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***The Economic Consequences
of the Turkish Invasion
and the Future Prospects
of the Cyprus Economy***

Prepared

by

THE PLANNING BUREAU

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THE ECONOMIC CONSEQUENCES OF THE TURKISH INVASION AND THE FUTURE PROSPECTS OF THE CYPRUS ECONOMY

1. INTRODUCTION

1.1. It is very difficult, or even impossible, to quantify in a few figures or words the economic losses which Cyprus has sustained as a result of the Turkish invasion of the Island. The degree of the adverse consequences and repercussions of the invasion will depend ultimately on the final solution to be found for the Cyprus problem. As things are at present, a very serious economic situation has been created not only for the Greek Cypriots, who form the vast majority of the population, but also for the whole of the people of Cyprus. Not only have vast amounts of capital and other resources, natural and man-made, been destroyed or are gradually being destroyed with the lapse of time, but also productive resources fetching many millions worth of production and income each year are lying idle, whereas hundreds of thousands of people have been uprooted from their homes and peaceful occupations and have become dependent on the State Budget and on charitable contributions from International Organizations, friendly foreign countries, relatives and friends.

1.2. Cyprus is the third largest island in the Mediterranean after Sicily and Sardinia. The Island has a maximum length of 150 miles from east to west and a maximum width of 60 miles from north to south. Its total area is 3,572 square miles (9,251 sq. km. or 6,915,392 donums⁽¹⁾) and is similar in size to that of Lebanon or of Norfolk and Suffolk combined in the U.K., or of Puerto Rico, or of the Land of Hessen in the Federal Republic of Germany, or of Dordogne in France. The estimated population of Cyprus in mid-1973 was 633,930, i.e. 500,210 Greek Cypriots (incl. Armenians and Maronites) (78.9%), 116,400 Turkish Cypriots (18.4%) and 17,320 Others (mainly British) (2.7%).

1.3. The post-Independence period was an era of fast growth and all available data indicate that Cyprus was going through a period of prosperity unparalleled in its long history⁽²⁾. During the decade 1961—1971, Gross Domestic Product at constant prices was increasing annually by 7.1%, while Gross National Product per capita was growing by 5.9% per annum. A heavy infrastructural investment took place in all sectors generating and spreading external economies throughout the Island, while the productive capacity of the economy was strengthened, modernised and expanded through an unprecedented investment activity. The productive sectors were booming. Between 1961 and 1971 real value added in agriculture increased by 97.8% compared with a 32% increase during the period 1950—1961. During the same period industrial output increased by 119%, Tourist development was spectacular, the number of visitors having increased from 40,140 in 1961 to 178,598 in 1971 and Cyprus was becoming a tourist centre of international repute. The increase in national income made possible a significant improvement in social services such as education, health and social conditions in general. Electricity was brought to the remotest regions, while housing standards improved substantially. The overall balance of payments was continuously in surplus, exports

⁽¹⁾ 1 sq. mile = 1,936 donums.

⁽²⁾ Republic of Cyprus : The Third Five-Year Plan, 1972—1976, Nicosia Cyprus, pp. 6—21.

were steadily being diversified and expanded and invisible earnings were showing a healthy improvement. There was a steady inflow of capital from abroad, foreign exchange reserves were at a satisfactory level and the currency was strong, factors which reinforced the confidence of the people in the future of the country.

2. ECONOMIC EFFECTS OF THE TURKISH INVASION

2.1 The Turkish army now controls about 40% of the total area of Cyprus. The occupied land is fertile and rich in resources and its economic significance is much higher than its proportion to total area. It is estimated that in 1972 about 70% of total gross output from all sources emanated from this or adjacent affected areas, not to mention the immense wealth of physical assets, resources and structures situated there in the form of hotels and hotel apartments, houses, factories, orchards, arable and irrigated fertile land, mineral and quarrying resources, water resources, high valued tourist land, etc. In what follows, an attempt is made to summarize some of the catastrophic effects of the Turkish invasion on the economy, the destruction which has taken place and the economic significance of the occupied areas.

2.2 The invading forces have occupied an area housing 36.9% of the Island's population. Almost all the 160,380 Greeks who were living in the occupied areas have been obliged to leave their houses and take refuge in other parts of the country. However, the number of displaced persons is higher because many people living in dangerous zones have also been forced to abandon their homes for security reasons, thus bringing the number of refugees to nearly 200,000 which is about 40% of the total Greek population. These people have been displaced from their homes, have abandoned their peaceful occupations and have concentrated in camps and other improvised accommodation living under lamentable conditions, underfed and facing serious problems of survival. The Government is doing everything in its power to alleviate their pain and misery, but the magnitude of the problem is such that it is beyond its financial capabilities. A massive international aid programme is necessary to keep these people at the subsistence level. Displaced persons have left their homes in a hurry under heavy bombing and abandoned all their property to the mercy of the invading army. An indeterminate as yet number of the estimated 50,000 housing units belonging to Greek Cypriots in these areas have been destroyed, while others have been looted; the asset value of these properties is estimated to be not less than £250 mln, while the value of household movable property is not less than £150 mln.

2.3 The blow suffered by agriculture is considerable. Agriculture is the backbone of the economy providing employment to over 90,000 persons. Agriculture is contributing on the average about 20% of the G.D.P., is the major single foreign exchange earning sector of the economy and supplies for further processing valuable materials to industry. The area occupied by the Turkish troops comprises almost all the cereal producing Messaoria plain, the tobacco growing Karpass Peninsula, the Kyrenia District which is rich in citrus, olives and carobs and the fertile Morphou plain with its high yielding citrus orchards. Moreover, the area is rich in water resources. Plant production originating in these areas in 1972 amounted to £18.5 mln or about 46% of the total. The main products are citrus (79% of total citrus fruit production), cereals (68%), olives (45%), potatoes (25%), tobacco (100%) carrots (86%), other vegetables (32%), green fodders (65%), carobs (30%), etc. Production not harvested, which has

fallen into the hands of the invading army is of the order of £7.5 mln. On the other hand, livestock production emanating from the occupied areas amounted in the same year to about £12 mln or 47% of the total, whereas production from other agricultural activities was of the order of over £2 mln.

Not only is the above production being lost, but also vast agricultural investment has been seized by force and is in serious danger of destruction. Capital assets in the form of tractors and other agricultural implements left behind are estimated to be in the region of £7.5 mln. More than 45 sq. miles of citrus plantations, representing more than 80% of the total citrus plantations are facing the danger of irreparable damage because of not being attended and irrigated. The situation concerning hundreds of thousands of animals left unattended by their owners who were obliged to leave their villages by the invading army is even more serious. It is estimated that 45,000 pigs, 200,000 sheep and goats, 1,400,000 poultry and about 10,000 cattle belonging to Greek Cypriots have been cut off in the occupied areas. This animal stock is worth £8.5 mln. Farm units, pens and equipment of a total value of about £9.5 mln. are also in the hands of the invading army. In the fisheries sector 41% of the total number of boats and trawlers have been left behind or have been destroyed. Moreover, most of the fishing shelters (8 out of 12) are now under the control of the invading forces.

Another serious damage which cannot be expressed in pecuniary terms is the destruction by bombing of an area of about 100 sq. miles of pinewood forests which represents about one fifth of the main state forests. Most of the area burnt extends over the greatest part of five felling series in the Paphos forest, where 42.4% of the growing stock of the series has been burnt. The timber burnt is estimated at 19.7 mln. cubic feet R.O.B. valued at more than £3 mln., while the cost of reforestation will be about £2.4 mln. It will take more than 50 years to restore the forest to its pre-invasion position even if it was possible to achieve the impossible task of reforesting the whole area now. At the normal pace of reforestation it will take more than 45 years to complete this task; and it is therefore apparent that a higher proportion of badly needed scarce resources must be diverted for reforestation. Of course, the total damage cannot be quantified because the adverse effects on soil erosion and on ecological balance cannot be assigned a monetary value.

In addition to losses in production and agricultural capital stock, continuation of the occupation of these areas will have adverse repercussions on exports and foreign exchange earnings. Agricultural exports emanating from occupied areas in 1973 is estimated to represent upto 60% of the total exports of such products and 42% of all domestic exports. Moreover, the loss of agricultural output will also be a serious blow to local industry.

2.4 In the manufacturing sector, over 37,000 persons were producing 14% of the total output of the economy. The potential, however, was much higher. Recently industry had been investing heavily and the process of modernization and expansion was continuing unabated. The Turkish invasion has severely affected manufacturing activity. Apart from physical destruction of factories by enemy action, it is estimated that factories situated in areas controlled by the Turkish army employed 33% of the manufacturing labour force and produced 26% of output, i.e. about £25 mln. annually. These industries have now ceased production and their fixed assets valued conservatively at £36 mln. will gradually deteriorate through lack of maintenance. In addition stocks of finished products, raw

materials, etc. totalling to more than £19 mln. have almost certainly been lost completely by now.

The total impact on manufacturing industry, however, will be more severe. Many industries bordering the dangerous zones are unable to resume operations on a commercial basis. Other industries which rely on local raw materials now under the control of the Turkish army will face severe raw material shortage such as the pasteurised milk industry, the cheese making industry, the fruit canning industry, the brick-making industry, the mosaic industry and others. More importantly, the fall in incomes will severely restrict the already small domestic market, and, thus, production will fall sharply; it is not unlikely that industrial output will be reduced by more than 50% of its normal output level. Thus the fall in production may be of the order of £55 mln.

Industries now under Turkish occupation include meat preparations and dairy industries, export oriented canning plants in Famagusta and Morphou, grain milling and biscuit factories, the major olive oil and vegetable oil plants, carob kibbling and fodder factories, textile, footwear and clothing units, almost all brick plants and some mosaic plants, the entire lime producing capacity, the only steel pipes plant and the dynamic and expanding plastics industry in Famagusta. The Nicosia Industrial Estate, an important concentration of industries with modern industrial machinery all established since 1966, has been damaged by bombing. It is estimated that in 1973 this important industrial concentration of 60 modern, fast growing and efficient units was employing well over 1,000 persons. Important textile, clothing and footwear, flooring, paper sacks, foundry and turbine pumps units were all in the stage of "take off". Adjacent to the Nicosia industrial estate and along the Famagusta road up to the Kythrea—Kyrenia junction there are 26 major industrial units employing 644 persons—three fourths of their output was serving mostly the construction industry—and their closing down makes the problem of reconstruction difficult. The closing of the important lime producing industries around Kythrea makes the problem even more acute. Exports of manufacturing products (other than processed agricultural products) will be affected by 50%.

2.5 Assets of a total value of £7.6 mln. belonging to the Electricity Authority of Cyprus are now in areas under military occupation. Nearly 60,000 consumers have been affected. They were contributing £2.7 mln. annually to the revenue of the Authority. The Nicosia sewage treatment plant under construction including contractor's plant of a total value of £300,000 has also been cut off. Both the Nicosia and the Famagusta sewage schemes were nearing completion at the time of the invasion with financial assistance from the International Bank for Reconstruction and Development. Substantial investments are now standing idle and face the danger of destruction.

2.6 The mining industry was before the invasion a sizeable foreign exchange earner. The dynamic quarrying sector was supplying the booming construction industry with the necessary raw materials. The Turkish invasion has severely disrupted activities in this important sector. Out of a mining and quarrying output of £17 mln. in 1973, £9.4 mln. or 56% originated from areas which have now been occupied by the Turkish army. Mineral exports from these areas amounted to 43% of all mineral exports and 10% of total domestic exports. The actual damage, however, is higher because the extra cost of shipping mineral from ports other than Karavostassi, now under Turkish occupation, will be such as to render

exports of lower-valued products and especially iron pyrites only marginally profitable or even unprofitable. Worst hit is the production of construction materials because about 77% of the total capacity and production has fallen into Turkish hands. The total value of capital assets of the mining and quarrying sector accumulated over the years in the form of buildings, machinery and equipment, furniture and fittings and stocks of various materials is estimated in the region of £36.4 mln., 43% of which are situated in areas occupied by the invading forces. About 1,650 persons or 44% of the total labour employed in this sector in 1973 have lost their jobs.

2.7 In the construction industry before the invasion 27,000 persons were producing 9.5% of the total output and 66.5% of the capital formation of the economy. The Turkish invasion has seriously affected this important but highly sensitive sector. Work already carried out in 1974 and abandoned in occupied areas is estimated at not less than £8.4 mln. Moreover, machinery, tools and raw materials valued at £3.9 mln. have been seized by the Turkish army, a situation which affects adversely the financial viability of many construction enterprises. Apart from losses in assets, the construction industry is facing a crisis of another dimension. The loss of 77% of quarrying materials and other inputs has created serious shortages, while the investment climate is at present very unfavourable as a result of the presence of Turkish troops on the island. This is reflected in the sharp fall in the operations of the construction sector, which magnifies the serious unemployment problem.

2.8 Tourism is one of the fastest growing sectors of the economy, one of the pillars upon which Government based its efforts to diversify the economy. Cyprus had become an international tourist resort and tourist receipts were giving increasing support to the balance of payments. In 1973, tourism fetched £23.8 mln. of foreign exchange earnings and provided employment to about 10,000 people altogether. Investment in tourism was heavy especially during the last decade. The value of capital assets is estimated to be of the order of £62.0 mln. in tourist accommodation and £30.0 mln. in ancillary facilities. About 61% of these valuable assets are now under Turkish control and have either been destroyed by direct enemy action or looted or are in a state of neglect.

Under normal conditions tourism was anticipated to fetch £30 mln. of foreign exchange in 1974, but as a result of the Turkish invasion £16 mln. have been lost. It will take many years before the industry recovers and the economic loss, in terms of income foregone, will be very large. It is worth mentioning that by 1976 tourism was planned to become the second most important foreign exchange earning sector after merchandise exports, with earnings in the region of £42 mln. or 21% of total earnings on current account.

The area now occupied by the Turkish forces includes the two popular tourist resorts of Famagusta and Kyrenia, which before the invasion attracted about 75% of tourists staying in hotels. It is an area rich in archaeological treasures, beautiful scenery and sandy beaches, with 65% of existing tourist accommodation capacity (including hotel apartments) and 87% of capacity under construction.

2.9 Cyprus had a well developed, efficient and flourishing trade sector, which in 1973 contributed 16% to G.D.P. and offered employment to about 26,000 persons. The Turkish invasion has crippled this important sector of the economy

too. About 28% of the trading concerns accounting for about 36% of the total employment provided by the trade sector have been seized by the Turkish army. The losses of the sector, excluding Marketing Boards and Co-operatives, are not less than £70 mln. that is £34 mln. in goods and raw materials, £25 mln. in buildings, and equipment and £11 mln. in other assets.

The Turkish invasion has threatened the very existence of the co-operative movement as well which was very active in many fields of the economy. The value of goods abandoned in co-op. stores and in other co-op. societies amounted to about £6 mln.; grains which the societies collected on behalf of the Grain Commission are valued at £2 mln.; buildings, including furniture and fittings, are estimated at £5 mln.; other losses totalled £2 mln. A modern citrus processing plant of the co-operative movement has ceased operating. A bruce box factory and important packing facilities of the co-operative movement are now behind Turkish lines.

The losses of the marketing boards amount to well over £4.0 mln. Worst hit was the Grain Commission with losses exceeding £3 mln. made up of cereals which were left in the Commission's warehouses. The potatoes and olive products marketing boards, apart from finished products and raw materials, totalling £0.5 mln., have lost about one million pounds worth of assets as well.

Finally, goods worth £10 mln. were stored in the Famagusta port warehouses.

2.10 Other sectors adversely affected by the invasion and for which statistical data are available are : public transport, roads, ports and shipping, airports, telecommunications, postal, broadcasting, education and health services.

The occupation of 40% of the country resulted in a serious disruption of public transport. Not only a large number of routes had to be abandoned or rerouted but heavy losses of capital have also been sustained. Indeed capital worth about £6 mln. in the form of destroyed or missing vehicles has been lost. On the whole 25% of public vehicles has been affected. More specifically 18, 9 and 15% of the bus, taxi and truck fleets respectively have been displaced and another 10, 21 and 8% respectively have been destroyed or are missing. The above estimates do not include losses pertaining to thousands of private vehicles. The latter constitute 60% of the total car fleet, nevertheless, no figures are available as to actual losses.

The magnitude of the effect of the invasion on inland transport is also manifest in some figures pertaining to the road network. Thus, 37% of the main road network, comprising 43% of road capacity and involving a replacement cost of £34 mln. (35% of the total) is within the occupied areas. Also, the network now in the occupied areas attracted 42% of total traffic, as it comprised the most important artery of the country, namely the Famagusta—Nicosia—Morphou road which was being developed into a major highway.

Sea communications have also been adversely affected. The port of Famagusta has been closed since the 20th July, 1974, whereas due to the war hazards, exorbitant insurance is required and the ports of Limassol and Larnaca are not fully utilized. A number of shipping routes have also been discontinued. Port facilities worth many million of pounds are underutilized and the export of the remaining products is problematic. The main deep water port at Famagusta

through which 83% of general cargo was handled, the modern and specialized terminal at Karavostassi through which 76% of minerals was exported and the Kyrenia yacht harbour are now under the control of the Turkish army. Famagusta port served a fully developed shipping and trading centre. Its 3,925 feet of quay length represents 52% of the existing port capacity. Being for many years the main port of Cyprus, the port concentrates the largest part of the relevant facilities, i.e. 53% of transit shed capacity, 70% of crane capacity, the largest part of the Government owned port equipment and 65% of non-Government equipment. In addition complementary facilities worth many millions of pounds such as shipping and clearing agencies, packing houses, transport companies were concentrated in Famagusta. Suffice it to mention that 65% of all scheduled ship calls to Cyprus were made at Famagusta. Total port assets now in Turkish hands are estimated at about £10.4 mln. including the important £2 mln. pier at Karavostassi. In addition to goods waiting customs clearance at the port, goods valued at millions of pounds were in bonded or other authorised warehouses in Famagusta town.

The Nicosia International Airport, practically the only fully fledged airport in Cyprus, has been heavily bombed, has sustained considerable damage and is out of operation. The airport terminal buildings along with the runways, taxiways and Government handling equipment, valued at £4.5 mln. are sitting idle whereas Government had to invest heavily in order to prepare another airfield. Private aircraft equipment and airline installations have also been bombed and damaged. More seriously affected is the national carrier, "Cyprus Airways". Two Trident aircraft were destroyed while a third one was damaged. Losses till the end of 1974 in terms of foregone revenue for the company amounted to over £4 mln. The closure of the airport which handled 787,000 passengers and 10.4 mln. kgs. freight in 1973 has cut off for many months the only air communication with the rest of the world with very serious economic repercussions. The loss of revenue to the Government from the closing of the airport was about £90,000 per month.

Telecommunications have also suffered considerable damage. Indeed £9.3 mln. or 30% of the assets belonging to the Cyprus Telecommunications Authority are now in Turkish hands. The disruption of telecommunications caused by the invader is evidenced by the fact that 3 out of 7 zonal centres, 15 out of 29 dependant exchanges, 28% of the direct lines, 27% of telephone capacity, 30% of telephones, 24% of telexes and 42% of inter-town communication lines are now within the Turkish held territory. Moreover, as a result of the conditions created by the invasion, the revenues of the authority have dwindled.

Postal Services have also been affected. Thus, not only 45% and 34% of the postal offices and agencies respectively are in the occupied area, but, what is more important, as a result of the discontinuation of air communications air mail traffic has been jeopardised.

Finally, the Cyprus Broadcasting Corporation has also been affected as one of its two transmitting stations at Kantara is now in the occupied area. By the end of 1974 the revenues of the Corporation had been reduced by 47%.

One of the services most seriously affected by the Turkish occupation of Cypriot land is the educational system which suffered extensive dislocation with far-reaching consequences. A total of 171 elementary schools are in areas occupied by the Turkish army, and a further 22 cannot be operated, as they are situated in dangerous areas. More than 41% of elementary school children totalling about

26,000 have been displaced. The dislocation in public secondary general education is of similar proportions. More than 42% of the school buildings are either occupied or are unsafe for use by children. The total number of displaced children is about 13,000 or 38% of the total. Moreover, three out of the eight technical schools have been put out of use affecting almost 30% of the pupils. Public special schools for trainable children and deaf and their special equipment suffered the heaviest blow, with more than half falling in occupied areas. A similar fate befell private educational services with more than a third of pre-elementary schools and children being affected as well as about 30% of secondary schools and children. The actual damage to school buildings cannot be ascertained yet but it is known that many of them have been destroyed. Furthermore, the burning of the Ministry of Education central book store has destroyed half a million pounds worth of books, teaching aids and equipment.

In the health sector the major impact of the Turkish occupation is being felt by the Public Health Services which have been seriously disrupted. Two (out of six) major District Hospitals (Famagusta and Kyrenia) fell to the invading forces with most of their equipment left behind. Even more disrupting are the effects on the Rural Health Services with 8 out of 17 such centres falling within the occupied areas, representing about 38% of total bed capacity in the areas. Furthermore, the country's largest hospital establishment, the Psychiatric Hospital, suffered extensive damage because of aerial bombing.

The physical damage as described above is only one aspect of the effects on the health situation in Cyprus, the most important being the public health hazards that have been created by the refugee situation. With one third of the population having been forced to move out of their homes and the majority of them living in tents and other temporary accommodation with no adequate sanitary facilities or proper clothing, the public health situation creates tremendous problems and the possibility of outbreaks of serious epidemic diseases is a constant threat that has been taxing the public health services. Lack of pharmaceuticals is also creating problems.

2.11 The full employment situation, that prevailed in the first half of 1974, has been reversed into a large scale unemployment problem. The Greek, Armenian and Maronite economically active population of occupied areas, which was about 64,000 persons in 1973, has been forcefully displaced to the South. Another 24,000 persons engaged in areas bordering the Turkish lines were rendered unemployed through destruction of the establishments they worked in or because of their displacement to safer areas. In total, at least 88,000 persons or nearly 40% of the economically active population were deprived of their employment. In 1973, the yearly average number of registered unemployed was 3,314 or 1.2% of the economically active population. All economic activities have been affected. In terms of employment the greatest impact was on the agricultural sector. Other sectors with high unemployment are those of manufacturing and services, construction, wholesale and retail trade, and transportation.

The Turkish invasion has also gravely affected the Turkish part of the population. It is estimated that 35,000 Turkish Cypriots living in the South have been forced by their leaders to move to the occupied zone under conditions of uncertainty. Though exact statistical data are not available, unemployment in the occupied areas looms large. Thus, because of the integrated nature of the economy, the severe economic disruption and reduction of the standard of living as a result of the Turkish invasion affects both Greek and Turkish Cypriots.

3. FUTURE PROSPECTS OF THE ECONOMY

3.1 As already indicated, the future prospects of the economy and hence the welfare of the entire population are tied up with the political solution of the Cyprus problem. Notwithstanding the damage and losses resulting from the invasion and the other economic wounds that will take many years to be healed, the economic future of the country will be good or dismal depending on whether certain basic elements form an integral part of the final political settlement or not. On purely economic considerations, the final solution to the Cyprus question must contain the elements necessary for the normal settlement of the population, the preservation of the viability of the economy and the attainment of a respectable growth rate. The purpose of the political settlement must be the preservation rather than the destruction of all those elements which contributed to the spectacular development of the Island in the past. Thus, any political solution must be based on all of the following economic requirements :

- (i) All refugees must return to their homes and peaceful occupations, not only for humanitarian reasons but also for purely economic considerations. There are at present about 200,000 Greek Cypriot refugees who represent 40% of the Greek Cypriot population or about one-third of the entire population of Cyprus. The task of rehousing and absorbing these people is formidable and beyond the financial resources of Cyprus. The same is true, though to a lesser extent as far as rehousing is concerned, of the Turkish Cypriots who have moved from their homes.
- (ii) The economy must remain integrated, because any interference with its interrelationships will only lead to economic catastrophe and stagnation. This implies a free and unrestricted movement of goods, persons, labour and capital from various areas and various economic groups, preservation of efficiency by ensuring that factors of production are combined in the most advantageous manner for the optimum allocation of resources. It also implies that the small domestic market must not be fragmented. The economy is already too small and any further restriction on the small domestic market will breed inefficiency and economic backwardness. At a time when large European markets are considered small and are in the process of integrating themselves to reap the benefits of large markets, it would be anachronistic to fragment a tiny little market of only 634,000 persons.
- (iii) The set of political and administrative institutions must be such as to ensure the formulation and pursuit of coherent economic policies and avoid inconsistencies in the economic field. The State is the instrument of economic authority and as such it has the responsibility to use the budgetary, fiscal, monetary and other measures as instruments of economic policy. Unlike the 18th century State, its modern counterpart has a responsibility of maintaining full employment, stimulating economic development without inflation and keeping the balance of payments in proper shape. The need to achieve these invariably conflicting aims requires a coherent and unified approach unrelated to regional considerations. It will be a sad and depressing situation if in a country of the size of Cyprus artificial regions are allowed to follow inconsistent trade, fiscal or other economic policies. Moreover, duplication of services both administrative and for the provision of public services must be avoided otherwise the cost will be prohibitive. To establish two or more administrative structures or duplicate the existing Public

Corporations will be an economic suicide for the citizens who will have to bear the burden of this "political arrangement" and force Government to reduce substantially its participation in the development effort.

- (vi) The solution must be based on fairness and justice and promote the unity rather than the division of the country. If the solution envisaged generates bitterness this will breed friction and instability. On the other hand, a just and stable solution will improve the economic climate and not only will it act as an incentive to local investment, but will also encourage the inflow of foreign capital.

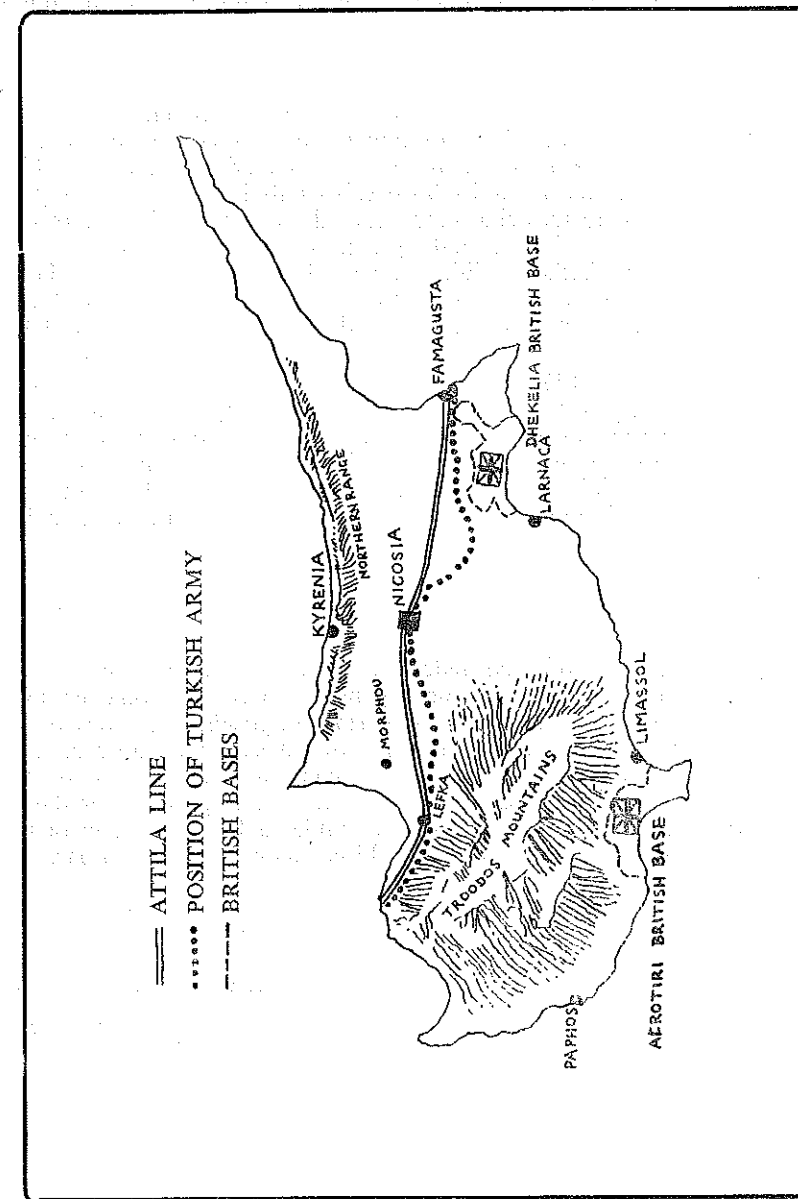
4. CONCLUSION

4.1 The above brief analysis has indicated that the solution to the political problem of Cyprus will determine the future course of the economy and the welfare of all its people. It is submitted that any partitionist approach, apart from its moral and social objections, would be catastrophic to the Island's economy. This will cause a serious disruption of social and economic life and will impose severe hardships on the families, both Greek and Turkish Cypriot, involved. Resettlement of such large number of people is beyond the financial ability of the country. There will be insoluble problems of housing, availability of land and employment since it would be impossible for all of them or perhaps even the majority of them to obtain an exchange of house, land or occupation suited to their needs or experience.

4.2 On the contrary the aim should be to preserve and not to divide an integrated economy and not to impose restrictions but to eliminate them in order to place all the limited resources of the country to the cause of development and improvement of the people's standard of living. Otherwise there will be an anachronistic fragmentation of the small domestic market which will deal a deadly blow to industry and commerce and "would entail also an economic and social disruption which could be such as to render neither part of the country viable. Such a state of affairs would constitute a lasting, if not permanent, cause of discontent and unrest"⁽¹⁾. Such fragmentation will lead to inefficiency, exorbitant costs, piecemeal policy regarding the utilization of resources, decline of investment, suffocation of economic activity and economic stagnation.

4.3 The above conclusions are derived from the examination of economic and financial realities. Economically Cyprus is a single unit. Naturally there is trade between different parts of the Island—wine and fruit from the hills, for example, are exchanged for grain, straw and cheese from the plains. Again farming may be under a cloud while mining or industry flourishes—or there may be prosperity among the carob growers accompanied by depression among cereal farmers. But these are small variations because the interrelationships of the economy are such that prosperity in one area acts as a powerful injection stimulating economically the whole country. The analysis of the effects of a separatist approach on the present lines upon population distribution, the settlement pattern, distribution of resources and the economic activity shows that it is utterly impossible

(1) Galo Plaza, Report of the United Nations Mediator on Cyprus to the Secretary-General, 1965, para. 153.



for an administrative line to be drawn in any manner without disregarding the problem of viability. In other words the Island cannot be subdivided on racial, cultural or economic grounds except in an arbitrary manner and any attempt to divide artificially the economy will be tantamount to painful economic amputation of a healthy economy, strangulation of economic activity and the condemnation of its people to eternal underdevelopment.

It is no accident that careful students of the Cyprus economy have all reached the same general conclusions after examining the cold economic facts. D. A. Percival, of the Colonial Administrative Service, stressed as early as in 1946 that "despite having at one period of its history been divided into as many as nine separate kingdoms, despite its being now peopled by two non-intermarrying communities, and despite its climatic and agricultural divisions, Cyprus is beyond question a single unit whether politically, socially or economically. Politically, there are hard-fought controversies on fundamental as well as day-to-day issues; but the one issue that is never questioned is the unity of the country"⁽¹⁾.

Sixteen years later, in 1962, the American Economist A. J. Meyer was making substantially the same comments on the political attempts to organize the two communities as two separate economic units. "Rooted completely in emotional and political arguments, it has no economic justification of any kind. Contemplation of the costs, administrative difficulties and utter futility of separate facilities and economies for the island's Greek and Turkish communities is a melancholy task indeed"⁽²⁾.

More recently, in 1965, the U. N. mediator, Dr. Galo Plaza, in his thoughtful report to the Secretary-General of the United Nations stated—

"Moreover the proposed federated states would be separated by an artificial line cutting through interdependent part of homogenous areas including, according to the Turkish-Cypriot proposals, the cities of Nicosia and Famagusta. Would not such a line of division inevitably create many administrative difficulties and constitute a constant cause of friction between two mutually suspicious populations? In fact, the arguments for the geographical separation of the two communities under a federal system of Government have not convinced me that it would not inevitably lead to partition"⁽³⁾.

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April, 1975.

(1) Cyprus Census of Population and Agriculture, Report and Tables by D. A. Percival, Colonial Administrative Service, Superintendent of Census.

(2) Meyer and Vassiliou, The Economy of Cyprus, Harvard University Press 1962, p. 75.

(3) Galo Plaza, Ibid par. 154.