov.cy/html/economy>

seem to be able to grow in line with whatever the treasury in Ankara determines, regardless of Cypriot conditions and policies. To answer one of the questions raised in the introduction, it seems that the north can not be studied as an independent economy, but only as a part of the wider Turkish economy. Here this thesis has failed, though at the outset, and judging by existing, limited literature, there was no way of knowing this until the work was complete. To repeat comments made in the introduction; existing literature on the economic development of Cyprus (as a whole), is extremely limited.

From the evidence and arguments presented above, the integration of the Turkish-Cypriot economy into a wider Turkish economy, is a phenomenon that goes back to the 1960s and the breakdown of the constitution in December 1963. While mainland support for the Turkish-Cypriot community may have been critical in the 1960s, in terms of self-sustaining development, its contribution has been more ambiguous since. The logical extension of the argument here, is that the Turkification of the Turkish-Cypriot economy has only been encouraged by consistent Greek-Cypriot policy dating back to 1960.

Here, on both sides of the UN Buffer Zone, both communities have been given the benefit of the doubt. Almost exclusively, in Chapters 1-5, it is their respective data and their elite's dialogue that has written the story of the creation of two, non-communicating economies on the island of Cyprus. With both communities having some perception of the cost of *de facto* division, Chapter 6 contrasts development in Cyprus with certain objective criteria, to attempt a dynamic benchmark of those costs. In many ways the story presented here has tended to suggest, seemingly conspiring to support the Turkish-Cypriot case, that the economy as a whole (and, ironically, particularly the Greek-Cypriot economy), was better off economically in the divided reality. That evidence also tends to suggest that the Turkish-Cypriot community did not maintain long term economic benefits from the political solution their leaders sought. The continued widespread use of improvised public and quasi-public sector

substitutes for free market activity, appears to have been a significant economic burden on a separate Turkish-Cypriot economy in northern Cyprus, forcing it to rely heavily on mainland Turkish subsidies. The structure of the economy, the way it has been organised, offers few reasons for optimism. With agriculture, government and the co-operative organisation accounting for such a high proportion of employment (see Figure 5.18), sectors generally offering few prospects for much growth in productivity, the economy looked destined to lag behind the south after the initial recovery brought about largely by windfall gains. The *de facto* division of the island, north and south meant, almost immediately, that the economy under Turkish-Cypriot administration became more rural while the economy under Greek-Cypriot administration became more urban; both phenomena have growth implications.

The evidence presented here tends to suggest that the Turkish-Cypriot community failed to benefit as significantly as their former compatriots, because they were absorbed, to all intents and purposes, into a wider Turkish economy. Development strategies outlined above, tend to support strategic, rather than the economic priorities. Their relative weakness, and the lack of self-sustainability, seems to be one of the costs of the security guarantee. It is a sacrifice that has effected the role of government in the economy, its level of openness to international trade, transparency, and the likely level of investment, all of which feed directly into possible economic growth rates. The embargo and the political status of the region may have effected all of these indicators but another political solution, necessitating political compromise, does not appear to have been a key objective. Perhaps the Greek-Cypriot leadership were aware of the seeming benefits derived from *de facto* division, and have thus been insincere in their declared wish for reunification along federal lines. Taken at face value, this research reveals something of the irony of the two communities' respective political positions, the party with most to lose economically declares a desire for change, and the party with apparently most to gain economically, wishes to retain and legitimise the current situation.

Comparisons throughout this thesis have been drawn between the reality of ethno-national conflict with *de facto* division, and an idealised image of a unitary and integrated economy. Generally, the surprising conclusions reached here are that the two communities are better off in the divided reality than they may have been in the idealised, integrated economy (though for Turkish-Cypriots, that premise holds only for the most pessimistic distributional assumptions - see pp.302-303). This ignores a possible third way, experienced by some of Cyprus' nearest neighbours. Cyprus could have continued down the road of civil war begun in 1963 and followed the path taken by Lebanon in the 1970s. While *de facto* division in 1974 seemed to put an end to any enduring hopes of an integrated whole, it also ended the prospect of continued civil war, either ethnic or political (as it largely had become by the late 1960s). Partition, throughout recent post-colonial history, has generally been perceived as negative, a failure of vision and modernity. The negative results of ethno-national conflict in Cyprus are ever present; however, *de facto* division may have provided the best potential economic conditions, given the political context.

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Gulhan Alp, interview carried out in his Nicosia office, on the 21/4/95, 02/5/95, 09/6/95, 28/7/95, 8/8/95, 11/8/95.

Mr Gulhan Alp is the Chief Accountant at the CTCCB.

Ahmet Zeki Bulunc, a series of written correspondence 15/12/1993 & 28/1/94.

Mr Ahmet Zeki Bulunc, is an Under Secretary at the State Planning Organisation, Prime Ministry, Nicosia.

Cafer Arseven, interview carried out in his Nicosia office, on the 3/8/95, 8/8/95 10/8/95 & 16/8/95.

Mr Cafer Arseven is the Chief Registrar at the Department of Co-operative Development, in the Prime Ministry, Nicosia.

Rauf Denktash, interview carried out in his Nicosia office, on the 28/7/95.

'President' Denktash, is the long term leader of the Turkish Cypriot community and the elected 'President' of the 'Turkish Republic of Northern Cyprus'.

Andreas Hadjixenphontas, interview carried out in his home in Nicosia, on the 24/9/95.

Mr Andreas Hadjixenphontas is the Principle Auditor, Cooperative Auditing Service, a semi-Govt body that replaced the Registrar of Cooperatives and is independent of the Cooperative Organisation.

Stavros Karayorgios, interview carried out in his Nicosia office on the 03/7/95.

Mr Stavros Karayorgios is an Economist in the Ministry of Finance's, Dept. of Statistics and Research (Republic of Cyprus) and is responsible for collating National Income Accounts.

Suleyman Kiryagdi, interview carried out at the EMU and in his Nicosia office respectively on the 20/04/95, 21/04/95.

Mr Suleyman Kiryagdi is the General Co-ordinator & Acting Secretary and General Manager of the Cyprus Turkish Co-operative Central Bank Ltd. (the CTCCB est. 1959). Formerly he was a manager with the "state's" Cyprus Turkish Industrial Holdings Co. Ltd.

Anatasia Kitromilidou-Koutsou, written correspondence 7 July 1994.

Ms Anatasia Kitromilidou-Koutsou, acting on behalf of the General Manager of the Cyprus Ports Authority, on major capital projects after 1974.

Leslie G. Manison, interview carried out in his office, in the Ministry of Finance, on the 15/9/95 and the 21/9/95.

Mr Leslie G. Manison is the Advisor to the Minister of Finance.

Sadiye Onculay, interview carried out in her office on the 16/8/95.

Mrs Sadiye Onculay is the manager of the (Elementary School) Teachers Co-operative Savings Bank, Nicosia.

Osman Orek, interview carried out in his office, at the EMU, on the 3/5/95.

Mr Osman Orek, was the Defence Minister in the Government of the Republic of Cyprus from independence until December the 23 1963, he is also a former "Prime Minister" in the "Turkish Federated State of Cyprus".

Elias Pantelides, interview carried out in his Holy Synod Office in the Archbishopric on the 26/9/95.

Mr Elias Pantelides is the Director of the Church of Cyprus Audit Dept., and Executive Chairman of Ledra Palace Hotels Ltd.

Zenon Papaloizou, a series of written correspondence throughout 1994.

Mr Zenon Papaloizou, is a civil engineer with J & A Philippou Architects and Engineers, one of the largest practices in Cyprus, employing, in 1995, 60 professional staff.

Prodromos Prodromou, interview carried out in his Nicosia office on the 1/8/95, .

Mr Prodromos Prodromou is an Economist in the Economic Research Department of the Central Bank of Cyprus.

Ozalp Sarica, interview carried out in his office, at the EMU, on the 17/3/95, 21/3/95, 24/3/95.

Mr Ozalp Sarica was the first Assistant Governor of the Central Bank of Cyprus, employment he left on 23 December 1963 along with the rest of the Turkish Cypriot community. Since then he has held senior positions in the various Turkish Cypriot

"administrations" and key economic institutions that helped to create and maintain a separate Turkish Cypriot economy. From 1964 to 1968 he was the Director General of Evkaf (the second largest landowner in Cyprus). He became the first Director General of the "State" Planning Organisation when it was founded by the provisional administrative in 1968. While there he set up a company Eti, which he fronted from 1972, with the aim of opening and increasing economic links with "mainland" Turkey.

Ergün Sever, interview carried out in the Chief Auditor's Nicosia office and in the presence of Mr Uzun, the Chief Auditor, on the 10/8/95.

Mr Ergün Sever is the Secretary of the Famagusta Turkish Co-operative Bank (founded in 1944).

Micheal Tingirides, interview carried out in his Nicosia office on the 31/7/95, 1/8/95.

Mr Micheal Tingirides is a Senior Economist in the Economic Research Department of the Central Bank of Cyprus.

Emel Uzun, interview carried out in her Nicosia office on the 8/8/95.

Mrs Emel Uzun, is the manager of the Government Employees Savings Bank, Nicosia, (established in 1958).

Ertugrul Uzun, interview carried in his, and the Chief Registrar's, office on the 3/8/95 & 18/8/95 respectively.

Mr Ertugrul Uzun is the Chief Auditor at the Department of Co-operative Development, in the Prime Ministry, Nicosia.

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