

The Factors Effecting Economic Growth in TRNC

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ABSTRACT

The main topic of this study is the qualitative and quantitative analysis of the economy of Cyprus throughout the historical process. The process between the Middle Ages and the British period was summarized. In the introduction, the natural relationship between the economy and humankind and the further extent of this relation was constituted within theoretical context.

Basically, in this study Cyprus Economy history has been separated into 4 chapters in order of priorities and it has been studied in detail. The first chapter is a brief summary of Cyprus economy between 1878-1963 and before British period, the second chapter is the economy of Turkish Federated State of Cyprus between 1974-1983, the third chapter is the liberalisation of the economy of Turkish Republic of Northern Cyprus between 1983-2000, the fourth chapter is economic integration period of Turkish Republic of Northern Cyprus between 2000-2015 and in the fifth chapter, there was an attempt to associate the factors that affect economic growth with the related parameters with an empirical study by using regression model. The main framework of chapters 2,3 and 4 was prepared based on the following sub headings; general situation, international situation, sectoral distribution of the GDP, foreign trade and main economic indicators. These sub headings was chosen as the most critical parameters that affect the growth in Cyprus economy and the annual changes in parameters according to this prediction has been associated in the context of how it affected the local economy, politics and foreign policy. At the end of the study Regression model used to analyzed the GDP growth with related variables.

Keywords: Gross domestic product, Productivity, Population, Trade

ÖZ

Bu çalışmanın temel konusu Kıbrıs'ın ekonomisinin tarihi süreç içerisinde nitel ve nicel olarak analiz edilmesidir. Ortaçağdan İngiliz dönemine kadar olan süreç özet şekilde oluşturulmuştur. Giriş bölümünde ekonominin insanoğlu ile doğal ilişkisi ve bu ilişkinin ileri boyutları teorik bağlamda oluşturulmuştur. Çalışmada temel olarak, Kıbrıs Ekonomisi tarihi, öneme göre 4 bölüme ayrılmış ve detaylı olarak incelenmiştir.

Birinci bölüm İngiliz dönemi 1878-1963 ve İngiliz dönemi öncesinde Kıbrıs ekonomisinin kısa özeti, ikinci bölüm 1974-1983 Kıbrıs Türk Federe Devleti ekonomisi, üçüncü bölüm 1983-2000 Kuzey Kıbrıs Türk Cumhuriyeti ekonomisi liberalleşme dönemi, dördüncü bölüm 2000-2015 Kuzey Kıbrıs Türk Cumhuriyeti ekonomisi ekonomik entegrasyon dönemi ve son olarak beşinci bölümde ise regrasyon modeli kullanılarak ekonomik büyümeyi etkileyen faktörler ampirik bir çalışma ile ilgili parametrelerle ilişkilendirilmeye çalışılmıştır. 2,3 ve 4üncü bölümlerdeki ana çerçeve; genel durum, uluslararası durum, gayri safi hasılanın sektörlere göre dağılımı, dış ticaret ve temel ekonomik göstergeler alt başlıkları temel alınarak sıralanmıştır.

Bu alt başlıklar Kıbrıs ekonomisindeki büyümeyi etkileyen en kritik parametreler olarak belirlenmiş ve bu öngörüye göre parametrelerde ki yıllık değişimler nitel ve nicel olarak, yerel ekonomi politikaları ve dış ülke politikaları ile nasıl etkilendiği bağlamında ilişkilendirilmiştir.

Çalışmanın sonunda, regrasyon analizi modeli, GSYİH bağımlı değişken olarak ilgili bağımsız değişkenlerle model kurulup incelenmiştir.

Anahtar kelimeler: Gayri safhi yurt ici hasıla, Üretkenlik, Nüfus, Ticaret

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Chapter 1

INTRODUCTION

TRNC economy is smaller when compared with other economies. The analysis of smaller economies is different from bigger economies because the smaller economies are affected by the bigger economies around them (Sule Aker). The aim of this study is to analyze the economy of TRNC in qualitative and quantitative terms from a historical perspective. In the regression analysis in this study, GDP growth rate was used as the dependent variable while trade, population, labor and capital were taken into account as independent variables.

1.1 Short History of Cyprus

When we look through the 10 thousand years of Cyprus history which has been a strategic essential base for trade, it is obvious that Cyprus has taken her place in the forefront of the Mediterranean cultural history. Following the discovery of copper in the Chalcolithic period and the management of the copper mines in Cyprus, the horizons have been widened for the island's cultural and political development, likewise copper paving the way for Cyprus' connection with the world and industrial relations with Anatolian and Eastern Mediterranean countries. Cyprus has come under the domination of many nations throughout history. It is cited that the island was taken over by Ancient Egypt around 1500 BC, by Hittite around 1320 BC, again by Egypt around 1200s BC, by Phoenicians around 1000 BC and by Assyrians around 709 BC. Despite gaining freedom in 609 BC, Cyprus was controlled by the Egyptian Pharaoh, Amasis. The island was further controlled by the Persian Achaemenid Empire in 545

BC and it gained autonomy under the rule of Alexander the Great in 333 BC. Greek culture became important on the island after this date. Cyprus became a province of the Roman Empire in 58 BC and remained under the control of Rome for 350 years. In 395 the island became part of the Byzantine Empire and the inhabitants of the island gradually converted to orthodoxy from paganism. In 1191 Richard I. (Richard the Lionheart) settled in Cyprus during the third crusades and he later sold the island to Knights Templar. Guy de Lusignan bought the island in 1192 and he kept the island under control with his family until the Venetians took over the island in 1489. The island came under the rule of the Ottoman in 1571 and it was rented to the British Empire in 1878. Following the start of World War One in 1914 the Ottomans joined Germany in the war against the United Kingdom, and the British Empire annexed Cyprus and appointed a governor over the island. In regards to article 21 of the Lausanne Peace Treaty that was signed in 1923, the annexation of Cyprus by the British Government was recognised and the island completely came under the British rule. By the end of the 19th century and the beginning of the 20th century, the island was subjected to British economic policy and the island was influenced by the British laws. The Greek Cypriot's revolt with their wish for Enosis led the British to toughen up their policy. EOKA Organisation which was founded by Greek Cypriots in 1955, started armed actions to push-off the United Kingdom forces from the island. Meanwhile Turkish Cypriots began arming as well and the United Kingdom was having difficulties in keeping the whole island under control. Since then, the Turkish Cypriots who requested a partition and the Greek Cypriots who wanted Enosis began conflicting. Despite the ongoing civil war, the island gained freedom under the name of The Republic of Cyprus in 1960. Following the military operation of Turkish Armed Forces after the Greek coup in 1974, one sided de facto Turkish Federated State of

Cyprus was declared and it was succeeded by Turkish Republic of Northern Cyprus in 1983.

As it is seen in the historical summary of Cyprus, the island has been endlessly shared among sides in a vicious cycle. In the last century, the disorder and lack of solution in Cyprus was caused by the Greek Cypriots' desire to use the island's lands, sources and international value for their own economic and national interest. That is to say, in order to achieve economic and national welfare in the long term, the Greek Cypriots formed ideological organisations such as Enosis and Eoka and they attempted to monopolise the ruling of the island. From this point of view, we can state that Cyprus is so efficient that no one would desire to share it, and it is a valuable island that could potentially ensure a strategic and sustainable economic prosperity.

1.2 Strategical Importance of the Island

Situated in the Eastern coast of the Mediterranean, Cyprus gained its commercial and economic importance in the history process in a materialistic way compared to other countries that were first put off to the sea. In terms of its strategic location, the island has a great importance on commercial and economic global process and structure. In addition, the island was an essential stop for the trips to the religious places of the old world, and it is obvious that global people had a great impact on the economy, commerce and culture of the island. The island has been controlled by many different races and empires throughout the ancient times and many different populations have lived on the island thereby causing the island to have faced uncertainty because of its geographical position for a long period of time and also affected the chance of a stable lifestyle negatively. The island received its share of historic materialism and its effects are easily seen all over the island. After the collapse of the feudal system in AD 1400s,

Cyprus became a “check point” of the trading routes of western states that were involved in the mercantile system. The isolated structure of the island provided unique efficiency conditions and the island became a fort that the western communities that were competitive in global sea trade wanted to monopolise, a base for colony devotees trying to reach Mesopotamia, and a necessity for the eastern and southeastern empires that wanted to reach the west and globalise their empires. This is why the traces of historic materialism on the island are quite crystallised and different economic policies of different states have written the island’s fate with the freedom of a drunken poet.

1.3 Geographical Location

Cyprus is the third biggest island of the Mediterranean after Sicily and Sardinia. Its total area is 9251m². Turkey is located 65km from the North of the island, Syria 112km, Palestine 262km and Lebanon 162km on the East, Egypt 418km on the South and Greece 965km on the West. The capital, Nicosia is the biggest city of the island. It is also known as the city of the kings and has a great historical value. The remaining cities are scattered around the coastline. These are, Famagusta, which is an ancient port town, Kyrenia and Güzelyurt.

1.4 Theoretical Background on the Analysis of Economic History

Before the analysis and comments on the recent economy of Turkish Cypriots in Cyprus, it will serve as a guide to look into general history and understand how the economy is related to people, family, communities and countries.

Throughout history nations have been migrating, colonising, looking for new trades and sources to obtain economic welfare and therefore gain some power. The will to obtain economic welfare is the main reason for exploitations and barbaric actions in the history of humanity. The course of events to obtain this economic welfare and the

chosen lifestyle determine a society's social and economic model. This is how the nations have been providing their identification in the last centuries. A society's combined economic lifestyle is one of the most important parameters that make up a country's or nation's identity. Every other thing evolves around this factor, the other part is the cultural features of the old culture or the lifestyle it has shaped.

1.5 Bio-Economy

Since our history is related to trade and economic events, understanding and using this information efficiently is critical for a sustainable population. This is associated with no living thing wasting the precious world time. It is a fact that it is in living creatures' nature to live or try to live more economically. The possibility of trying to live more economically might be the reason for evolution. If we simply give an example, any change in a natural source results in some changes in the physical structure of the living creatures, therefore the living creatures make physical adaptations depending on these changes. The main reason for these adaptations is the physical evolution the creature goes through to bring the features that are necessary for survival, up to the required economic level and to obtain economic sufficiency. At this point, we can say that there is an evolutionary economy and that it is continually changing and shaping us in harmony. We can also call this "bio-economy". Finally we can describe the reason for evolution of any creature as an adaptation process it goes through to adapting itself to the available sources and nature in order to attain biological sustainability.

In other words, economy is directly related with human life in every way. An economic person spends his effort for survival in the most economical way. An ordinary person tends to use his body economically and his soul politically. In daily and practical life, obtaining economic flexibility in accordance with the daily environmental variables

when practising main life dependencies, it is absolutely necessary to use a policy and this is a natural impulse. It is the essence of people's fundamental and natural economy to spend the minimum amount of effort that is required for survival. It goes without saying that economic efficiency is required to perform a series of global activities in the most effective and productive way possible in order to survive and to allow the body and brain ensure a coordinated sustainability. The creatures that can not provide this economic efficiency are destined to fade away. For this reason, every creature's physical and biological economic efficiency is directly related with its sustainable life and it is the whole story of its existence. It is also the same for humans. Humans naturally tend to use their body's functioning and capacity economically. In the simplest term, humans have an urge to use the shortest route to reach their desired destination. It can also be called economising. From this point of view we can understand that the economy has a great importance in the relationship between humans and living creatures and even globally.

1.6 The First Era Economy

Since the beginning of humanity the economic problems that were faced because of the population growth makes up our material history on earth. In this regard, in order to understand the history of humanity and interpret the economic development, it is necessary to analyze these problems and practice new models. It is possible to observe the economic problems and welfare of the First Age economies with the establishment of the first cities in Mesopotamia or with the establishment of cities due to the population growth resulting from the increase in productivity of the first agriculture economies in Mesopotamia, through historical records. The first Sumerian records show that some independent city states were established in the fertile soils of

Mesopotamia area and these states were able to perform economic activities through natural source management and trade routes.

As it is seen, the communities that interact with each other establish trade and therefore the economy improves further. Basically, advanced dimension relies on labour production and on its productivity therefore personal manufacture and total manufacture are related and it is inevitable, however, since the capitalist manufacturing style that is brought out by trade based manufacture, distrains the output of personal manufacture through certain privileges, there is no longer a relation between personal manufacture and total manufacture because all of the production in a community depends on human capital.

It is not possible to produce any products or merchandise other than natural resources without human labour. However, the most important factor that affects human labour's productivity in terms of trade based economy is that it is integrated with technology and this integration causes some differences in labour's productivity on a global basis. One of the main reasons for these differences is the states' absolute advantage which is relative to natural resources and output, another reason is technological level difference that is relative to technology and production policy that the states have been practicing for many years.

Socialization that arises from humans' interaction with their own kind, and the synergy that is a result of this socialisation causes technology and increase thereby having multiple effects on the economy. In this regard, technology has a great importance on the history of humanity regardless of a relation with economy. One of technology's effects on the economy is the increase or decrease in the productivity of labour. Today,

the increase in labour's productivity brings out economic growth and welfare. Economic growth is when the economic variables occur at a higher rate than the previous year. Namely, it is when there is more output than before with less or the same amount of input.

With the increase in population, economic relations obligations are set on communities via trade. Trade is when a product or service is exchanged with another product or service, needless to say both sides that are involved in this trade are aiming for a profit or benefit. After the global communities improved their economies with trade, the communities that had shortcomings in a certain way have started providing for these shortcomings from other communities via trade. The principle is that a community uses the sources of its geographical conditions for their own welfare in the most efficient and productive way, and exchange the remaining with other communities via sustainable economy thus making up their own and the other community's deficiencies. Basically, this is called trade. However, the most critical basic point for humanity which is also one of the most basic doctrines of economy, is that during the exchange period of trade, the process of degradation of the value of the merchandise that is subject to trade, to the exchange value is not clear. This indistinctness may be derived from the crystallisation of labour theory of value –that makes up the foundation of bourgeois production style and that has maintained sustainability for years- over wrong scales and relations (K.Marx). This value measurement error causes labour exploitation to one or both sides of the counter trade. It is the only and the most basic way to enlarge the capital. Classical Economists argue that value magnitude can be measured by labour time, therefore in order to increase this value we should decrease the labour time of production in the present day so that it becomes possible to create residual time that will generate residual value. However, it is factual that it is not

possible for the communities that have different labour productivity based on this competition to have a fair benefit from this exchange. In this regard, in today's global economic trade conditions, the relative value of the products that we produce is always different in exchange with the products manufactured by other countries. So many parameters show up that differentiate and complicate the value of labour of the first country and the value of labour of the second country and that affects these value magnitudes. These parameters have direct and indirect effects on the productivity of labour and are mainly; technology, political power, know-how, absolute advantage, quality and quantity differences of human capital based on cultural history. In open economy communities, the basis of obtaining economic welfare is to gain competitive advantage within these parameters.

The new world that has emerged from the middle age which the mercantilist system started to globalise, accelerated globalisation via international trade and in a way it made international trade become unavoidable in the following years. International trade creates its own economic model and demand, and for this to be successful the imitability of competitive advantage endures economy related crisis and it is directly related with our changing culture and preferences.

Thus far, I have stated that economy is a personal physical science about personal welfare, however it has become a total economy and complicated due to cities being established as a consequence of population growth resulting from the global socialisation process. At this point none of the intersocietal relationships is as it was in the ancient ages when the world population was low, and in relation to trade based economy that the societies choose in order to obtain the communities' economic welfare, and the labour productivity that gains importance in accordance with it is the

most important source for income and survival that every community with an open economy should improve. Therefore, in order to increase the productivity of labour – which is an increase with respect to trade- a global dissatisfied competitive environment commenced. Dissatisfaction arises from trade and time related innovation, this innovation will never reach the desired level because if it does there will be no competition, and without competition there will be no trade. As a result of the competitive advantage that is gained with effective management of technology spikes, good profits are obtained but this is not sustainable because it is unreasonable. Technology and cultural history that is obtained is humankind's natural heritage. Ultimately, all nations will have the right to use this common heritage.

1.7 Commercial Availability of Cyprus in the Middle Ages

The island's efficiency and its epidemic structure was brought to our knowledge by the letters of the pilgrims who visited Cyprus in the medieval age and afterwards. We are lucky enough to be able to examine the conditions in Cyprus at those mentioned years from a sensory historical point of view rather than historical materialism. In Claude Delaval Cobham's book that comprised of letters and notes, *Excerpta Cypria* (Cyprus Writings), the letters of pilgrims who visited Cyprus and have expressed their opinions in their letters without being under the influence of any institution, state or academy, indicate how agriculturally fertile Cyprus is.

Felix Faber, who visited Cyprus on 14th April 1483 mentions in his letter that the Queen of Cyprus exported salt from Salines region to many countries and that this exportation generated a big amount of income. Faber also adds that the salt from Salines is the best salt in the world and its thickness measures as wide as 4 fingers and it tastes as sweet as violets. The amount of salt formation was so much that if all could

have been collected it would have met the salt needs of the whole of Italy. One of the most popular comments about Cyprus from its visitors was that the grapevines had enormous roots and that Cypriot wine was the best of all time. Also F.Suriano who visited Cyprus around 1484 mentioned that meat was widely produced in Cyprus and that 12 sheep could have been bought for 1 ducat. He also mentions that when there were no grasshoppers the crop harvest could provide 4 years worth of product. He also added that a large amount of sugar, quality cotton, plenty of cheese, labdanum, honey, wool, best of camlets and samite fabrics were produced in Cyprus but the residents of the island were very lazy. Baumgarten who stayed in Cyprus between February 8th and 28 March 1508 once again mentions the Larnaca salt lake, quality of the salt, and that the salt was widely harvested and sent to Syria, Greece, Italy, and other countries and the Republic of Venice generated a large amount of income from this. He mentions the village of “Kolossi” as the sugar source of Cyprus. Elias from Pesaro who also visited Cyprus in 1563 states that the interest rates were 20% if the down payment was made with gold and if the down payment was wool, yarn or silk the interest rates were 25% and the people who fulfilled the deposit payment could borrow money in Nicosia. He also adds that trust and dignity were not worth a dime. The fact that the pilgrims who visited Cyprus transported carob piles, cotton and citrus with ships from the ports of Cyprus is the reason why these products are still very important for us. Agriculture was very important for the communities in the ancient times and the middle ages. Cyprus used to be widely forested and there were not much area for agriculture but the forests were destroyed and the woods were used for building ships and for mining creating cultivated lands. Therefore, a new economic platform where it was possible to do agriculture in fertile lands was provided. An example of the island’s approximate

import and export for 3 years according to Drummond who visited Cyprus in March 1745.

- 30,000-40,000 okes of **silk**
- 750 tonnes of **cotton**
- 125 tonnes of **Sheep's wool** (alizarin)
- **Brown fossil** that is found on the mountains in large reserves and 500 tonnes exported annually.
- 125 tonnes of **Carob seeds**.
- 973,333 gallons of Wine.

Estimated export of Cyprus

865,000 couzai wine	1.5P per couzai	547,500
40,000 okes silk	7P per	280,000
3,000 quintal cotton	25P per quintal	225,030
1,000 quintal alizarin	50P per quintal	50,000
500 quintal sheep's wool	23P per quintal	11,500
500 quintal carob	2.5P per quintal	1,250
500 tonnes terra umbra	1P per tonne.	500
Total		£ 139,468 (sterling)

1.8 Imports and Exports of Cyprus Before and During the Ottoman Period

It is cited that under the Venetian ruling, Cyprus exports consisted of 280 lbs of 30,000 bales of cotton and the salt was sold for £125,000. De Vezin cites that the export to England was only a small amount of bitter pit (apple) and storax and he mentions that

the price of cotton was still high for the English markets. In his time, the main export items were cotton, barley, wheat, madder, wool, wine, silk and salt.

In 1864, the export under Ottoman ruling was approximately £325,000 and it was distributed as stated in the table below.

Table 1: Exported Products

PRODUCT	PRICE
Cotton	£144.800
Farm Animals	£21.250
Carob	£31.500
Salt	£25.500
Wine	36.800

Source: The Guidebook of Cyprus

1.9 Lease of Cyprus to England

Cyprus was under the ruling of the Ottoman Empire from 1571 until the late 1800s. Towards the end of the 19th century, the Ottoman Empire lost its land in The Balkans to Russia as a result of the wars between them, therefore the Empire weakened and leased the island to England in a way of forming an alliance. Shortly before the island was leased to England, the economy relied on agriculture. 22% of the domestic income was obtained from agriculture and 22% from mining and industry, 16% government services, 10% trade and the remaining from other services. 60% of the lands were arable and 1/3 of these lands were allocated for grain sowing. Legumes and potatoes were ranked after grains.

England Prime Minister Benjamin Disraeli stated “Cyprus is the key of Asia Minor”. This saying proves the importance of Cyprus to England. The population of Cyprus in the period of 1881-1911, which was leased to England in 1878, is as shown in table 2.

Table 2: Population of Cyprus

YEAR	1881	1891	1901	1911
Population	186,173	209,286	237,022	273,964

Table 3: Total exports and imports 1906-1911

YEAR	Total Value of Exportation (£)	Total Value of Importation (£)	Export Coverage Ratio of Import
1906	483,956	603,054	
1907	635,055	702,893	
1908	578,031	618,781	
1909	520,817	607,906	
1910	651,068	588,480	
1911	702,803	635,427	

Table 4: 1911 The countries that Cyprus export and import

COUNTRIES	IMPORT (£)	EXPORT (£)
United Kingdom	168.753	147.574
British Colonies	1.767	-
Turkey	60.184	68.278
Egypt	210.647	53.521
Austria	28.810	73.029
France	87.654	39.822
Greece	22.059	28.675
Italy	17.859	67.362
Romania	22.187	-
Germany	9.180	20.326
USA	1.244	-
Other	1.226	49.185

1.10 Cyprus Economy – During British Rule

The population of Cyprus in 1956 was estimated at 549,000. The estimated number at the end of December, 1959 was 561,400. The existence of emigration, which may vary considerably from year to year, makes any population forecast quite uncertain. The annual increase in population is approximately 8000 people and early in 1965 the total population increased to 600,000 people (1.5% population growth). During the year (1958) Cyprus had the highest per capital income in the Mediterranean area apart from Israel. In 1958 the average income per capita within 16 countries in the area was £75 per capita. While Israel was about £185, Cyprus was £145, Greece £100, Turkey £75, and The United Arab Republic £45. The figure for 1959 had fallen to £137 per capita.

The Cyprus economy recorded a substantial increase up to 1957 from 1950. Per capita income on the basis of constant prices increased more than 4.3 per cent per year. However, 1957 was a peak as the gross national product dropped in 1958 and again but slightly less in 1959, such that the rate of increase for that decade 1950-1959 averaged about 1.8 per cent.

During these periods when we look at the Cypriot economy comparing it with other non-industrial countries, agriculture made less than the usual contribution: mining was high; manufacturings was low; and there was an unusual amount of income from other services, the most important of which are the employment and income from the United Kingdom bases.

1.11 The Boom From 1950 to 1957

The years from 1950 to 1957 were boom years for Cyprus. The gross national product in current prices increased at an average rate of 11.9 per cent per annum. Even when adjusted to constant prices, the increase was at the rate of 5.8 per cent per annum. Prices were rising, wages were rising, and imports were rising. There were three basic factors which contribute to the boom, although any boom develops certain self-generative powers. The first was the very favorable trend in export prices relative to import prices. Comparing 1956 with the period 1946-50, one unit of exports in 1956 would buy not only what it would have bought in imports in the earlier period but two thirds of a unit more. This was the result of favorable markets for both copper and citrus fruit.

The second stimulant was the great increase in expenditures by the Military Authorities in connection with the development of the Bases. Roads and Houses were built,

military construction and all the amenities relating to a military establishment provided employment to thousands of Cypriot construction workers, and the addition of thousands of individuals to Cyprus consumers put pressure on available supplies. In 1956, government transactions brought some £20,000,000 to the Island.

In the third place, and not completely independent of the boom, there was a rapid expansion in the supply of Money and credit. By 1957, currency in circulation was double that of 1950 and bank loans and advances had multiplied three-and-a-half times, an increase of £16,500,000. Capital formation increased during this period, though much of it went into automotive equipment and houses which were intended to be rented to troops families. The cost of living index rose to 54.7 per cent. Real average weekly earnings rose even more by 37.8 per cent after allowing for the rise in the cost of living. This is an extraordinary increase for a seven-year period and clearly reflected the unnatural conditions which existed.

Chapter 2

LITERATURE REVIEW

It is a fact that every country wants to know the factors that affects economic growth in their economy. As a result, several studies try to explain the main drivers of sustainable economic growth in an academic way in developed countries. Different studies concentrate on different variables to investigate the changes on that variables under the basis of economic growth. As we know, in general the GDP of any country reflects and reveals the growth level of its economy but there are a plenty of parameters that affect GDP directly or indirectly. In a small island like Cyprus, these parameters are less than big countries. It is much easier to define the critical parameters that affect economic growth in small islands than big countries. On the other hand, there are less studies about economic growth in Cyprus relative to its young economic history.

In 2008, a study empirically investigated the role of trade policy along with physical capital, human capital and labor force on economic growth in North Cyprus. In the study, yearly data was used covering the period 1978 - 2014. The data were gathered from state planning organization and an extended version of the augmented Solow Growth model used to test the hypothesis. “Multivariate co-integration techniques are applied to test the validity of this model and the relative importance of different variables which may have an impact on both the long-run and the short-run growth of the North Cyprus Economy”. At the end of the analysis the study found out physical capital, human capital and labor force are the main reasons for growth in North Cyprus

but the indices of trade policy proxies have an adverse effect on economic growth due to the strange economic and political position of North Cyprus. Sami Fethi et al.

2.1 General Situation 1974-1986

The ranging powers had started to change the balance of the economic aspects after the WW1 and WW2, and also the international structure had began to remodel. The countries which had developed relative technology during the world wars had began to use them in terms of production and trade in order to regain their lost prosperity. After the WW2, the sea and air transportations were developed to improve the international trades to far countries and the international trade began to be rebuilt which began on the mercantilist system in 1500 and improved in the mid-1900s. In order to enlarge trade and production, the economic liberalization policies were introduced and the new worlds new economic policies were taken during this period. Western economies began to implement the first stage of economic integration with each other. The western countries which chose to develop in technological aspects after the WW2 had reflected it in their productions considering production and trade had a great advantage with technology. The countries without technological superior had to make a trade with the countries that were technologically superior and therefore the underdeveloped countries had learned that the trade was actually beneficial. The technology legacy of WW2 which was transformed into a perfect economic system by the western countries, had started to exploit the states in the west which did not have this legacy. The counties that do not obey to be ruled by other countires were forced by power and threats, which is even seen in the present. The military coup experienced in the 1960s and 1980s are the biggest proof of how the western countries made this happen cumpulsory. Cyprus and its citizens, being in the middle of the Mediterranean, which is a small island but strategically important, was in the absence of not having

the power to effect the international forces, which was constantly affected by the global events had been trying to grow and develop alongside Turkey's economy. In 1963, after Cyprus gained its freedom, the Greek Cypriots threw the Turkish Cypriots out from the management, they were working on the economic integration process with the UK and Europe. After Turkey's intervention it had been emphasized that the Turkish Cypriot citizens were also in the picture, but the Greek Cypriots had managed to remove the Turkish Cypriots from Europe. The TRNC has tried to develop its own economy by turning its face to Turkey because it could not reach the western system after the 1950's. Therefore the changes and developments of Turkey's economy, made a direct impact on Cyprus' change and development in its economy.

The Turkish Cypriots had no record of economic life in the period between 1960-1974 because of the war. According to what is being told, the Turkish Cypriots were poorer than the Greek Cypriots so they were isolated from the economy and did not show any improvements during this period. It's been said that there was only 6 Turkish shops on the military area called Kapalı Maraş. These are said to have been slowly shut down after the racist movements started in 1963. (İPEKÇİOĞLU).

To put an end to the injustice and massacres towards the Turkish Cypriots, Turkey organized a Peace Operation in 1974 taking the Turkish Cypriots under its protection and also the green line was drawn after the Turkish Federated State of Cyprus was established. The Turkish Cypriots have made moves to build up their own economy. The population of the Turkish Cypriots during that period is as shown in table 5.

Table 5: 1986 - Population Statistics in the TFSC Period

YEAR	POPULATION	YEAR	POPULATION
1977	145.000	1982	153.239
1978	146.740	1983	155.521
1979	148.501	1984	157.984
1980	149.610	1985	160.287
1981	151.233	1986	162.676

Resource: State Planning Organization

2.2 International Settings

The European Unions relation with Cyprus was found immediately after the establishment of the Republic of Cyprus . In 1961, the Preferential Trade Agreement was signed between the Republic of Cyprus and the United Kingdom. According to the treaty a reduction was agreed for the customs duties on certain goods and it became an important market condition for the products which was exported from Cyprus to the UK. In one way, Cyprus, can be said that it was trying to impersonate Britain's colonial economy.

To become a full member of England's community, the Republic of Cyprus has been faced with the danger of losing its most important export markets after the application had been done on August 1st 1961, constituting 72% of the total exports. The application to the Republic of Cyprus, for full membership in the community has been on the agenda. The Turkish Cypriots had a moderate perspective towards the application as well. In 1962. Cyprus applied for a membership for its community but because of the problems between the two communities in 1963, from that date the community and the Turkish Cypriots has not been able to participate in the

negotiations. The first actual movement of the economic impasse in Cyprus was done here. As a result of the negotiations between the Greek Cypriots and the community, 'Treaty establishing an Association between the European Community and Cyprus', an agreement was signed in Brussels on December 19, 1972 and the agreement entered into force on 1st January 1973. To achieve the customs union agreements, the progressive abolition of customs tariffs and other restrictions were foreseen.

After the actual separation in Cyprus which began in 1963, the Peace Operations carried out after dividing the island into two in 1974 and strengthened by drawing on their border communities. The existing Greek community in the South had the right to be recognized as 'The Republic of Cyprus' legally by the international communities. The island is a bi-communal island society under a single name, although the constraints on TRNC by the International community is one of the main reasons for the economic difficulties currently experienced. Turkish Federated State of Cyprus was proclaimed in 1974. After 1974, the Community of some member states, particularly the UK and Germany had continued to allow the export of agricultural products from Cyprus under the given name by the Turkish Chamber of Commerce 'phytosanitary certificate'. The England Custom and the Turkish Cypriot authorities were to accept documents issued on behalf of the circulation under the name of 'Cyprus Customs Authorities'. On this basis, article 5 of the Association Agreement was shown. According to this article, 'rules on trade between the Contracting Parties will not lead to discrimination between the citizens of Cyprus', although the north side is removed relative to the racism of the Greeks from this emerging economic integration process.

In 1983, the Turkish Federated State of Cyprus' revised its name and was changed to the Turkish Republic of Northern Cyprus. The cause of the change is said to be because the former left-wing President Rauf Raif Denktaş was going to continue on his mission. 3 months ago I had an interview for my thesis with a minister who I can not name and he answered my question thus "Mr. Minister, why did we replace Turkish Federated State of Cyprus with Turkish Republic of Northern Cyprus?" Minister's response to the question was with a witty attitude "so that we can exercise a bit more". This was especially mentioned because after getting the name TRNC, the embargos were already being placed. The Turkish Cypriots had the export channels after 1974 and was working on a way to remain below the annual export embargo. The Greek Cypriot's took action after the establishment of the TRNC, and has done almost everything to cut their economic relations in the international arena.

After the establishment of the TRNC in 1983, the Cyprus government changed its customs seals, and had reported to the Community Member of States that from then on the provisions which will take place in the framework of the trade, will only be applied with the new seal. On top of this, the Council and the Commission despite mentioning that the new seal can be accepted by the member states, the stamps used by the Turkish authorities was not going to be recognized anymore. On 19 October 1987, between Cyprus and the communities "Customs Union Agreement" was signed and the agreement was implemented since 1st January 1988. However, the General Director Manager regarding the agriculture Commissioner Guy Legras sent a letter to the countries' permanent representatives regarding the arrangements of Cyprus' documents to be edited and had stated that the Republic of Cyprus had all the authorities and all the rights.

In the mentioned article, two Netherlands-based companies which imported citrus from the TRNC, despite the EEC agreement of the relevant article 173 (2) of Article throne (new AT-230 (4)) opened an annulment. The ECJ had dismissed the case on June 13 1991, stating that the impugned bet had an absence. At the end of the case, in the condition of not questioning the bond between the commission and the state members, England and Germany accepted the Turkish Cypriots documents of circulation authorities.

On May 21st 1992, SP Anastasiow (Pissouri) Limited and 12 other Cypriot citrus producers and exporters, without the documents required by the Community law, in order to allow the import of the agricultural products from Northern Cyprus to the UK filed a lawsuit in front of the Supreme Court of England against the England Agriculture, Fisheries and Food Ministry (Ministry of Agriculture, Fisheries and Food).

The Court gave the relevant articles of the Association Agreement to review the case in the framework of the preliminary reference procedure to the ECJ. During the preliminary ruling procedure, the United Kingdom and the Commission argued that it should be interpreted as The Association Agreement provisions of Cyprus and should be evaluated together with the actual division of the island and it must be interpreted in a way that it interests whole community and should be served in a fair manner. According to the United Kingdom and the Commissions, in this case, it did not mean that they should recognize TRNC as a state. However, The ECJ did not accept these claims and the movement certificates was rejected by the international community stating that that it was going to be against the spirit of the system made by the Protocol of Origin.

The ECJ continued its judgement with also addressing the issue of Phytosanitary Certificate. According to this, the reason for the search of documents received by the Plant Health Directive was because there was a protection against the harmful organisms aiming at the plants and wanted this system to be done by lawfully authorized experts, and still to be made by the exporting states, predicting the Plant State documents to be guaranteed by the exporter states, and therefore the member countries and those in authority which is not recognized by the community had stated that the purpose of the directive is not possible to perform these types of cooperation documents. The court said that the term ‘ ‘ authorized authoritarians’ ’ was used in order to describe the authorities from the Republic Of Cyprus which tried to destroy some documents. As a result of the ECJ’s review, Britain's Supreme Court also held that the authorities that was authorized by the Republic of Cyprus, potatoes and citrus fruits imported should remove the documents. Immediately after the decision, they informed several committees and the member countries of the Commission, by the effects of the decisions. In light of the decision taken in Germany, from 5 July 1994, documents organized by the Turkish Cypriot authorities will not be recognized anymore.

On the 4th of July 1990, the Greek Cypriot administration applied for full membership in the community on behalf of the whole of Cyprus. The Turkish Cypriot side has brought heavy objections and criticisms about this and argued that the application should be rejected. Despite of these these objections and criticism of the EU Commission, the applicant had given the opinion that the Council in June 1993 has found it appropriate. Between 24-25 June 1994, the Corfu Summit held in the evaluation of the developments regarding Cyprus' application and a decision was taken to speed up the negotiations for the acceptance of the EU. On December 9 1994, it was emphasized that Cyprus was included at the Essen Summit in Germany. On 12-13

December 1997 at the Luxembourg Summit, it was decided to start full membership negotiations with Cyprus. On 30 March 1998, the beginning of full membership negotiations had started between the EU and Cyprus. As a result of the negotiations as of 1 May 2004, Cyprus became a full member of the European Union.

2.3 Foreign Trade, Production and Economic Situation 1974 - 1986

The Greek's enosis plan and the civil war between the Turk's and the Greek's caused by the British policies in the years of 1963-1974 was a dark period for the Turk's history of trade that can be recorded. Even though the Port of Famagusa had some records this period, there were insufficient data to associate them with other factors. The Turk's economic records began with the establishment of the Cyprus Turkish Federated State in 1974. So the native Turk's in the Cyprus island have started to manage its own economy in 1974. Ofcourse it should be noted that the level of education had a reflection on the nation in this period. KTFD which was stranded from the economic structure had taken steps to create the staff with Denktas's policies. According to the information obtained from interviews with Osman Kocatürk, the beloved founder president gave a list to Osman Kocaturk. In the list of the President's needs was the amount of people who needed education and the names of the faculties. For example, 300 engineers, 200 architects, 200 doctors, etc. This list was based on the direction given by the founder President Denktas himself and the states training will follow the education in Turkey. However, what Denktas could not calculate was the situation which had changed with the 1980 coup in Turkey's management, liberalization of the economy was returning to a free market economy. Due to these policies, graduates like Osman Kocatürk who had returned from college could not be employed anywhere because the industry had experienced a devastating privatization.

When the condition and status was being so regulated, the economic structure was fashioned after Turkey and the founder President Denktaş's management.

Shown as a major economic resource after the war, various factories, offices and hotels belonging to the Greek Cypriots were executed by various institutions with Turkey's and KTFD's joint capital and the "The State Economic Enterprises" (SOEs). The CHP party and Ecevit's effect had an important role on the establishment of the SOE's. Managers from Turkey were placed in these positions which was a kind of state capitalism. In this period, the northern economy was based more on consumption and the SOE was mentioned for not being much of a benefit to Turkey's economy. However, the absolute advantage in the agricultural sector of the North side was understood by the industry's brightness. The main export products made up of citrus, potato, ground carob, tobacco and carrots ranked as 75% in total. Also wool, hides, halloumi and bran was exported. Imports from Turkey such as foodstuffs, fruits, clothing, petroleum products, cement and newspapers were exempted from customs duties. The imports from the countries of the EEC were mainly machinery and transport vehicles, clothing, kitchen and glassware.

60 abandoned factories which belonged to the Greek Cypriots were reconstructed and taken advantage of, in order to reconstruct the economy with the founding of the company: Turkish Industrial Property Holding Ltd with 100 million TL capital and partnership of Turkey's SOE's and KTFD, 200 shares were divided between Cyprus Turkish Communal Chamber Consolidated Fund and various kits in Turkey. In the capacity of the holding, there were 6 manufacturing groups such as machine, manufacturing and electricity, textile-clothing, plastics, food, cosmetics and paint industry founded in 1971. Before 1975 there was another important company

established in the industry called Trade and Business Enterprises Company Limited (ETI). In the newspaper Zaman (February 8, 1975) the given reason for the publication was: "In 1958-1960 the Cyprus Turkish Institutions Federation have created an organization conceived the aim of supporting the economic development of the society. Because of the absence of the Turkish bazaar in this period, the aim is to combine the people by doing business and to develop commercial relations between Turkey and Cyprus." In the 1971-1974 period, a total of 1.5 million TL ETI has turned into business and has increased its activities after 1974. It was importing over 500 various agricultural and industrial products from Turkey and various EEC countries. The services in ETI's monopoly was importing of building materials, medicines and medical equipment, the marketing of alcohol and cigarettes in Cyprus owned by Turkey and the management of the Duty Free Shop founded in June 1975, as Cyprus Turkish Petroleum imported fuel and provided the distribution. Besides the distribution of various car parts, construction of the economic organization OYAK was the general agency of RENAULT. The President Denktaş and nearly 50 ministers were a part of the shareholders, showing how powerful ETI was even in politics.

The Turkish Cypriots working hard to put their economy together after 1974, they began to work at the factories left from the Greeks by the help of Industry Holding. There were a total of 56 factories and approximately 2,500 people were employed here. Employment issues were nearly solved. The best remedy for the psychological deterioration and the uncertainties faced by the people after the war was the Turkish Cypriots being identified by the developed production and the Turkish Cypriots people being united by the help of the Industry Holding. Factory advantage of the presence of negatively affecting the "know-how" lack of employees has been exceeded its own

efforts and dedication, there has been even further developments with the lack of qualified staff.

The production of the factories in the Industrial Holding, was providing 95% of the local consumption. Finding the export markets was the biggest handicap for the Industrial Holding. According to the marketing manager Ergün Vudalı, the organizations that were exporting to the Middle East and Africa, and producing for nearly 1 million people before 1974 reached to 80,000 people in 1974. The unstartable exports to Turkey was one of the obstacles. The first export was to Libya in 1976 with pipe sales. Later, Egypt, Syria, Lebanon, Jordan, Saudi Arabia and the electrode to more distant places like Iraq and a number of marketing and sales of construction materials were exported. According to the information given by Vudalı, an international tender in Iraq was won and 154,000 dollars worth of goods were sent to the island. It is stated that the goods were loaded on a ship and was sent to the Iskenderun port along with a companion and from there trucks were rented out to send the goods to Baghdad. Taking the condition of the periods into consideration, marketing and logistics activities were significant.

According to the information given by the Chief Delivery Zeki Erkut, 1 million sacks to Iraq, Britain, Belgium, Germany and the Netherlands received confections as exports. Galvanized pipes were sent to Lebanon, cables and pumps were sent to Israel and the Middle East. Erkut also stressed that the companies were in a competition with each other and there was a pursuit after the shipping companies for days to fit the goods and transport them and each outgoing aircraft and ship was fully filled with no space left.

Enver Yazgın, who was a production planning and quality control engineer and later served as a director at the Industrial Holding stated that they established everything themselves i.e agricultural equipment for the production and the production and packaging plant to Turkey. The first citrus packaging facility from Iskenderun-Mersin and Mersin-Phoenician was done under the name of Turkey by Cyprus. In addition to this, to improve the Cypruvex company in Cyprus and the concentrated juice factory in 1978, they produced 5-6 units in the Tek-San factory under the name of the Industry Holding. Another promising point said by Yazgın was in line with problem-solving and development capabilities. The dough hardens due to the heat gained and in order to solve the problems, added an air-conditioned radiator to the boiler and provided the continuity of production. This is one of the indicators that prove the Cypriots ability to correct the natural production capabilities and problems. In addition to this Yazgın explained that, they had left their Japanese rivals outpaced on a sack auction to the Middle East and after that, secret Japanese agents were coming to the island doing researches pretending to act like tourists. The Japanese was wondering how this small island was competing with them, but in fact the answer for this was, there was raw materials left in the abandoned factories from before the war in 1974. However, the Japanese were worried that there was a new method of production in the market.

Another production planning and quality control engineer Aysin Yazgın stated that, it was proven that the manufacturing R&D was carried out and they were successful. Aysin Yazgın explained that they explored the difference in the quality of barley and wheat in Karpasia and Mesarya area. The crops grown in Karpasia had a lower extract, was higher in moisture and was fuller, whereas the crops in Mesarya was the opposite, which was more suitable in the making of bread.

The Industrial Holding had a critical role on CTFS' economies development and the start of its first production process. We can say that these years were very intense and things were going very good with CTFS. In 1977 there were imports worth 82 million dollars while exports amounting to 25 million dollars. The highest 10 year ratio comparing the imports to the exports began that year. As it is seen on Table 6, the ratio of 35-40 is a better result than what is expected from an island's economy. The text that was always on the Industrial Holding's advertisements was "having a break from the imports" which was their main policy.

Table 6: Export & Import ratio (Million Dollars)

Years	EXPORT	IMPORT	Coverage Ratio
1977	24.9	82.0	30.37 %
1978	30.8	84.0	36.67 %
1979	40.0	92.1	43.43 %
1980	47.6	95.0	50.11 %
1981	36.9	104.1	35.45 %
1982	39.5	119.9	32.94 %
1983	40.7	145.3	28.01 %
1984	38.8	136.3	28.47 %
1985	46.3	143.0	32.38 %
1986	52.0	153.2	33.94 %

Resource: State Planning Organization

In the first years of the 1977-1986 period, the most important item of export was to the United Kingdom. This was followed by Turkey, the EU countries and the Middle East. In 1977, the export which was around 25 million dollars were divided as follows: 12 million dollars to the UK, 6.6 million dollars to Turkey, nearly 4 million to the EU countries and 1.2 million dollars were exported to the Middle East. After a 10-year process, by the end of 1986, the export had gone up twice as it used to be amounting to 52 million dollars majority of which was to the UK (32.8 million dollars). By the end of this 10-year process, there was not much of a difference from the export to Turkey which was ranked as 7.7 million dollars. The exports to the Middle East grew 5 times more and reached 5 million dollars. The EU countries have gone down from 3.5 million dollars to 1.2 million dollars by the end of the 10-years of process. CTFS' most important export was numerically made to the UK and it has been the most promising satisfaction to the market.

If we look at the periods of 1977-1986, CTFS' most important import in its first years, in 1977, the 82 million worth of imports 31 million dollars was coming from Turkey, 21 million was from the UK, 16.5 million was from the EU countries, 5 million dollars was coming from the Fareast and the 3.4 million dollars worth of import was coming from the Middle East. By the end of this 10-year process in 1986, when the import which has gone up to twice as much ranking 153 million dollars, Turkey was in the first place of the list. 22.7 million dollars was from the UK and approximately 29 million dollars of import was from the Middle East. The import which was done with the Far East was 15.8 million dollars which had gone up 3 times of worth. The rest of the import which was done by the other countries, according to an island economy it was in an optimistic level. The comparement can be seen in Table 3.

During the 1977-1986 period, the trade-tourism industry in the economy sector had the largest share in the distribution of the sectors. While in 1977 the trade-tourism was 21%, in 1983 it raised up to 28.4% and by the end of the 10-year process in 1986 it became 22.9%. While the wholesale and retails average share was 20%, the average percent of the hotel and catering was 4%. The reason for the increase of the wholesale and retail trade sector was because of the Turkish citizens coming from Turkey, buying European goods from Cyprus and selling them in their country. (Şule Aker).

The third and the fourth biggest sectors were public-service and agricultural sector. While in 1977 the public-service sector was ranking 19.9%, the agricultural sector was 16.4%. In 1986, the public service had gone down to 17.8%, and the agricultural sector was at the level of 14.6%. Industrial and manufacturing sectors in the 1977-1986 period was an average which stood at 10%. Transport and communications sector had a share of around 8% on the average in 10 years while house ownership had reached the level of 9.4% in 1977 after the gradual decline upto 1986 it dropped to 2.8%. The construction sector was ranking at 4.1% in 1977 and there was a sharp increase in 1986 to 8%. Between the years of 1977 and 1984 the self-employment and services ranked at 3.4%, in 1985 it increased to 30% and in 1986 again with a 30% increase it went up to 5.4%. The import duties in the average of the 10-year period had a share of 6%.

2.4 The Basic Economic Indicators

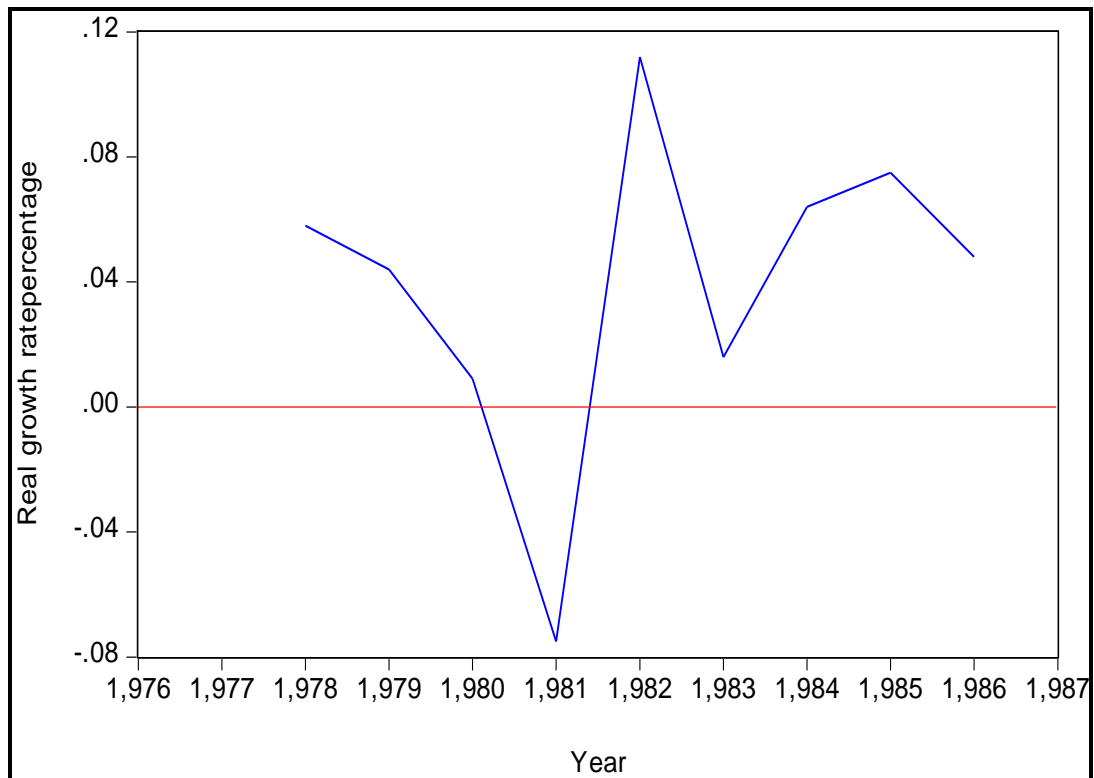


Figure 1: Real Growth Rate

The GNP was 209.4 million dollars in 1977, however, in 1978 with a 5.8% growth of the economy it became 214.7 million dollars. In 1979 with a growth rate of 4.4% it became 231.1 million dollars and in 1980 with a 0.9% growth, it became 233.6 million dollars. There was a decrease in the GNP with the rate of -7.5% in 1981 and in 1982, although there was a growth of 11.2% due to the excessive appreciation of the currency against TL for \$. The GNP had gone down to 208 million dollars. (See Graph:5). In 1983 although there was an increase of 1.6%, the dollar Exchange rate had relatively become 202.9 million dollars. Even though there was growth of 6.4% in 1984, relatively the currency fluctuations also declined to \$ 201.2 million dollars.

In the economy, there was a growth of 7.5% in 1985 and in 1986 it was 4.8% while the GNP rates were 240.2 and 285.9 million dollars respectively. The rising and declining income per capita was relative to the GNP and the population figures which was 1,444 dollars in 1977, 1,463 dollars in 1978 and in 1979, 1,556 dollars. The capita per income which began to fall markedly in the 80's, was 1.561 dollars in 1980, due to the speedy shrinkage of -7.1% of the GNP in 1981, it went down to 1.435 dollars, and in the following years, due to fluctuations in the dollar exchange rate against the growth it became 1.361 dollars in 1982, 1.305 in 1983, and 1.274 dollars in 1984.

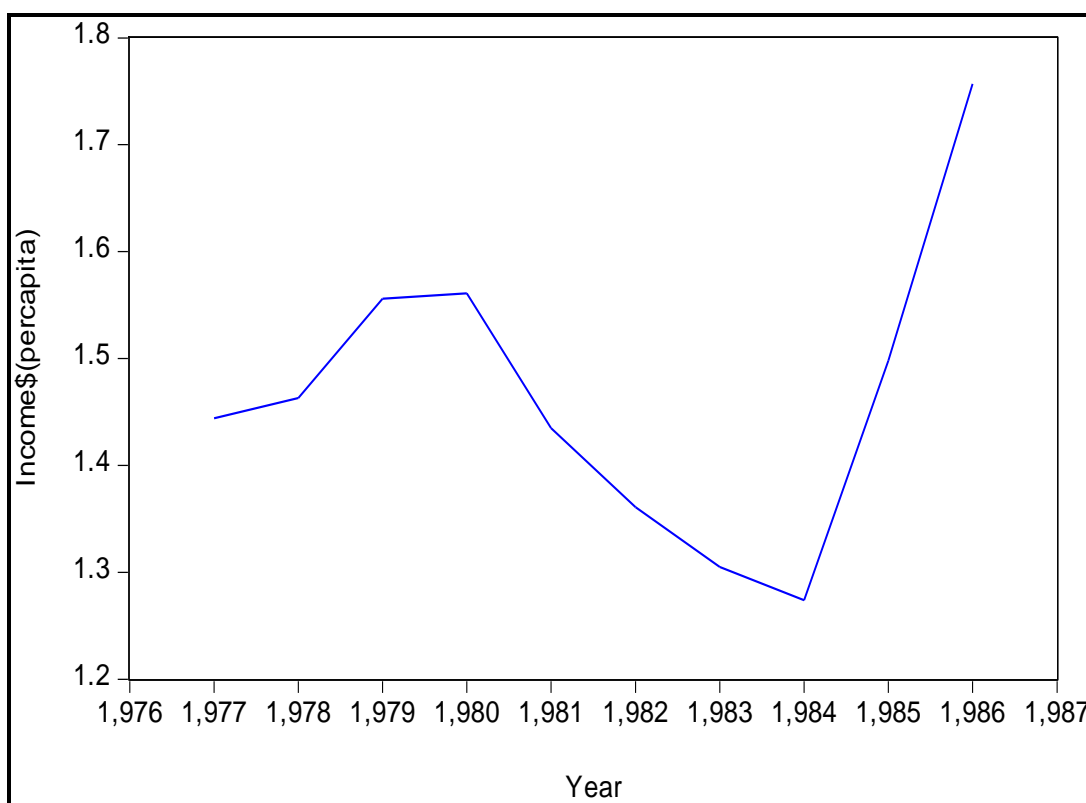


Figure 2: Per Capita Income

In 1982, 1983 and 1984 respectively in real terms there was a decline in the capita per income although there was an increase in the GNP such as 10.8%, 1.5% and 5.8%, and the reason for this might be the fluctuation in the dollar exchange rates after the military coup in Turkey in 1980. In 1985 and 1986 a vertical increase was experience

respectively in real terms with the GNP showing a growth at 7.8%, 4.7%, and the national per capita income led to 1.498 dollars in 1985 and 1.757 dollars in 1986.

When we look at the national per capita income in current prices on a gradual basis in the 10-year period there seems to be a continuous rise. The main reason for this was not calculating the inflation and the changes in the foreign dollars. In 1977 the current price was 26,279 TL per capita income increased gradually to 35.989 TL in 1978, in 1979 it was 57.269 TL, in 1980 it was 117.248 TL, in 1981 it was 162.171 TL, in 1982 it was 222.841 TL, in 1983 it was 302.468 TL, in 1984 it was 468.008 TL, in 1985 it was 791.544 TL and in 1986 it went up to 1.199.579 TL.

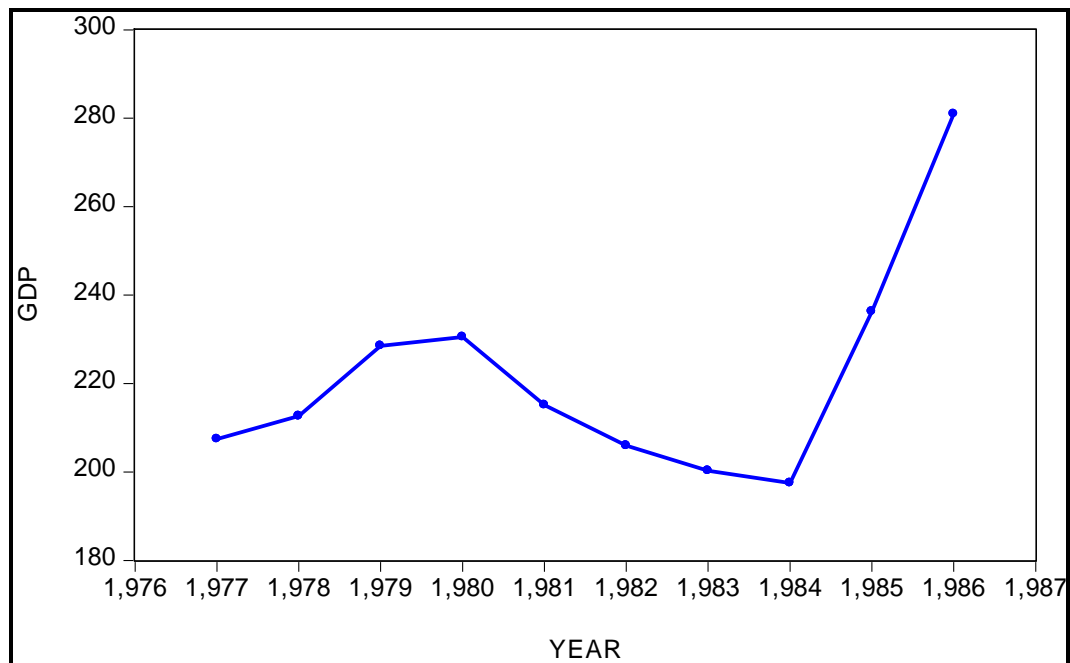


Figure 3: Gross Demostic Product

Despite the decline in GNP between the years 1980-1984, there was an increase in current prices. In 1980 the current prices of the GNP was 17.311 TL, in 1981 it was 24.310 TL, in 1982 it was 33.728 TL, in 1983 it was 46.428 TL, in 1984 it was 72.560 TL, in 1985 it was 124.824 TL and in 1986 it became 191.776 TL

Chapter 3

TRNC Economy 1986-2000

3.1 General Situation 1987-2000

After the WW2, the Western Countries which headed up towards liberalization had turned their head towards this with the speed of globalization that was speeding up the transition process of the economic integration. In this period the countries were being directed with the liberalization policy of industrializing towards the outer wing. With the improvement and the profit of the open market economy, it became the most valuable out of all the countries. The Turkish, which had carried out a closed market between the 1960s – 1980s faced a military coup against the government in 1980, and that pushed Turkey to liberalization which affected Cyprus in a direct way. The Turkish prime-minister Özal and his team brought the foreign capital to Turkey in accordance with the decisions taken on the 24th of January. The Turkish economy which had a critical effect and position affected and changed the small Cypriot economy directly. Özal brought the specialization and the liberalization policy to Cyprus as well in 1986. Specialization speculations which gave a shape to the economy during Ecevit's period is ofcourse the reflection of the decisions taken on the 24th of January. The communists gained more power in Cyprus in the 80's while then the whole world was in struggle with communism. We've seen the theory of small economies getting attached to their bigger and closer economy near them in order to grow their own economy, which we can still observe today.

Northern Cyprus increased its productions in terms of its industry by the 1980s and led to a painful impact on developments in the global cycle. In 1986, Turkey's prime-minister Turgut Özal made a statement in Cyprus clarifying that the structure of the Cypriot economy was about to change. Özal, on his first statement in Cyprus; "Anything else apart from tourism and agriculture does not promise the island a future. Setting up production plants in Cyprus is a wrong idea". In this case the private sector was actually being torn down as it was mentioned. Many people and unions have made revolted against the idea of closing down the factories and productions. The unions KTÖS, DEV-İŞ, TARIM-SEN, KTMMOB, BES, KTAMS, KOOP-SEN, DĞİŞ, EMEK-İŞ, YTE ,YÖN-SEN, PETROL-İŞ said NO to the economic packet which was imposed on TRNC by the TR. The newspaper Yeni Düzen stated in one of its issues that the reactions rising against CTP, AHP and SDP parties will bring economic ruin to the union and they are against any precautions or packages that would jeopardize the democracy in a joint way, 12 July 1986 Saturday.

On 30th July 1986, the Wednesday issue of Yeni Düzen newspaper had the title: "The Demolition Package Destroying The Holding". In the Eroğlu and Özal package, the KİT's was closing down and was being transferred to private sectors. On Halkın Sesi newspaper one of its title was: "The presidential opinion on relevant economic programs: The program is rational" on the date of 23 July 1986 . On the 16th of July 1986, Wednesday, the TRNC President Eroğlu's statement was: "The economic program will be implemented for more prosperous days". Thus, it was understood that the Northern Cyprus's economy was being liberalized and the transformation into the free zone was inevitable. All the factories under the industrial holding sector was closed down in within a 10-year period and the sector of services started to move in the direction of industry. Holding of employees in the industry was put forward to be

directed into the public sector and the public sector was burdened on the economies which began to increase gradually. In other words the production of the Turkish Cypriots seized.

Cyprus's population was increasing every year and the remaining empty houses from the war were being inhabited by the people who were brought over from Turkey. One of the most critical points was the people who came from Turkey were voting for the parties which supported Turkey and they also brought their own demands to Cyprus too. Their demand for products was the subject to the terms demanded for years in Turkey, and the imports between Northern Cyprus and Turkey increased relatively with the population. The suspension and withdrawal of the domestic production was a major blow to Cyprus's economy. The population which at 1987 was 165,035 increased by 1.3%. The statistics of the population for the periods 1987-2000 is as shown in the following table:

Table 7: Population

YEAR	Population	YEAR	Population
1987	165.035	1994	179.208
1988	167.256	1995	181.363
1989	169.272	1996	183.290
1990	171.469	1997	201.914
1991	173.756	1998	204.225
1992	175.118	1999	206.562
1993	177.120	2000	208.886

3.2 Foreign Trade and Industrial Distribution of Gross Domestic Product

Turkey opened itself to foreign capital after the January 24th decisions and played an important and effective way in shaping the structure of Cyprus economy. Due to Cyprus's small economy, the strategy of growing regarding bigger neighbour economies gaps, such as Turkey's tourism was the new aim of development. In this context, the tourism sector started to develop. . In addition to this, the first university institution in 1980 in TRNC was considered an economic sector, therefore certain steps were being taken in this way. Associate Professor Şule Aker who was a former instructor at the Eastern Mediterranean University played an active role in the outcome of the process. By the late 1980's, looking at the distribution sector in the GDP Trade - tourism sector constituted the largest share of GDP in this period. The TRNC economy benefiting from Turkey's protectionist policies sold imported goods to Turkish merchants. However, the Turkish government took measures within 10 years and reduced the entry of foreign goods. The goods that came from Europe to TRNC were implemented due to a protectionist policy and the wholesale and retail trade decreased in 10 years. The goods received from European countries such as Spain to TRNC were marketed in Turkey. Even Spain was surprised with the amount of imports made from Spain to TRNC. The multitude of goods compared with the Turkish Cypriot population constituted an important point. In 1987, constituting 18.1% of the GDP, the wholesale and retail trade sector declined to 11.6 % in 1999 . After the mid-term of the construction and manufacturing, the industry showed a gradual decrease as shown in the table below. The gradual decline of the agricultural sector had its worst level in these years.

In 1987, while the agricultural sector was 12.7% of the GDP, by 1999 it had fallen to 8%. The main reason for this decline was because the Court of Justice of the European Union were under pressure by the Greek government who had being dissapointed after the establishment of the TRNC in 1983. Another reason was cancelling the export with England. The drop of citrus, potatoes and crop production is seen on the table below. The vegetable production up to the year 1986 remained at 12%, and fell to 8.4% in 1987 and continued to decline gradually to 4.2% by the year 1999. This decline in import-export crop production is in the fill rate effect. However, another important effect in addition to the destruction of factories and staying within the privatization process also the contribution of exports. The export - import ratio in 1986 was at 33%. In 1987, this ratio decreased gradually to 24 % and progressive process was realized as 11% in 2011.

On the other hand the economy in the distribution sector during the period of 1977-1986, the average was around 6% from actual import duties. Between 1987 and 2000 it had increased up to 8% and already formed an important point. Another important sector which was the puclic sector had a gradual increase which is seen in the table below. The public sector share of the GDP in 1987 was 16.6% and in 1999 stood at 22.6%. An increase of almost 100% was observed between the years 1977-1986 by financial institutions.

Table 8: Total Export & Import 1987-2000

YEAR	EXPORT	IMPORT	Export to the import ratio
1987	54.399.520	219.754.260	%24.75
1988	51.874.770	216.669.600	%23.94
1989	54.201.130	264.035.910	%20.52
1990	59.378.570	396.684.430	%14.96
1991	54.440.650	291.867.969	%18.65
1992	54.280.452	348.158.451	%15.59
1993	53.965.713	363.770.930	%14.83
1994	52.879.109	286.335.490	%18.46
1995	66.929.405	366.017.914	%18.28
1996	70.320.666	318.316.872	%22.09
1997	57.650.519	356.517.273	%15.77
1998	53.333.915	430.468.682	%12.38
1999	52.272.020	412.629.670	%12.66
2000	50.331.996	424.810.327	%11.84

Cyprus lost its reputation as the export and import figures experienced a significant change in the years 1987-2000. 94.3 million dollars in imports were made from Turkey in 1987, while the European countries had a total of 126.7 million dollars in imports. However, 7.9 million dollars of exports was made to the Republic of Turkey, while

the European countries had exports of \$47.2 million. Subsequently the imports made to the Republic of Turkey has exceeded the imports made to the European countries in 1995. The imports from Turkey in 1995 was around 194.8 million dollars, while the imports from the European countries was only around 171.3 million dollars. We can say that in this process, the Cypriot economy had a change in its import trade. In the year 2000 the imports from Turkey had reached 275 million dollars, while the imports from the European countries was 150 million dollars. As it is understood from the results Turkey's imports versus other countries' import ratio was (94.3/126.7) 74% in the year 1987 and in 2000 it rose to 183% causing Turkey's increase in its growing market share in terms of exports to Cyprus.

The total amount of exports showed almost no change between the years 1987-2000. The export in the year 1987 was 54 million dollars and went down to 50 million dollars by the year 2000. The import in the year 1987 was 219 million dollars and doubled to 424 million dollars by the year 2000. While the import-export ratio was 24.75% in 1987, the ratio went down to 11.84% in 2000. During this period, the exports of the agricultural sector were subject to sanctions in line with the decisions taken by the ECJ in 1993 and had a great impact on the decline. Not being able to export the main agricultural goods such as potatoes and citruses, was the main reason for the the big decline.

3.3 Basic Economic Indicators

The GNP which was 331.6 million dollars in 1987 started going up to 341.7 million dollars with a 7% growth in the economy in 1988, 425.4 million dollars with a 8.5% growth in 1989 and reached 591 million dollars with a 5.7% growth in 1990. Due to the Gulf War in 1990 there was a decline of -5.3% causing the GNP decline to 541.4

million dollars in 1991. In 1992 and 1993 respectively there was a growth of 7.8% and 5.9% and the GNP rose to 585.5 million dollars and 624.9 million dollars. Due to the economic crisis in 1994, it declined by -3.7% and the GNP was stated as 554.3 million dollars.

The public sector had opened up a non-interest expenditure in Turkey before 1994 to a deficit of the public revenue and the public sector spent more than it earned. As a result of the finance, there was public debt with the central bank and Turkey experienced hyperinflation for the first time and its effects also reflected on the TRNC economy. See chart 5.

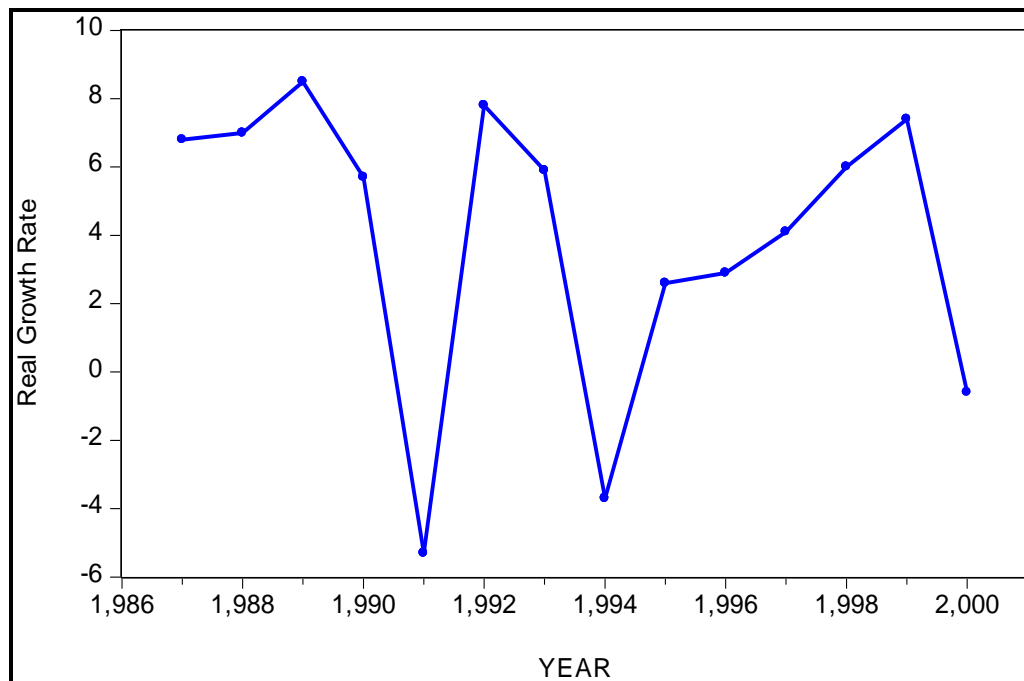


Figure 4: Real Growth Rate

After the crisis in 1994, partial improvements were made in the economy such as in 1995 it rose to 2.6%, in 1996 it rose to 2.9%, in 1997 it rose to 4.1%, in 1998 it rose to 6.0% and in 1999 it rose to 7.4%. Alongside this growth, the GNP in 1995 was 755.7

million dollars, and then rose to 773.9 million dollars in 1996, 759.8 million dollars in 1997, 890.5 million dollars in 1998 and 963.9 million dollars in 1999.

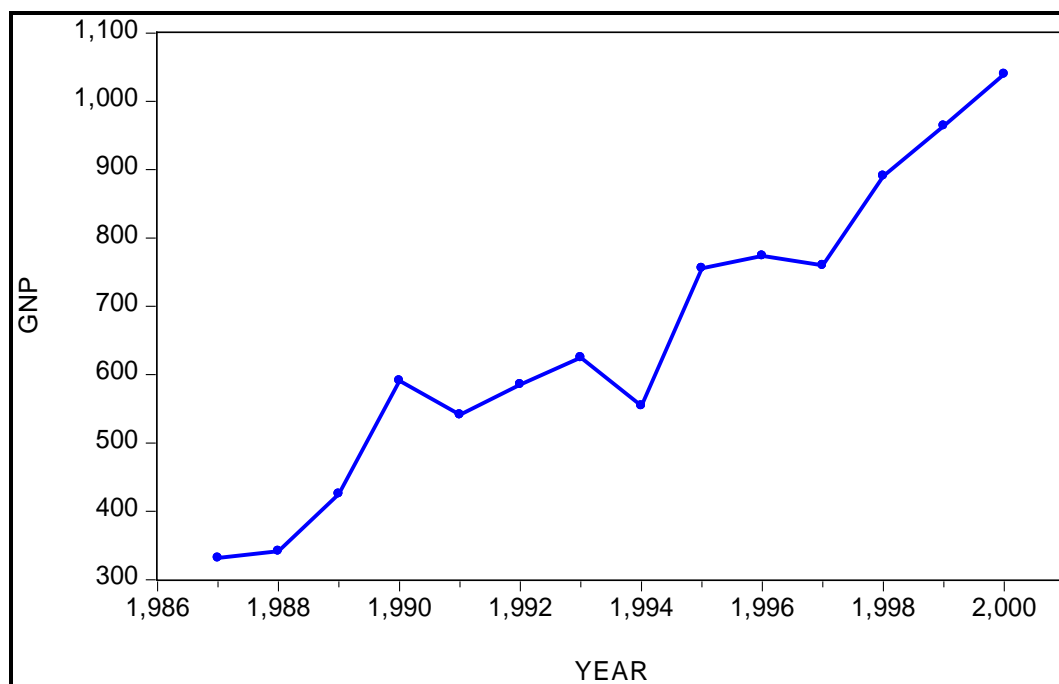


Figure 5: GDP

The GDP which experienced a growth of 325.5 million dollars (6.7%) in 1987, in 1988 it increased by 7.5% (336.9 million dollars), in 1989 with an improvement of 8.6% (419.7 million dollars) and in 1990 it reached 6.4% (587.5 million dollars). Due to the Gulf War in 1990, there was a decline in 1991 by -5.5% (537.0 million dollars). In spite of the GDP, in 1992 and 1993, there were growths by 8.1 % (\$582 million) and 4.8 % (\$ 614 million) respectively. In 1994 relative to the public crisis in Turkey, the GDP experienced a contraction in real terms and declined by -3.8% (\$544.8 million). Partially it made improvements respectively in 1995 (3.0%), 3.8 % in 1996, 4.3 % in 1997, 7.5% growth in 1999 and 5.2 % in 1998. In contrast to this, GDP in 1995 rose to 754.7 million dollars, 770.3 million dollars in 1996, 757.6 million dollars in 1997, 881.7 million dollars in 1998 and 955.8 million dollars in 1999.

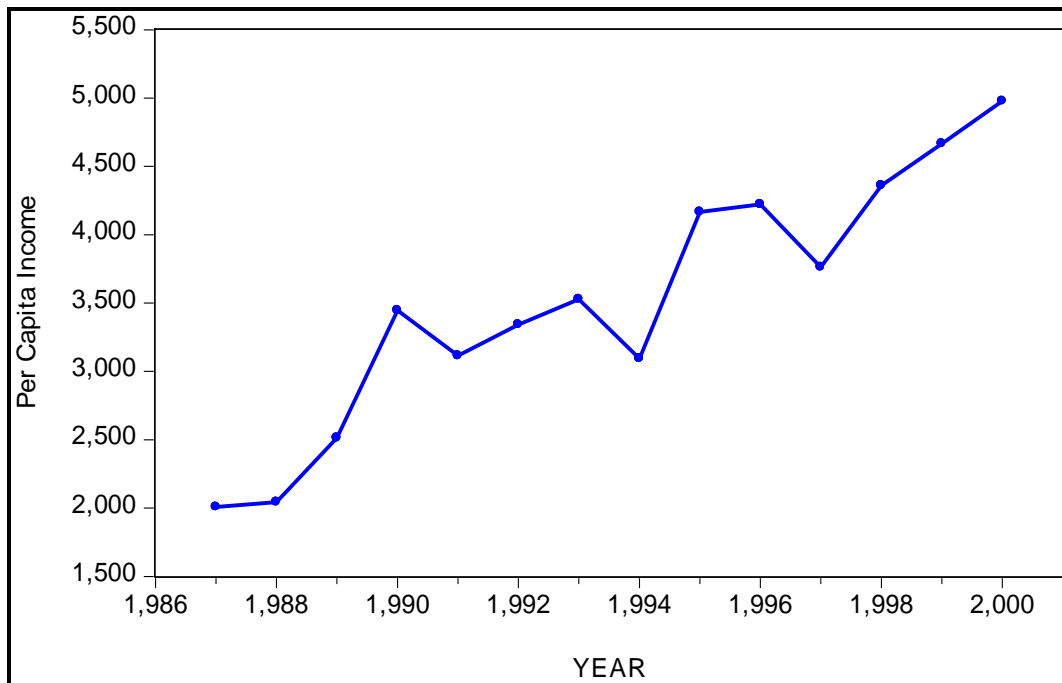


Figure 6: Per Capita Income

The national income per person was 2,009 in 1987, 2,043 in 1988, 2,513 in 1989, 3,447 in 1990, declined a little to 3,116 in 1991, increased to 3,343 in 1992, 3,528 in 1993, 3,093 in 1994, 4,167 in 1995, 4,222 in 1996, 3,763 in 1997, had a good improvement of 4,361 in 1998 and in 1999 it reached 4,666. There has been a gradual increase despite the years 1990 and 1994 which went through a crisis.

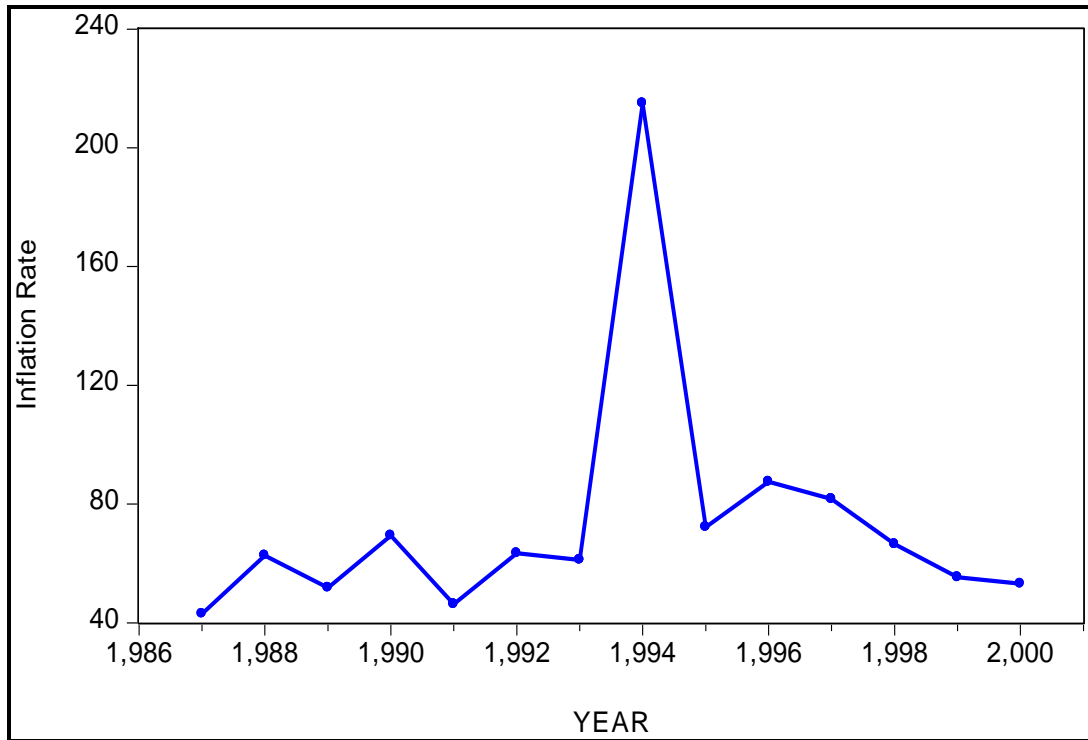


Figure 7: Inflation Rate

Turkey's crisis in 1994 which was the deepest crisis in the 90s, had an effect on the inflation rate in TRNC. The main cause of the crisis was the public sector was more open to spending the public revenue of the non-interests expenditures in Turkey i.e. namely spending more than they earned in the public sector which caused the hyperinflation crisis. From 1987 to 1993, inflation increased from 40% - 70% to 220% level sailing in 1994, and faced a decline in 2000 (53.2%).

Chapter 4

TRNC economy 2000-2015

4.1 General Situation 2000-2015

Foreign-source dependency and economic integration that has been rising due to the economic developments in 2015-2016 is worthy of analysis. The rise in foreign-source dependency naturally increases the effect of external factors on the potential of economic development in Cyprus. The external dependency of Cyprus has never reached this extent. As the extent of the increase in GDP in dollars is presented as the most important indicator of economic success, it is worth to begin the analysis of the period by reviewing the GDP numbers of 2001-2015, sectorial distribution, important economical events and the extent of foreign-dependency. The period when concepts such as globalisation and economic integration has affected international economies relative to many parameters has been a very difficult and competitive period for communities with an open economy. Following the war in 1974, as a result of the division of the Turkish Cypriots and Greek Cypriots, the north was more widely affected by the divided island economy and war related economic problems. Besides the vulnerability of newly developing economies, another problem progressing against TRNC on top of embargoes and unproductiveness is that the economy struggles to gain a stability as a result of the negative effects of the fluctuations of foreign currency. The most distinct reason for this is that TRNC does not have its own currency therefore it is not possible to take precautions regarding fiscal policy. This being the case, as the

economy has no other chance than tightly adapting to Turkey's ruling and economy, its growth and shrinkage develop collateral to Turkey's economy.

In 2000 the population of TRNC was around 200,000. In addition to the population there was around 25,000 university students from other countries. The population is made up of two ethnic groups, local Turkish Cypriot people and Turkish citizens who settled in the island after the military operation in 1974. As years passed, the population of TRNC has also seen some changes. 15 year population statistics are as given in the table below.

Table 9: Population

YEAR	POPULATION	YEAR	POPULATION
2000	208.886	2008	274.436
2001	211.191	2009	283.736
2002	213.491	2010	277.680
2003	215.790	2011	283.281
2004	218.066	2012	292.129
2005	220.289	2013	301.988
2006	257.513	2014	313.626
2007	268.011	2015	

4.2 Banking Crisis

The number of banks in TRNC reached 37 before the “Monetary Economic Crisis” in the early 2000s. During the crisis, 12 of those 37 banks were closed as a result of reasons such as structural defects, merger and structural weakening. Consequently the banking crisis that arose due to the economic and political events in Turkey in the last months of 1999 and also the economic crisis and devaluation in November 2000 and February 2001 in Turkey, TRNC was widely affected as the same currency is used in Turkey and TRNC. The negative effect of foreign-dependency and the lack of monetary policies as a result of the lack of an individual currency, the economy turned upside down in one night due to the fact that majority of house and car loans were given in foreign currency (pound) the people’s debts almost doubled in one night. The total cost of the banking crisis in TRNC in early 2000 was approximately 200 trillion Turkish liras. This amount is approximately equal to 50% of the GNP of 1999. In addition to this, devaluations arose as a result of transition to floating rate and the people’s purchasing power decreased by almost 50% besides, production rates decreased and an economic stagnation was experienced. Within that period, Turkish lira lost a considerable amount of its value against Dollars. Exchange rate of TL/\$ was 66.6 kuruş in January 2001 however it jumped to 112.5 kuruş in February 2001 and it reached as high as 165.1 kuruş in October 2001. Between 2 January - 19 October the value loss of TL ($165.1/66.6$) was 147.9%. The GNP which was 9,090.8 million TL in 1999 with the prices of 1977 dropped to 9,037.9 million TL in 2000 and 8,545.9 million TL in 2001. (State Planning Organisation(DPÖ) 2002:2-3)

4.3 Annan Plan Attempt

In 2002, the effects of the economical crisis which was experienced in 2000 decreased with the economic and monetary stability policies that were applied within the period

of 2000-2002 and the economy entered a recovery period. Thanks to the increasing developments in the construction sector due to the positive atmosphere of Annan Plan in 2004, the recovery period of TRNC accelerated and a growth was experienced in the GDP trend . This growth may be attributed to the speculative effect of the Annan Plan. After all, from time to time we can see the sanction power and opposite polar effects of speculation on the economy in economical history. (Asian Crisis & IMF).

4.4 Industrial Origins of Gross Domestic Product 2000-2014

The sectorial distribution of GDP gives us important information about the economic identity of the society. These rates that are the last output of the annual economic experience of the society are kept within certain standards depending on the guiding of classical financial theories, the changes in economical parameters and the source structure of countries. For this reason, the analysis of the yearly changes of the sectorial distribution of the economy is of great importance in understanding the economic process and history of the society and managing the economy.

The GDP of TRNC was 2,456 in 2004 and it comprised of 9.1% agriculture, 9.4% industry, 4.3% construction, 14.9% trade-tourism, 10.5% transportation-communication, 7.6% financial enterprises, 2.5% home ownership, 9.2% self-employment and services, 20.8% governmental services and 10.7% import tax. It can be seen that the highest percentage of sectorial distribution of the economy was public services with 20.8%. In the early 2000's the people employed in government sector in TRNC (20.6% of the total number of employed people) generated 20% of the GDP. On the other hand, in South Cyprus the people employed in government sector (6.4% of the total number of employed people) generated 8.7% of the GDP. With a basic calculation the unproductive structure of the government sector in TRNC can be

clearly observed. Even though it is assumed that the ideology to work in the government sector is a result of Turkey's loans, it is worth it to remember the theory that suggests this ideology has roots that rose from the colonial policies of British Colonial Empire. In order to establish control and order on the island in 1920's the United Kingdom employed many local people (one person per family) in government services. Government sector dependency of TRNC was established in this period. (Dr. Eti).

Between 2000-2015 with respect to the Annan Plan (2004) the construction sector had an increasing percentage in the sectoral distribution of the economy. However, starting in 2008 this percentage gradually decreased and in 2014, the rate of the sector was equalized to the rate in 2004 which was 4.3%. On the other hand, even though the gradual increase of Trade and Tourism sector did not increase to the percentage rate of the periods of 1977-1990, it indicates that the life cycle of the sector is once again developing, which is an important progress for TRNC. It is also worth it to remember that TRNC has an advantage with respect to eco-tourism and this advantage should be considered as an absolute advantage for TRNC and should be used for benefit in the best way possible. Since 1995, Trade and Tourism sector reached its highest rate in 2012 and 2013. The rate was 19.9% in 2012 and 20.1% in 2013.

The collapse of agricultural sector which was one of the locomotives of the economy in 1974, is a critical incident that should be taken into consideration. Agroexport which has been decreasing since the decisions of European Court of Justice is in a tight spot because of technological non-productiveness and inefficiency of marketing. The rate of agricultural sector in GDP was approximately 16-17% between 1977-1986, approximately 10% between 1986-2000, however, it dropped to approximately 5% at

the end of the period between 2000-2015. On the other hand, this loss is widely covered by trade and tourism sector which is comparatively outmaneuvering agricultural sector.

Even though fishery is the 4th sub-sector of agriculture, aquacultural resources sector in TRNC is having its worst years because it has almost no share in the mediterranean which is such a generous sea and fishery could have been one of the most important factors that affect the island economy and agriculture sector's low rate in economic distribution. In this island's economy where even the local consumption is not defrayed, even fish importation is not present. With its 5kg annual fish consumption rate TRNC is the last in the world, and open sea fishery can not be practiced due to social and sociological values or technology and lack of research. Our neighbor Republic of Cyprus, earns millions of Euros every year from world famous tuna and Japan's never ending demand. Researches show that Cyprus lays on the gold mine of the mediterranean in terms of aquacultural resources (Professor Işıkara).

Since the beginning of economical history of Northern Cyprus, manufacturing sector which is another important sector has seen the worst percentages between 2000-2004, and especially started deteriorating after 2008. The was approximately 10% in the period of 1977-1986, 9% between 1986-2000, and dropped to approximately 4% in the period of 2000-2015. In 2011, 2012, 2013 the rate was 2.5%, 2.8% and 2.9% respectively.

There has been no major developments or declines in the industry sector. Infrastructure and inadequacies due to the island's economy hinder the development of this sector. The sector's rate in GDP was approximately 10-11% between 1974-1986,

approximately 12% between 1987-2000 and 10% in the first half of the period of 2000-2014 and 9% in the second half.

The wholesale and retail trade sector which had almost decreased by half relative to the rate in 1974-1986 was approximately 10% in the period between 2000 and 2014. Another important development is experienced in hotel management and restaurant sector. While its rate in GDP was approximately 5% from 1977 and 2010, this rate escalated to 7.6% in 2011, 8.5% in 2012 and 8.9% in 2013. During the economic process since 1974, the life cycle of hotel management and restaurant sector reached this rate for the first time.

During this 14 year period, self-employment and services has been approximately 11%. In the period of 1987-2000 this rate has been approximately 6.6% and approximately 3.5-4% between 1974-1986. The sector's gradual increase can be understood by these rates.

The fact that importation fees has been around 10% in GDP in recent years indicate that in case the importation is decreased it will have an adverse effect on GDP. Decreased importation means the taxes that are obtained from this sector will also decrease. This in turn will decrease the taxes the government obtains from importation.

4.5 Foreign Trade 2000-2014

Importation and exportation sectors have critical importance in the sectorial distribution of the economy and the other sectors of the economy are directly affected by the effects of purchase and sale of important imported and exported goods. How the sectors that are taken into account within this framework and their sub-sectors are

affected by importation and exportation policies or international policies is essential to economy management and it makes up critical instructions for economy policy. Hereby in order to understand what parameters affect and change the amount and price raise of these products it is necessary to have the control of the analysis of the country's important import and export products and the changing consumer, manufacturer, resource preferences. Popular culture that happens as a result of the economic interaction of global cultures, in other words direct effects of economic integration affect our choices on personal basis and our import and export rates on country basis. Since the formation of free trade economy, the choices of the participant and interacting countries are conditioned on the foreign products and globally known labels and popular culture rather than local products and their preferences change in the long term. The critical point here lies beneath the connection and contradiction concepts in foreign trade. Partisanship question: "would you buy from someone you personally know or someone you do not know?" is the biggest indicator that this is a relationship based on self-interest. The opinion of buying from someone you personally know proves the truth of profit of these buying and selling and the fact that trade always causes a relationship based on self-interest and that it gives the benefiting side supremacy and sanction power and the danger of unethical use of this power makes trade the biggest striker factor in economy. Therefore trade is a sector that has no elasticity of failure. As a matter of fact, the combination of marketing and media concepts with popular culture can even destroy the political structure of a country, its regime and other important values. One of the main reasons behind the collapse of Soviet Union in 1990's is related to the popular culture that was developing in America. During the cold war, America affected the Soviet Union with popular culture. The sociological and societal structure in the Soviet Union faced degeneration

due to the American dream. For this reason, imported and exported products were one of the main aspects that shape the material life of open-economy societies.

Foreign trade balance which is an indicator of the welfare of global and open-economy countries is one of the most important economic parameters that countries should pay attention to in order to maintain a sustainable economic welfare. In 2000 total exportation of TRNC was 50,331,996 dollars and total importation was 424,810,327 dollars. Export-import coverage ratio was around 11%, which is calculated by dividing export by import. The unstable economy of TRNC can be clearly seen by the export-import coverage ratio. The export-import coverage ratio that island economies struggle to keep at an optimum level compared to country economies is at the worst condition in TRNC in contrast with other island economies. Export rate dropped to 34 million dollars in 2001 and reached around 45 million dollars in 2002 while import rate was 271 million dollars in 2001 and 309 million dollars in 2002. Export-import coverage ratio was 12.5% in 2001 and 14.5% in 2002. Export-import coverage ratio decreased to 10.63% in 2003 and maintained a rate of around 6-7% in the following 10 years. In the statistics after 1974, which is when independent TRNC economy has arisen, the worst export-import coverage ratio has been between 2000-2014. In a way, the figures in this period prove how the people of TRNC have become a consumption society.

While TRNC was struggling to reduce the coverage ratios, “Green Line Regulation” was signed with the south with a new hope. The primary objective of the regulation was to enable the production in the north to overcome embargoes and be able to export to western countries such as European countries, without being in a third country position. However, it is worth adding that local rumors regarding to repressions on trade from the north to the south and experiences about the regulation caused some

contradictions and conflicts on this export. Due to these contradictions and conflicts the expected output from this regulation and export expectations were not met.

According to the “Green Line Regulation” sale of the products that are produced in Northern Cyprus to the south is possible with an “Accompanying Document” that is supplied by TRNC Chamber of Commerce. In order to obtain an accompanying document for the relevant products, they should be completely produced in TRNC (vegetables, fruits, rocks, minerals etc) and in case its raw material is from another country, it should be processed and effectively contributed in TRNC and made into another product. Within the “Green Line Regulation” that came into effect in the last half of 2004, export rate from north to south peaked at 7.1 million euro in 2008, however, it gradually declined after that date and was 5.3 million euros in 2011 and 4.2 million euros in 2012. Considering the south has approximately 6.5 billion euros worth of import in recent years, we can safely say that the trade within the “Green Line Regulation”, which was around 5 million euros is actually negligible for the south. In addition to these facts, another factor that reduces this export is that the corrupt politicians and ins of TRNC reflect their personal or ideological contradictions to the government therefore trading in Northern Cyprus ends even before it begins. The regulation that could not have the expected effect on export-import coverage ratio is a critical trade way for TRNC which should be developed.

In early 2000s, with 11 million dollars, the export leader sector of TRNC was ready-made garments in other words manufacturing sector. In the second place was citrus fruits under the agricultural sector with 10 million dollars, third was dairy products with 5 million dollars under animal origin sector of agricultural sector, and concentrated product with 1.7 million dollars. The ranking in import; fuel was first

with 22 millions, vehicles were second with 15 millions, cigarettes with 13 millions, medications with 7 millions and mobile phones were last with 1 million. Importation value of dairy product were approximately 1.4 millions.

Citrus products that is the export locomotive of TRNC started to lose its comparative advantage to dairy products in 2008 since a 15 year period, therefore since the period between 1974 and 2008, dairy products sector has surpassed citrus products export. Citrus products had 20,500 million dollars worth of export rate, dairy products managed to reach 21,500 million dollars of export. The rapid development of dairy products in the following years enabled the sector to reach 50 million dollars worth of export. This increase indicates the export potential of dairy products and the production's benefit to TRNC economy. In 2014, citrus products export rate of TRNC has been at such a low level at 15 million dollars. In the last 7 year period where dairy products have been the export leader, however the reason that sabotaged the development of export-import coverage ratio of dairy products is a newly emerging dairy products import which is surely linked to the unsuccessful economy policies of TRNC. TRNC policies that contradict the predictions of classical economic theories sabotage its own economy by not supporting local sector and with its contradictory policies. Import of dairy products which has been around 18-20 million dollars for 4 years prevent the ultimate success of export of dairy products from positively reflecting this success on foreign trade balance in balance of payments. On the other hand, the increase of dairy products export enables an increase in animal origin agriculture under agricultural sector and therefore narrows the gap caused by negative export rates of citrus products export which reduces the agricultural sector.

Rakı manufacturing which has become an important export item after agriculture reached 13 million dollars worth of export in 2014. Scraps at the 4th place with a value of 9.5 million dollars create a negative perspective regarding the society's earthly score. Associating scraps export with the consumption society makes it essential to carry out improvement works about this sector. Concentrated citrus export was around 6.4 million dollars in 2014. However, if we look into the concentrate import of 2014, we can see it was around 4 million dollars and this presents that export-import coverage ratio is 170%. Even though this coverage ratio appears to be at a good level, Cyprus has absolute advantage of the aforementioned product and in order to improve the economy it is necessary to impose restrictions on imported products with certain policies and to make the best from the products that have absolute advantage. It should be taken into consideration the fact that when the locally grown agricultural products are processed after being harvested, their sale values and profit rates increase in the international markets. In addition to this, on local basis these productions and their process and diversification has possible positive effects on the unemployment rates in the economy.

Another import and export item that has shown surprising change in years is ready-made garments. Ready-made garment export was approximately 11 million dollars in 2001 and it has decreased to approximately 3.5 million dollars in 2014. On the other hand, ready-made garment import was 4.6 million dollars in 2001 and it has reached 45 million dollars in 2014. While ready-made garment export-import coverage ratio was 239% in 2001, it has seen an unbelievable decline to 7.7% in 2014. Ready-made garment has become the most expensive import item in TRNC after fuel and vehicles. At this point, we can say that the high production expenses, development of the international competitive markets and the effects of popular culture are some of the

reason for this high import value. However, it is worth remembering privatization that is a product of liberal economy is the reason for such collapses.

Lately, the most important import items are fuel and vehicles. In 2014, fuel import was around 177 million dollars and vehicle import was around 111 million dollars. In 2001 these numbers were 22.5 million dollars for fuel import and 15 million dollars for vehicle import. We can say fuel and vehicle imports increase parallel to one another. These import item's rate with respect to one another is approximately 1.5, which in a way proves the prediction to be right. It can be seen that while import of vehicles was 15 millions in 2001, it rose to 59 millions in 2003 however it skyrocketed to 145 millions in 2004. In the following years, it was approximately 145 millions until 2008, seeing a decrease around 30 millions due to the crisis in 2009 and maintained a rate of approximately 100 million dollars until 2014. The activity in fuel import has been similar however, the peak was experienced one year later than the peak of vehicle imports. Fuel import was around 43 million dollars in 2004 and reached around 141 million dollars in 2005.

While the import of mobile phones was approximately 750 thousand dollars between 2001 and 2003, with the release of the first bluetooth phones in 2001 and due to developing technology mobile phone imports have increased. Motorola RAZR which was released in 2004 was the first mobile phone to bring 3g, video talk and high speed internet to mobile phones. In 2004 our mobile phone import rates started to rapidly increase due to these innovations and development of popular culture. Around 2007, our mobile phone imports reached 10 million dollars after Steve Jobs introduced Apple's iPhone. Between 2006-2011 the import rates was around 8-9 million however, with newly developing smart phones and their rising prices the rates

increased to 16 million in 2012, 17 million in 2013 and 20 million dollars in 2014. Even Turkey has problems regarding mobile phone importation and they are trying to cover for this by local production.

The country that has the biggest portion in TRNC's import is Turkey. Approximately 60-70% of import is from Turkey, 15% from European countries, 6.5% from the Far East, 4% from Middle East and the remaining is from other European countries and other countries. In exports Turkey makes up the biggest portion with 50%, 30% other Islam countries, around 10-13% the European Union, 5% other European countries and the remaining to other countries.

TRNC applies an import tariff to EU-EFTA countries and a different tariff to other countries. The tariff that is applied to EU-EFTA countries is more profitable in many product lines compared to the tariff that is applied to other countries. Due to customs union between Turkey and the EU, the same tariff that is applied to EU-EFTA countries is also applied to imports from Turkey. Natural and legal persons who reside in TRNC and wish to import and export must register to Ministry of Economy and Energy as importer or exporter. It is compulsory for natural and legal persons who wish to register as importer or exporter to be a member of Turkish Cypriot Chamber of Commerce or Turkish Cypriot Chamber of Industry or Turkish Cypriot Craft and Related Trades Workers Chamber.

Table 10: TRNC's Important EXPORT Products 2001-2015 (\$ million)

YEAR	2001	2003	2005	2007	2009	2011	2013	2014
Ready made garments	11.1	10.2	9.9	6.8	2.3	3.7	3.5	3.4
Citrus Products	9.9	17.8	20.2	22.6	13.9	31.4	23.9	15.3
Dairy Products	5.1	7.9	16.8	20.7	20.1	26.9	40.8	49.6
Concentrate	1.7	1.3	2.9	3.2	1.7	2.9	4.3	6.8
Medications	1.1	1	0.81	0.95	0.65	1.3	0.004	0.05
Potatoes	0.47	0.41	1.02	2.98	2.36	3.2	1.2	5.15
Whisky	0.39	1.45	0.038	0.005	0.005	0.0021	0.001	0.009
Rakı	0.24	2.9	5.3	4.5	8.4	10.4	13.3	12.8
Leather	0.65	0.57	0.73	1.26	0.59	1.02	1	1.36
Scraps	0.38	0.65	2.26	7.4	4.2	14.3	6.8	9.59

Table 11: TRNC's Important IMPORT Products 2001-2015 (\$ million)

YEAR	2001	2003	2005	2007	2009	2011	2013	2014
Fuel	22	23	141	105	72	190	182	177
Vehicles	15.5	59.5	175	142	110	100	106	111
Cigarettes	12	17.5	19.4	19.6	17.8	19.7	17.2	19.4
Medications	7.7	13.7	19.9	26.7	29	30.4	33.3	31.4
Wheat	4.8	4.6	6	9	9	10.7	9.8	11.4
Barley	3	0.6	10.8	22.6	16.9	9.7	23.3	56.8
Ready-made garments	4.6	11.5	28.3	38.1	32.3	40.2	43.4	45
Soft drinks	2	3.6	8.3	13.2	14	16.1	17.7	16.1
Fruit Juice								
Furniture	2.3	5.1	24.3	32.6	23.4	29.5	28.4	25.3
Mobile Phones	1.1	0.55	5.9	10	4.7	7.9	17.3	20.6

Table 12: Total Export – Total Import – Export to the Import Ratio

YEAR	EXPORT	IMPORT	EXPORT TO THE IMPORT RATIO
2000	50.331.996	424.810.327	% 11
2001	34.575.005	271.970.83	% 12
2002	45.373.470	309.464.541	% 14
2003	50.622.677	477.732.524	% 10
2004	61.535.677	853.101.517	% 7
2005	66.615.822	1.255.479.526	% 5
2006	64.867.547	1.376.220.278	% 4.7
2007	83.684.813	1.539.191.293	% 5.4
2008	83.664.138	1.680.657.180	% 5
2009	71.063.766	1.326.165.192	% 5.3
2010	96.419.909	1.604.180.665	% 6
2011	119.896.086	1.699.927.963	% 7
2012	116.267.128	1.705.260.464	% 6.8
2013	120.681.239	1.699.426.431	% 7.1
2014	133.985.090	1.784.268.243	% 7.5

4.6 Basic Economic Indicators 2000-2014

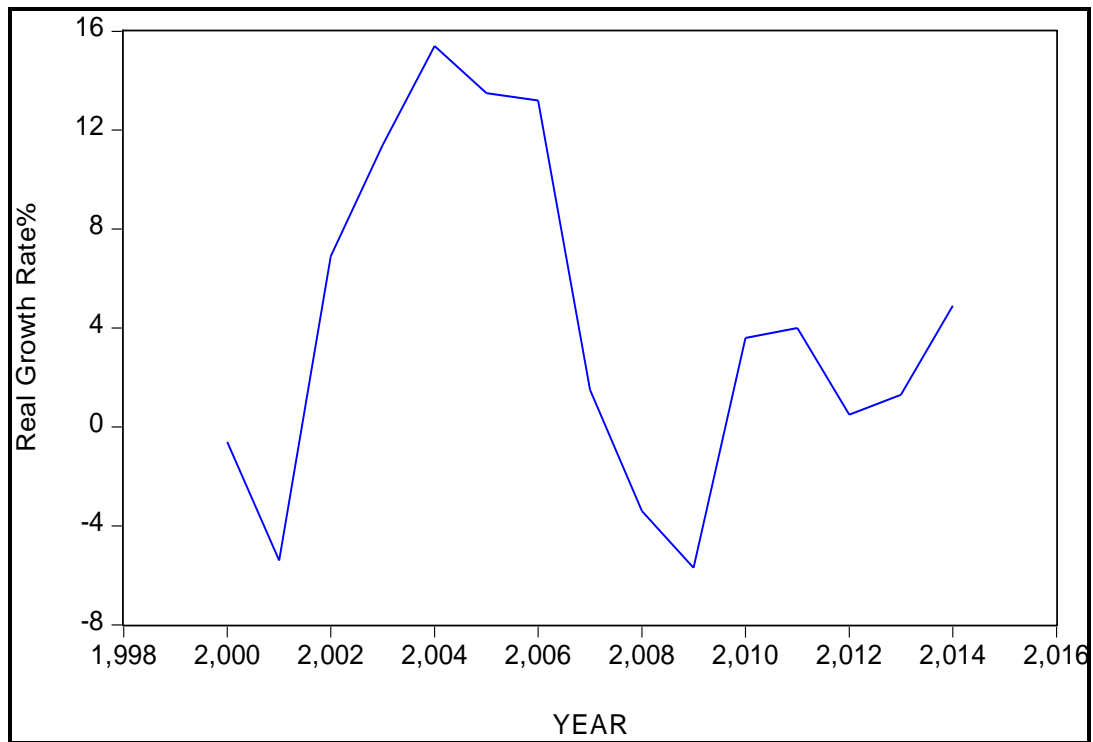


Figure 8: Real Growth Rate

There was a decline in growth due to the banking crisis in early 2000s and in order to recover from the effects of the banking crisis a close cooperation was established with Turkey and economic and monetary stability policies were put into use in 2002. In 2000 and 2001, the economy saw reduction in real terms at -0.6% and -5.4% respectively. The GNP was 1,039.9 million in 2000 and 908.8 million in 2001. After 2001 the GNP achieved a vertical increase with a 7% raise in 2002 and reached 941.4, 1,287.4 with 11.4% growth in 2003, 1,765.2 with 15% growth in 2004, 2,327.8 with 13.5% growth in 2005 and 2,845.2 million dollars with 13.2% growth in 2006. During this period approximate real growth was at such a high level at 13.4%, including 2003 and 2006.

In 2007, economic growth performance dropped to 1.5% on real basis and a shrinkage was observed in economy in 2008 and 2009. This shrinkage resulted from the global crisis in 2008. In 2008-2009, growth was -3.4% and -5.7% and the GNP was 3,995.6 and 3,502.6 million dollars respectively. In 2010 TRNC economy entered a recovery period with the help of Turkey and the GNP was 3,750.6 following a growth rate of 3.9%, 3,908.5 with 4% growth in 2011, 3,840.8 with 0.5% growth in 2012 and 3,969.5 million dollars with 1.3% growth in 2013.

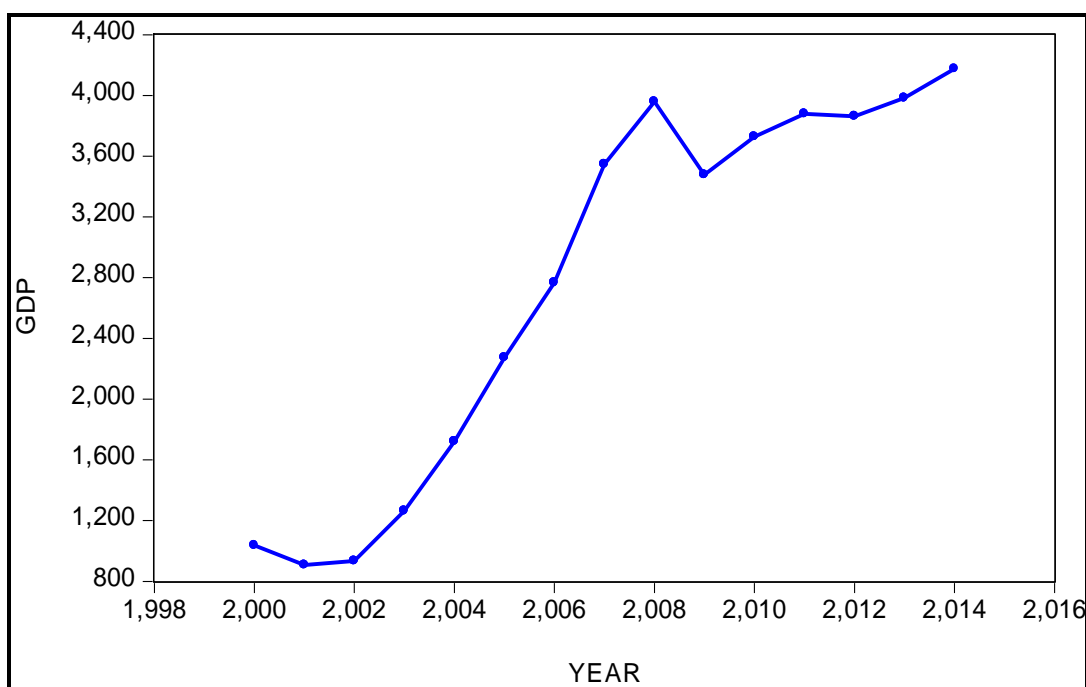


Figure 9: GDP

GDO real growth rate and accurement was respectively 907.7 with -5.4% shrinkage in 2001, 934.1 with 6.2% growth in 2002, 1,263.7 with 10.6% growth in 2003, 1,720.3 with 14.2% growth in 2004, 2,273.5 with 13.8% growth in 2005, 2,766.6 with 12.7% growth in 2006, 3,547.2 with 2.8% growth in 2007, 3,957.9 with -29% shrinkage in 2008, 3,477.3 with -5.5% shrinkage in 2009, 3,727.1 with 3.7% growth in 2010,

3,878.6 with 3.9% growth in 2011, 3,862.6 with 1.8% growth in 2012 and 3,983.6 million dollars with 1.1% growth in 2013.

The reason why the GDP and GNP numbers are almost identical is worth investigating.

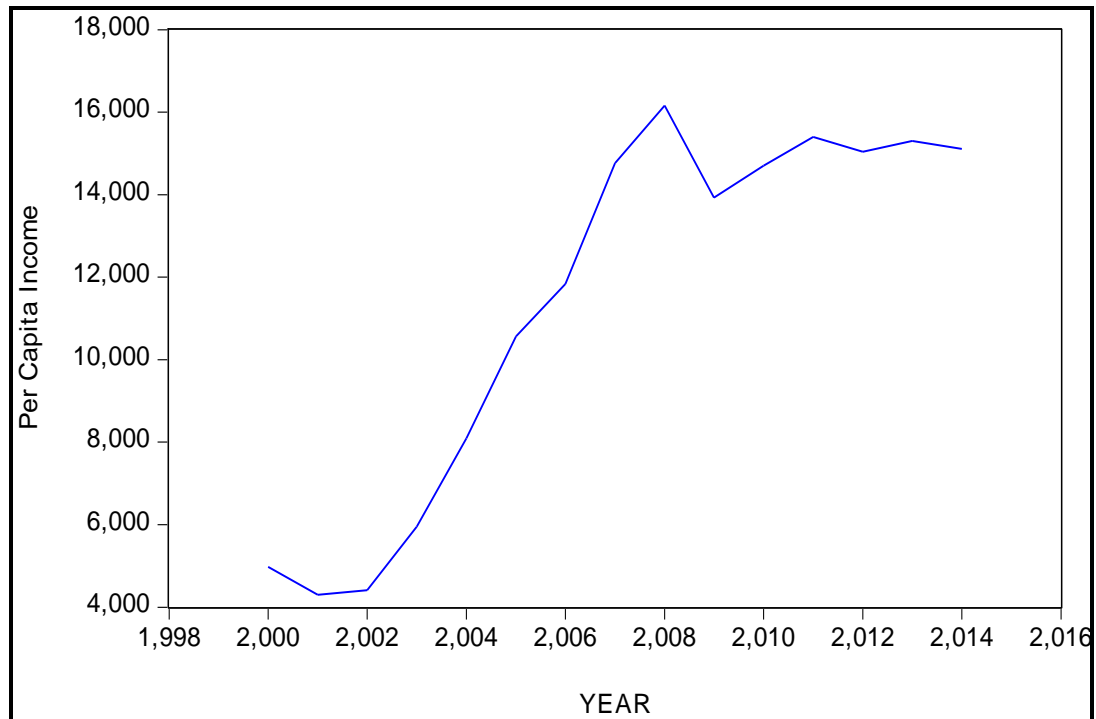


Figure 10: Per Capita Income

The changes in per capita income occurs parallel to GNP. Another factor that maintains the parallelism is that population growth rates occur at a stable level. As can be seen in the table, population growth rate that was around 35.000 in the period between 2005-2006 reduced the per capita income curve in proportion to GNP in the period of 2005-2006.

Inflation rates peaked to 76.8% as a result of the banking crisis in 2001. The main factor for the inflation increase is the rapid increase of dollar currency in 2001, as it can be seen on the Graph. Exchange rate of dollar was 626.397 in 2000 however it

almost doubled and reached 1.177.869 in 2001. Even though the dollar exchange rate saw a downtrend after that date until 2008, it has started to rise again as a result of the crisis in 2008.

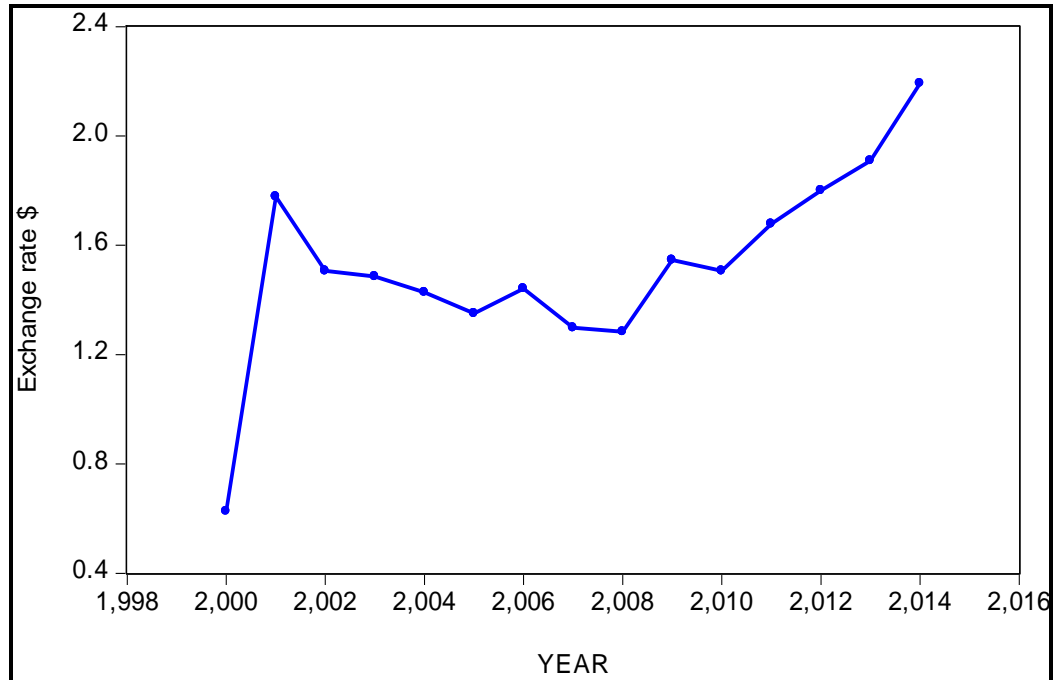


Figure 11: Dollar Currency

4.7 International Settings

Real growth rate of TRNC is equal to half, and its per capita income is equal to one-third of its southern neighbour. As it is seen here, this comparison proves that there are critical problems regarding the economy of TRNC. In order to overcome these problems, TRNC established a close cooperation with Turkey and economic and monetary stability policies came into effect. Accordingly, since 2004 Turkey has been transferring funds to TRNC budget from its own budget. However, it is clear that transfer of funds also has a negative effect. As a result of the transfer of funds, Turkey governments gain a sanction of power over TRNC governments and this in turn leaves

the country's economy dependent and powerless regarding international and local economies.

EU Banking Commission requested the EU Commission to prepare a regulation to end the isolation of TRNC, where the economy was struggling to adapt to the new economic integration era that was brought about following the Annan Plan on 24 April 2004. Therewith, the commission prepared an inclusive aid and trading austerity package that consists of Financial Assistance Regulation and Direct Trade Regulation. On 27 February 2006, EU Banking Commission removed the direct trade section of the regulation upon veto of South Cyprus and only accepted the financial assistance therefore and hopes of paving the way for foreign trade has once again been put on the shelf because of the constraint of the southern government. Toning down mischief with words will be a proper action.

On 27 February 2006, 139 million euros of Turkey's funds was designated for TRNC economy with the acceptance of Financial Assistance Regulation. Most of the funds that are transferred to TRNC with Turkey's contribution are used to close the budget deficit. The remaining amount is used for developing a physical infrastructure for economic and social development, supporting real sector investments and TRNC's convergence attempts with the EU. Following this, "Economic Cooperation Protocol" that proposes the financial and economic support of Turkey was signed between TRNC and Turkey on 20 July 2006. In this protocol, it was stipulated that Turkey will provide 1,875 billion TL worth of support to TRNC between 2007 and 2009 however, this project was also put on the shelf because of the economic crisis.

Efficient use of the funds coming from Turkey are one of the most important solutions for TRNC economy that is struggling to escape the shrinkage. However, small political parties are formed with respect to political contradictions as a result of political weakness in the country and they are expending those funds, therefore the funds become nonproductive and the economy fails to take a turn for the better. We can monitor the expenses of political elections and election campaigns in other countries via media. During this period when TRNC governments are deprived of production, isolated and disidentified, the the civil servant can not be paid and the country is dependent on Turkey. Therefore, the lack of financial resources to carry out election campaigns is proof that these funds are exploited by employment in government services.

Effective expenses; infrastructure investments, real sector, financial sector, reform supporting, defence expenditures, incentive. Ineffective expenses; used as contribution to cash budget deficit. The figures that show a relatively more effective use of funds between 2004 and 2006 may have resulted from the regime of the politicians of that period. In that period, TRNC was ruled by a leftist party after a long time. Towards mid 2000s, as a result of the optimistic expectations regarding the Annan Plan in 2004, the construction sector has developed. However, after the referendum about the Annan Plan has been futile it was understood that this development was not sustainable and as a result of the negative progress in the global economical conjuncture TRNC's economic growth has plummeted in 2007. In 2008-2009 a shrinkage was experienced in economy due to the global economic crisis. Following the 2007-2009 programme that has halted due to the crisis, "Civil Activity and Private Sector Competitive Power Enhancement Programme" came into effect.

Chapter 5

ANALYSIS

5.1 The Regression Model

Here, I adopted the frameworks introduced by Solow (1956) Mankiw et al. (1992), Knight et al. (1992); (1993), Ghura and Hadjimicheal (1996) and especially Fethi et al. (2008) to investigate the role of trade policy in economic growth.

Let us consider the following Cobb-Douglas production function:

$$Y_t = K_t^\alpha (A_t L_t)^{1-\alpha} \quad (7-1)$$

Where Y is real output, K is the stock of physical capital, L is the raw labour, A is a labour-augmenting factor reflecting the level of technology and efficiency in the economy and the subscript t indicates time.

We assume that $\alpha + \beta < 1$, so there are constant returns to factor inputs jointly and decreasing returns separately. Raw labour and labour-augmenting technology are assumed to grow according to the following functions:

$$L_t = L_0 e^{nt} \quad (7-2)$$

$$A_t = A_0 e^{gt + P\theta} \quad (7-3)$$

Where n is the exogenous rate of growth of the labour force, g is the exogenous rate of technological progress, P is a vector of policy and the other factors that can affect the level of technology and efficiency in the economy, and θ is a vector of coefficients related to this policy and other variables.

This modification is more likely to be particularly relevant to the empirical cases of economic growth in developing countries. In these countries, technological improvements are encouraged by using exports plus imports of capitals goods and the level of infrastructure, which tend to increase the productive sector's efficiency (Knight et al. 1993).

Furthermore, in the steady state, output per worker grows at the constant rate g (the exogenous component of the growth rate of the efficiency variable A). This outcome can be obtained directly from the definition of output per effective worker as follows:

$$\frac{Y_t}{A_t L_t} = (k_t)^\alpha$$

$$\frac{Y_t}{L_t} = A_t (k_t)^\alpha \quad (7-4)$$

Let $y_t^* = \left(\frac{Y_t}{L_t}\right)^*$

Taking logs both sides of Equation (7-4), we get Equation (7-5):

$$\ln\left(\frac{Y}{L}\right)^* = \ln A + \alpha \ln k^* \quad (t \text{ is omitted})$$

where $A_t = A_0 e^{(gt+P\theta)}$

$$\ln\left(\frac{Y}{L}\right)^* = \ln A_0 + gt + \theta \ln P + \frac{\alpha}{1-\alpha-\beta} \ln s^\kappa - \frac{\alpha+\beta}{1-\alpha-\beta} \ln(n+g+\delta) \quad (7-5)$$

Equation (7-5) indicates steady state output per worker or labour productivity where a vector of policy and the other variables exist.

5.2 Analysis of the Test Results: Turkish Cypriot Economic Growth (1977-2014)

The following issues are checked for my model:

- (1) The multicollinearity between the explanatory variables
- (2) The autocorrelation between error terms
- (3) The normality of error terms
- (4) The heteroscedasticity

5.2.1 Multicollinearity

Broadly interpreted, multicollinearity refers to the situation where there is either an exact or approximately exact linear relationship among the X variables” Gujarati (1995:345).

To identify whether multicollinearity exists among the variables used for this study, I estimated a correlation matrix for the regression equation. Estimated correlation matrixes of the relevant dependent variable and prescribed explanatory variables are presented in the Table below. Here I expect to get a low correlation among explanatory variables, whilst, a high correlation between economic growth and the other variables.

Table 13: Estimated Correlation Matrix for Economic growth

	LGDP	LKGDP	LLAB	LTRIM
LGDP	1			
LKGDP	.88	1		
LLAB	.83	.19	1	
LTRIM	-.48	.41	.31	1

Table above shows that the correlation between economic growth and other macroeconomic variables is acceptable.

5.2.2 Autocorrelation

The problem of autocorrelation stems from among the error terms when they are not independent of each other. The OLS estimators are efficient (i.e. they have minimum variance) and unbiased only when there is no correlation between error terms.

The most popular test for discovering autocorrelation is developed by Durbin Watson, known as the Durbin-Watson d statistic. I did test first order autocorrelation by testing the following null hypothesis.

$$H_0 = \text{No autocorrelation; if } d_U < d < 4 - d_U$$

$$H_A = \text{Positive autocorrelation; if } d < d_L$$

$$\text{Negative autocorrelation; if } 4 - d_L < d < 4$$

In general, the computed results exhibit that there is no first order autocorrelation among residuals.

5.2.3 Normality

One of the assumptions of the method of OLS is about the probability distribution of residuals. OLS estimators of the regression coefficients are best linear unbiased estimators if the residuals follow the normal distribution with zero mean and constant variance.

To check this assumption we used the Lagrange Multipliers (LM)¹ test employing the following hypotheses (Greene, 1993, pp.133-134).

$$H_0 = u_t = 0 \text{ (Residuals are normally distributed),}$$

$$H_a = u_t \neq 0 \text{ (Residuals are not normally distributed).}$$

In general, the computed results exhibit that residuals are normally distributed.

5.2.4 Heteroscedasticity

Another important assumption of OLS is that residuals have the same variance i.e. they are homocedastic. If this assumption is violated, there is heteroscedasticity. I did test whether residuals have the same variance or not for the regression model. The hypothesis is conducted as follows:

$$H_0 = \sigma^2_t = \sigma^2 \text{ (Homoscedasticity),}$$

¹ LM has a chi-squared distribution with degrees of freedom equal to the number of restrictions.

$$H_a = \sigma_t^2 \neq \sigma^2 \text{ (Heteroscedasticity).}$$

In general, the computed results exhibit that residuals have the same variance i.e. they are homoscedastic.

5.3 Empirical Results:

The empirical test results were carried out by using Software-Microfit 4.1 (Pesaran and Pesaran, 1997). After I analysed the misspecification test results for the serial correlation, autocorrelation, normality and heteroscedasticity, I evaluated the results estimated from the regression equations using:

- (i) t - test (i.e. individual significance test of the estimated coefficients),
- (ii) F-test (i.e. overall significance test of the coefficients),
- (iii) R^2 (i.e. goodness of fit) values.

The regression results between economic growth and the other indicators are presented in the table below. The numbers in parentheses in the same table are t -values that used to test the null hypothesis of no significance of the estimated coefficients associated to the sectors variables.

I hypothesize that

$$H_0 : \beta_s = 0 \text{ (Not significant)}$$

$$H_a : \beta_s \neq 0 \text{ (Significant).}$$

As can be seen in the table below, all the variables used in the relevant equation are statistically significant on the basis of the two-tail t -tests at conventional levels in the

regression equation. The impact of capital and labour seem to be more important than trade in the equation. In addition to this, the estimated coefficients of the relevant variables have right signs, as they would be expected based on the theory. It is important to mention that I also used dummy variable to capture the effect of the banking crises happened in the year between 2000 and 2002. It gives negative influence as expected.

The other important issue is to test the overall significance in which I utilised F-test. I did test the null hypotheses that employed macroeconomic variables together have an influence on dependent variables as follows:

$$H_0 : R^2 = 0 \text{ (Not significant)}$$

$$H_a : R^2 \neq 0 \text{ (Significant)}$$

Notes: $F_{k-1, n-k} = F(3, 34)$ and the tabulated F-values are as follows: 4.31 at 1% significance level, and 2.84 at 5% significance level.

The calculated F-results are significant (F-cal > F-tab at 1% significance level), i.e., 74.03. I therefore, reject the null hypotheses and accept the alternative hypotheses, which indicate that, the regression equation holds overall significance at 1 percent level.

Having conducted F-test as mentioned above, I did then consider the goodness of fit of estimated multiple regressions (i.e. multiple coefficient of determination R^2). R^2 gives the percentage of the total variation in the dependent variable explained by the explanatory variables in the regression models. The percentage of the total variation

in the dependent variable economic growth explained by the utilised explanatory variables is found reasonably high with the value 86.72 percent.

Table 14: Regression results for the model under inspection

Explanatory variables	Model 1-Longrun- LGDPP
C	-
LKGDP	0.16 (8.31)*
LLAB	0.05 (3.48)*
LTRIM	-0.95 (-3.32)*
DUM2000	-0.98 (-4.76)*
R²	0.867
F (3,39)	74.03

Notes: * indicates statistical significance at a 1% (2.70); ** indicate statistical significance at a 5% (2.02), *** indicate statistical significance at a 10% (1.68) and other are not statistically significant at conventional levels.

Furthermore, the results of the last equation presented above implying that capital variable seem to have a relatively stronger ability about explaining the economic growth in Turkish Cypriot economy compared to the equation utilizing the variables in the long run period. Also, the trade is import oriented so it influences economic growth negatively.

According to the results in the table, if capital goes up by 1%, economic growth increases by 16% whilst other variables hold constant. Also, 1 percent increase in labour results in .05% increase in economic growth. In addition, economic growth decreases by nearly 95 when import oriented trade rises up by 1 percent.

I can conclude that, changes in trade and dummy variable have significant negative impact on Turkish Cypriot economic growth whilst changes in labour and capital have an influence in explaining the variations in Turkish Cypriot economic growth.

5.4 Analysis of the Test Results: English Colonial Era’s Economic Growth (1931-1959)

To identify whether multicollinearity exist among the variables used for English Colonial Era, I estimated a correlation matrix for the regression equation. Estimated correlation matrixes of the relevant dependent variable and prescribed explanatory variables are presented in the table below.

Here I expect to get a low correlation among explanatory variables, whilst, a high correlation between economic growth and other variables for English Colonial Era.

Table 15: Estimated Correlation Matrix for Economic growth

	LGDPP	LKGDP	LLAB	LTRD
LGDPP	1			
LKGDP	.83	1		
LLAB	.91	.45	1	
LTRD	.86	.42	.48	1

Table shows that the correlation between economic growth and other macroeconomic variables is acceptable. Having estimated the relevant correlation matrix, I evaluated the results computed from the regression equation. The regression results between economic growth and the other indicators are presented in the following table.

As can be seen in the table, all the variables used in the relevant equation are statistically significant on the basis of the two-tail t -tests at conventional levels in the regression equation. The impact of trade and labour seem to be more important than capital in the equation. In addition to this, the estimated coefficients of the relevant variables have right signs, as they would be expected based on the theory. The other important issue is to test the overall significance in which I utilised F-test. The calculated F-results are significant ($F\text{-cal} > F\text{-tab}$ at 1% significance level), i.e., 115.01. I therefore, reject the null hypotheses and accept the alternative hypotheses, which indicate that, the regression equation holds overall significance at 1 percent level.

Having conducted F-test as mentioned above, I did then consider the goodness of fit of estimated multiple regressions (i.e. multiple coefficient of determination R^2). R^2 gives the percentage of the total variation in the dependent variable explained by the explanatory variables in the regression models. The percentage of the total variation in the dependent variable economic growth explained by the utilised explanatory variables are found reasonably high with the value 89.84 percent.

Table 16: Regression results for the model under inspection

Explanatory variables	Model 1-Longrun- LGDPP
C	-
LKGDP	0.08 (3.01)*
LLAB	0.49 (10.04)*
LTRIM	0.56 (6.83)*
R²	0.898
F (3,39)	115.01

Notes: * indicates statistical significance at a 1% (2.70); ** indicate statistical significance at a 5% (2.02), *** indicate statistical significance at a 10% (1.68) and other are not statistically significant at conventional levels.

Furthermore, the results of the last equation presented above implying that labour variable seem to have a relatively stronger ability about explaining the economic growth in English Colonial Era's economic growth compared to the equation utilizing the variables in the long run period. Also, the trade is export and import oriented so it influences economic growth positively.

According to the results in the table, if capital goes up by 1%, economic growth increases by .08% whilst other variables hold constant. Also, 1 percent increase in labour results in .49% increase in economic growth. In addition, economic growth rises by nearly 56 when export and import oriented trade rises up by 1 percent.

I can conclude that changes in labour, trade, and capital have an positive influence in explaining the variations in English Colonial Era's economic growth in Cyprus.

5.5 Conclusion

The result of this analysis showed that during the Federated State and TRNC periods (1977-2014) the capital and labour power had an effect and significance on economic growth. Import dependent trade had a significant but negative effect in terms of economic growth. In the growth equation for TRNC economy, a dummy variable was used. The dummy variable that was used in the growth equation for TRNC economy proved to be negative and significant for economic growth. This shows that the banking crisis has negatively affected the economic growth.

When we look at the growth model during the British period between 1878 and 1963, the capital, labour and trade are positive and significant. As it is seen here, these three factors have positively affected the economic growth unlike the period of 1977-2014.

When we compare these two periods, the capital in TRNC is more significant than the capital in the British period. In addition, the labour power in the British period is more significant and effective than the labour power in TRNC period. This shows that the labour in the British period was intense whereas in TRNC period the capital was intense. This result is also an indicator of technological development. As the technology develops, there is more need for capital however, the labour loses its value against mechanisation. If we look into trade, when compared to TRNC and Federated State periods, the trade in British period was more effective and it also had positive effects on economic growth. The logical reasoning that can be obtained from this is that the economic shortage of TRNC compared to Cyprus economy during the British period resulted from the fact that it could not integrate into world economies and trade because of embargoes and political problems.

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